MEMORANDUM

TO: Joseph P Ganim, Mayor of Bridgeport; Michael Tetreau, First Selectman of Fairfield; Timothy Herbst, First Selectman of Trumbull; John Harkin, Mayor of Stratford
CC: Professor J. Yinger
FROM: Hamish MacPhail, Economic Analyst
DATE: March 23, 2016
SUBJECT: Creating a Regional Revenue Sharing Program

To decrease the municipal revenue funding shortages in Bridgeport, Connecticut, I recommend that the Bridgeport metropolitan area create a revenue sharing program. This program would provide additional resources to our poorest communities, combine potential services and decrease intra-regional competition between towns to attract business. Creating a regional revenue sharing agreement will help reduce income inequality and incentivize communities to become economically collaborative.

Background

State of Connecticut:

Connecticut, regarded as fourth richest state for median income, has second largest gap between the rich and poor with a Gini coefficient of .486.[1] Wealthy and underprivileged communities are often geographically close, exacerbating social tensions and highlighting a failure of state government to effectively coordinate and distribute resources to alleviate poverty. For example, two neighboring municipalities, Fairfield and Bridgeport, have wildly different median household income figures at $104,952 and $41,204 respectively.[2]

In 1960, Connecticut abolished the county government system in favor of allowing town governments to make major taxation and government service decisions. Therefore, there is currently no local revenue sharing mechanism in existence. While many towns have maintained strong tax bases that are capable of raising adequate levels of revenue, cities like Bridgeport have struggled to fund basic services.

Connecticut municipalities heavily rely on local property taxes in order to supply nearly all basic services. The property tax funds schools, roads, sanitation systems and public safety. While intergovernmental transfers, fees, fines and motor vehicle taxes also contribute to municipal revenues, property taxes typically account for the vast majority of revenue in both high and low-income communities. With high reliance on property taxes and no formal revenue sharing mechanism below the state level, poor communities must make extremely difficult financial decisions.

Bridgeport Metro Region:

Originally, Bridgeport was a major shipping and industrial hub between Boston and New York. At its peak, Bridgeport was home to major ammunition, sewing machinery and electrical companies that supplied thousands of middle-class jobs for the area. However, Bridgeport, like

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[1]Census Bureau Quick Facts. July 2015. Raw data. Income Inequality Gini Coefficient,
[2] Census Bureau Quick Facts. July 2015. Raw data. Bridgeport, CT
Gini http://www.civicdashboards.com/county/fairfield-county-ct-05000US09001/gini_index

most mid-sized Northern industrial cities, declined during the 1970s and experienced massive suburban flight. Businesses like General Electric moved from Bridgeport to Fairfield, creating economic conflict between the communities. When companies and employees left Bridgeport for other locations, the city faced budgetary shortfalls and high levels of debt. Services declined and Bridgeport eventually had to declare bankruptcy in 1991.

Meanwhile, the surrounding towns experienced high levels of economic growth. Stratford gained large Department of Defense contracts through Sikorsky Aircraft Corporation. Fairfield is home to the General Electric Headquarters and Bigelow Tea. Trumbull has a large Unilever plant, United Healthcare headquarters and Cooper Surgical headquarters. These companies offer high-skill and high-wage jobs that help cultivate a strong tax base. While Fairfield, Trumbull and Stratford have reaped many of the financial benefits, Bridgeport has fallen behind.

Political and Economic Environment

Connecticut has a long history of Home Rule and financial reliance on self-generated property taxes. Yet, as taxes on businesses and individuals increase to support investments in education, infrastructure and social services, Connecticut becomes less economically competitive. Currently, Connecticut is among the worst states in job creation and consistently had the highest tax burdens. [3] Political pressures to decrease taxes and provide a positive economic growth climate are on the rise. Revenue sharing is a potential solution to solve some of Bridgeport's financial issues without major tax reform.

Based on a 2010 report by the Connecticut Office of Policy and Management, state officials are interested in authorizing legislation and giving monetary incentives for regions to create revenue sharing programs.[4] Therefore, the Bridgeport Metro Region has the opportunity to receive oversight, financial support and political backing for regional cooperation and collaboration.

Revenue Sharing Program

Revenue sharing programs pool resources from various taxing jurisdictions in order to provide services across the region and reduce fiscal disparities. In many states, county governments have taxing powers and can create countywide economic planning initiatives. Likewise, these counties can funnel resources into areas of need that can help increase the economic vibrancy of the entire region. In Connecticut, there is little political will for the reestablishment of formalized county governments. There is a perception that taxes are already high and county government is duplicative and bureaucratic. To circumvent those concerns, inter-municipal agreements on revenue sharing are a potential solution. When municipalities come together and create a modest, well-structured and autonomous tax-sharing program, the participating members are in control of the resource allocation and can negotiate on behalf of their community. In addition, there is no need to create an additional level of government to manage the program.

