Article

Deepening Interlocal Partnerships: The Case of Revenue-sharing Infrastructure Agreements

State and Local Government Review
2019, Vol. 51(4) 292-300
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DOI: 10.1177/0160323X20928580
journals.sagepub.com/home/slg
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Keywords
interlocal cooperation, revenue-sharing agreements, economic development

For decades, academics and many practitioners have recognized interlocal collaboration as a rational and practical way to overcome the problems of local government fragmentation that beset modern American regions. Across the country, collaborative arrangements provide a wide array of services, ranging from public safety to utilities, to libraries, to schools (Agranoff and McGuire 1998; Andrew 2009; Benton 2013; Zeemering 2016).

Interlocal collaboration for economic development has proven more difficult to establish or at least to expand beyond limited partnerships. This is largely due to the fact that localities typically derive well over half of their revenues from taxes on real property and sales, which are collected at the local level. To the extent that they view economic development as primarily an effort to attract inward investment through business recruitment efforts, they may still be reluctant to share the spoils of the hunt—the tax revenues—with others (Chen, Feiock, and Hsieh 2016; Hawkins 2010; Kenyan and Kincaid 1991; Lee, Feiock, and Lee 2012; Peters and Fisher 2004).

Many years ago, St. Paul and Minneapolis solved this zero-sum game by crafting a tax-base sharing arrangement. They explicitly recognized that the entire metropolitan area benefits when a business locates in any of its jurisdictions (Chen, Feiock, and Hsieh 2016; Orfield 2002). Recent research has found that economic benefits may spill over an even wider geographic area to encompass rural and urban areas within a region. These studies show that increases in rural employment in specific industry clusters generate employment increases in urban areas as well (Dabson 2007; McFarland 2018). Yet tax-base sharing arrangements remain the exception, not the norm.

This is not to say that interlocal partnerships for economic development do not exist. On the contrary, regional economic development partnerships have proliferated over the past forty

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years (Scholz and Feiock 2010; Lee, Feiock, and Lee 2012; Olberding 2002; Porter 2000). These entities market and promote the region to prospective new businesses (Cigler 2014). Regional economic development agencies can also provide a neutral voice on the value of collaborating regionally, and they may serve as a coordinating body to build a regional vision of the economy. They bring professionalism to the practice of economic development, they help to organize local government agencies and the private sector around the development process, and they provide a crucial bridge between state-level economic development agencies and localities. The interconnectedness and interdependence of state, regional agencies, and local governments signals the evolution toward networks of public agencies required to facilitate economic development opportunities (Lee, Feiock, and Lee 2012).

But the depth and extent of regional partnerships can vary. If they are focused primarily on business recruitment, partnerships may resemble buying clubs that pool resources to be able to mount more effective marketing and recruitment efforts, but in which the members still do not share the tax revenues from business recruitment or engage in other collaborative actions. Such limited partnerships may be more prevalent in states with fragmented local governance structures (Bel, Germa and Warner 2016).

Collaboration between urban and rural jurisdictions presents another level of difficulty, despite the above-referenced advantages that could redound to both because of economic clusters that span urban and rural areas. One of the main, and seldom acknowledged hurdles, is that urban and rural areas—even in the same region—often have unequal or at least very different assets and capacities to engage in new activities. Rural communities often face challenges retaining population and skilled workers and in attracting new business, and they often have fewer funds available with which to pursue economic development (Honadle, Cigler, and Costa 2003; Kusmin 2015). Rural areas typically have smaller staffs and hence may have less capacity than urban areas for engaging in new activities. Moreover, the assets of rural areas are often undervalued, making it difficult for them to bargain as equals with urban areas (Dabson 2007; Forman 2008). By contrast, urban areas typically face challenges related to growth, such as a lack of natural resources or undeveloped land to accommodate growth; and growth may put a strain on service capacity. For these and other reasons, working relationships between urban and rural communities may be absent or untested and mutual trust may be low, especially on the part of rural areas that fear being dominated by their urban counterparts (Organisation for Economic Co-operation and Development 2013). But through strategic collaborative relationships, urban areas and their rural neighbors may be able to overcome these demands and stressors and work to strengthen each other (Arnosti and Liu 2018).