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[3] Powell, Jim. "How Did Rich Connecticut Morph Into One Of America's Worst Performing Economies?" *Forbes*. Forbes Magazine, 1 Aug. 2013.

[4] Connecticut. Office of Policy and Management. "A Review of Regional Tax-Based Revenue Sharing Programs and the Establishment of Regional Asset Districts" July 1, 2010. http://www.ct.gov/opm/lib/opm/igp/org/final_rrs-rad_report_7-13-10.pdf

Structure of the Program

Where will the shared revenue come from?

In contrast to other revenue raising mechanisms, the revenue sharing program would not create an additional tax on participating municipalities. Rather, the shared revenue would come from additional property taxes raised from a pre-determined 2015 baseline. This ensures that no community suffers from burdensome taxation and rewards the region for any economic growth it experiences.

Only 20% of the above- 2015 baseline property tax revenue enters the pool. Municipalities retain 100% of the baseline property tax and 80% of any increases in property tax. The following formulas highlight the contributions from each city and the total contributions:

- Total Contributed Revenue = .2(Present Property Tax Revenue - FY2015 Property Tax Revenue)
- Total Shared Revenue = Bridgeport Total +Stratford Total +Trumbull Total + Fairfield Total

What are examples of other successful Revenue Sharing Programs?

As Table 2 shows, there are several examples of successful revenue sharing programs across the United States. For this program, the Minnesota and Hackensack-Meadowlands share the most similarities.

The Hackensack-Meadowlands program takes forty percent of the post 1970 baseline total property tax share and redistributes the revenue to supplement school funding and make coordinated land use decisions. From the program, the area has experienced massive environmental cleanup and revitalization.[5]

The Minnesota model only uses forty percent of commercial and industrial property tax growth for its formula. These funds lower inter-municipal competition for business and reduce inequality. In fact, the seven-county region has reduced its Gini Coefficient by 20% from 1970-2016.[6]

What will the Bridgeport Metro revenue sharing program fund?

A 2008 study by Bania & Stone concludes that increased spending on education, public safety and infrastructure yields the highest increase in economic growth, if implemented properly.[7]

The revenue sharing program will fund small-scale infrastructure projects and economic development initiatives in order to improve the economic competitiveness of the Bridgeport metropolitan area. Bridgeport, the city with the greatest need for additional resources, has areas that are significantly underdeveloped and vacant. Residents of the surrounding towns benefit from the revitalization of those areas as jobs and higher earnings become available. Additionally, with increased opportunity in Bridgeport, the 23.6% of those living in poverty have a greater chance at gaining economic stability.

[5] "Meadowlands of New Jersey." *Regional Plans*. N.p., n.d. Web. 05 May 2016.
[6] Montgomery, Carelton. "Regional Planning Programs." *Regional Planning for a Sustainable America*. N.p., n.d. Web. 5 May 2016.
[7] Bania, Neil, Jo Anna Gray, and Joe A. Stone. "Growth, Taxes, and Government Expenditures: Growth Hills for U.S. States." *National Tax Journal NTJ* 60.2 (2007): 193-204. Web. <http://www.ntanet.org/NTJ/60/2/ntj-v60n02p193-204-growth-taxes-government-expenditures.pdf>.

Will revenue sharing help fund schools?

This program does not specifically address education funding, even though it has a positive relationship with economic growth. The State of Connecticut has recently improved its education cost-sharing model (ECS.) In fact, ECS expanded new services by $50,756,719 in FY 2014 to $152,270,164 in FY 2016.[8] Overall, the state will spend about $1.9 Billion on state aid programs. Bridgeport will receive over $197 million in the upcoming fiscal year to support schools. While the state still underfunds low-performing schools, a heated political debate is taking place on how to improve the ECS formula. Therefore, the revenue sharing program should avoid entrenching itself in a battle over school funding and should direct funds towards other services that improve quality of life.

Who decides how the funds are spent?

Member towns of the program would voluntarily opt-into the agreement and have the right to negotiate the terms of the agreement on behalf of their constituents. A standing multi-municipal committee, made up of top elected officials, would work with their finance offices to determine the purpose and economic planning of the shared funds. In order to maintain cross-year consistency, a formula will be used to properly allocate the amount of funds that go to each municipality. Those funds will be earmarked for specific, agreed-upon economic and infrastructure projects that promote regional growth and development. Elected officials should look at successful revenue sharing cases for specifics on resource allocation.

How will we allocate funds?

The revenue sharing program will use the same formula as the Minnesota model as it takes into account population and fiscal capacity. The formula is set up like this[9]:

- Population of City/Town x (Avg. Region Fiscal Capacity/City Fiscal Capacity = Distribution Index

This means that cities and towns with smaller fiscal capacities will receive more revenue per person than the average. Likewise, cities that have high fiscal capacities will receive less revenue per person than the average. While this will help reduce inequality, it will not eliminate disparities. Need is disproportionately high in Bridgeport, compared to the surrounding suburbs.