New partnerships between individuals or organizations tend to form when the risk-adjusted expected benefits of collaboration outweigh the expected transaction costs and other costs of collaborating. How can localities, especially urban and rural areas, create or deepen and expand collaborative relationships? What factors are necessary to change localities' expected costs and expected benefits to lower transaction costs or to raise mutual trust levels so that they begin to collaborate or deepen and expand an existing collaboration?

In this article, we address those questions via two cases of successful interlocal collaboration in a state where deep and extensive interlocal partnerships, such as revenue-sharing agreements, are not the norm—Virginia. To understand the motivation for localities to collaborate on economic development opportunities, we studied the history and context of intergovernmental relations and conducted in-person interviews with elected officials and the city or county managers in each jurisdiction. In each case, the localities changed their views of expected costs and benefits and availed themselves of a long-standing state policy to establish a new level of cooperation.

Virginia's Policy Context

Virginia is a so-called Dillon's Rule state, in which local governments possess only the authority expressly granted to them by the state legislature. Although this places limits on local initiative, state leadership can allow local governments to cooperate for economic development purposes (Richardson, Gough, and Puentes 2003). Virginia created two specific statutes that grant authority to localities to cooperate for economic development. Under Virginia State Code Section 15.2-1301, "Voluntary Economic Growth Sharing Agreements" adopted in 1996, two local governments can enter into agreements with each other to share in the revenues related to economic development projects, including tax revenue from real estate, business personal property, sales and nontax receipts such as user fees, or state appropriations that may be leveraged (Code of Virginia).

Also, Virginia State Code Section 15.2-6400, "Virginia Regional Industrial Facilities Act," allows for two or more localities to enter into agreements to "enhance the economic base for the member localities by developing, owning and operating one or more facilities on a cooperative basis involving its member localities" (Code of Virginia). Industrial facilities defined under this statute include manufacturing, warehousing, distribution, office, or other commercial businesses. The purpose of industrial facility authorities is to facilitate cooperation jointly to pool resources in order to accomplish economic development projects that could not be accomplished by one jurisdiction (West and Glass 2000).

The Cases

Figure 1 is a map of Virginia divided into geographic regions that share demographic, social, economic, and geographic characteristics as well as some commuting patterns (Weldon Cooper Center for Public Service 2014). Northern Virginia is at the top of the map, near Washington, District of Columbia. The cases studied here are located in the Valley region, along the Western perimeter of the state, and the West Central region (just south of the Valley). Both regions include small cities and towns, as well as rural counties. Each region is home to more than 300,000 residents, and in both regions, the cost of living and the median home price (US$150,000) are below the national average. Although economic development partnerships exist within these regions, the partnership boundaries are considerably smaller than the geographic regions. In the two cases discussed here, the boundaries of the partnership—the Roanoke Regional Partnership—include parts of both the Valley and West Central regions.

Roanoke Regional Partnership

The Roanoke Regional Partnership is the regional economic development organization for the counties of Alleghany, Botetourt, Franklin, and Roanoke; cities of Roanoke, Covington, and Salem; and the town of Vinton. The Partnership was established in 1983, partly to provide a structure that would combat interlocal competition for new businesses. The Partnership facilitates joint ventures between these eight local governments and more than 200 private-sector businesses focused on helping the region attract, retain and grow business opportunities. The Partnership's mission is to provide information, support and facilitate the development and implementation of regional economic development projects among those participating jurisdictions (Roanoke Regional Partnership 2019). Through the Partnership, the jurisdictions in the two cases described here had developed at least minimal working relationships in prior years. This made it easier to expand the relationships to include revenue-sharing agreements.