Why should Fairfield, Trumbull and Stratford provide revenue for a revenue sharing program?

Bridgeport is still the economic hub of the region. Many of the surrounding towns would have never existed had it not been for the industrial prowess of Bridgeport. While many of the economic factors that led to Bridgeport's early success are gone, its people remain. Bridgeport is the most populous city in Connecticut with over 147,000 residents.[10] Yet, its high crime and poverty rates negatively affect the surrounding region. With close proximity, issues spill into

[8]Connecticut. Office of Policy and Management. Governor Daniel Malloy.*CONNECTICUT FY 2014 – FY 2015 BIENNIUM GOVERNOR'S BUDGET*. Hartford: State of Connecticut, 2014-2015

[9] Windhorst, John W. "The Minnesota Fiscal Disparities Law." *Land Use Law & Zoning Digest* 28.4 (1976): 7-12. *Minnesota House*. Jan. 2005. Web. 5 May 2016.

[10] Census Bureau Quick Facts. July 2015. Raw data. Bridgeport, CT

affluent suburbs and affect the quality of life in those communities. Many residents from affluent suburbs work in Bridgeport and are frustrated in the quality of roads, buildings and lack of entertainment options. Businesses are less likely to build and stay in Bridgeport if potential employees are unwilling to work there.[11] Therefore much of Fairfield, Trumbull and Stratford's economic future is intertwined the success or failure of Bridgeport.

Large sums of state tax dollars are redistributed from wealthy towns to low-income communities like Bridgeport. In a revenue sharing program, the local municipalities have significantly more control on how their tax dollars are spent. While the state taxes will still exist, the Bridgeport metro region can become a leader in local governmental collaboration and urban revitalization. Additionally, the state government may provide additional funds to increase the program's sustainability and scope. Over time, as Bridgeport's infrastructure and quality of life improves, less state aid would is required to fund basic services.

For example, the Minnesota program has provided much needed revenue to struggling communities. During this time, Minneapolis has seen a significant drop in inequality and an increase in the standard of living. [12]

Next Steps

To create a lasting, well-managed revenue sharing program, elected officials must create an inter-municipal committee that researches other successful programs and develops a timeline for implementation. Specifically, elected officials must market the plan effectively to provide the public with sufficient information on the benefits of revenue sharing and the anticipated impact of economic reinvestment. Once the public has the opportunity to comment on the program, elected officials should create a final plan that can receive a formal vote.

The political battle may be difficult but important in developing inter-municipal cooperation. Currently, communication between cities and towns are fairly limited and performed in an ad hoc fashion. Lines of communication will become more formalized the process develops. Even if implementation is limited, the ancillary benefits of open communication could be lasting.

Conclusion

The revenue sharing program is not a panacea. Deep issues of generational poverty, access to quality education and racial discrimination persist. However, Bridgeport and the surrounding towns can utilize their economic advantages to develop a coherent and mutually beneficial revenue sharing program that helps improve the overall regional quality of life. While the program will have real financial impacts on city budgets, the process of cooperation and collaboration is nearly as important. As federal and state aid shrinks, local and regional governments must become dynamic and responsive to new financial realities. By opening lines of communication and sharing a small but important revenue stream, Bridgeport, Fairfield, Trumbull and Stratford can create lasting economic partnerships and communities.

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[11] Rierden, Andi. "Bridgeport Is Fighting Its Dump City Image." *New York Times*. http://www.cteconomicdevelopment.com/CT-major-employers.php

[12] Bureau, U.S. Census. *U.S. Neighborhood Income Inequality in the 2005-2009 Period* (2011): n. pag. *U.S. Neighborhood Income Inequality in the 2005–2009 Period*. U.S. Census Bureau, Oct. 2011. Web. 5 May 2016.

TABLE 1: METRO BRIDGEPORT DATA for 2015

City/Town	Bridgeport	Fairfield	Stratford	Trumbull
Median Family Income	$40,000	$120,000	$67,000	$109,000
% In Poverty	20%	2%	4%	1%
% of College Ed. Adults	22%	66%	37%	59%
On-Time Graduation	66%	94%	87%	97%

TABLE 2: OTHER REVNUE SHARING PROGRAMS

	Hackensack Meadowlands, NJ	**Minnesota**	**Montgomery County, OH**	**Monroe County, NY**
Purpose	Impact on land use	Reduce fiscal disparities	Reduce fiscal disparities	Reduce fiscal disparities
Funding Source	40% of post-1970 total property tax revenue	40% increase in commercial & industrial property tax revenue	Increase in sales tax of .5%	4% local sales tax