Case 1: Alleghany County and the City of Covington, Virginia

Alleghany County and the City of Covington are adjacent localities in a rural area on the western edge of the Valley Region (and they are members of the Roanoke Partnership).

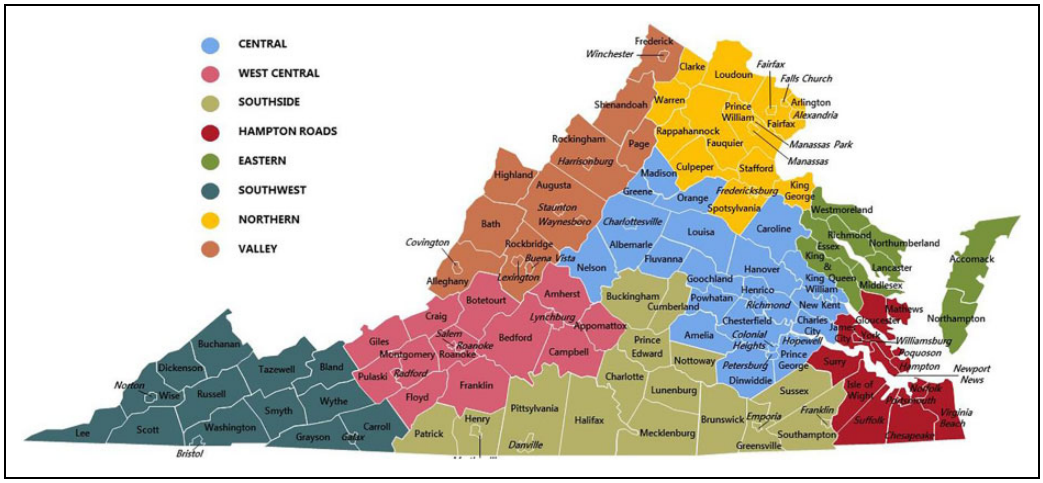

Figure 1. Virginia's regions. *Source:* Weldon Cooper Center for Public Service.

Alleghany County's population has hovered around 15,000 since 1980, and Covington's population has been declining since 1960 to reach 5,617 today. For over twenty years, the local governments contended with repeated citizen-initiated consolidation referenda stemming from complaints of ineffective and inequitable delivery of services.

In 2016, a solution to this challenge was found when newly elected public officials decided to invest in regional cooperation that could leverage the diverse assets available in the two jurisdictions. Explained one elected official, "the idea is always less government, joint services, one school system, [but] once we got elected, we wanted more regional cooperation" (City-elected official, Interview, November 1, 2017). This decision allowed the two jurisdictions to avoid a formal process of consolidation as a solution to service provision and pool available resources to collectively find solutions to enhance service provision and unlock economic potential for the region.

The localities worked to develop an economic growth sharing agreement to meet constituent demand. As is typical in many regions in Virginia, counties have the land on which to build new development projects, but cities have the financial capital required for development. This linkage presents an opportunity to capture the different resources and meet the different demands of urban and rural localities. An official from the City of Covington stated, "... it is a really good example of one of those things that grew out of necessity, which was for us, economic development. [The City] just physically has no land here; it's all pretty much built out ... [The County] is rich in land but does not have any money to make these things happen, so it gave us an opportunity ... to use the financial resources we had and the land that the County has" (County-elected official, Interview, October 20, 2017). Absent interlocal cooperation through growth sharing agreements, one locality might benefit from the tax revenue rewards because it has much more land suitable for a new employer, while the other locality might be forced to absorb the public service provision costs to support the project, such as roads and schools to benefit residents who might want to live close to the business, but in the neighboring jurisdiction.

Although interlocal revenue-sharing authority had been available in Virginia since 1996, these localities had not pursued it due to a variety of reasons including limited shared vision, lack of trust, and limited operational capacity to create or manage new economic ventures. The potential for interlocal collaboration increased as a result of turnover at the elective official and manager level in the early 2000s. Thereafter, a shared vision for working together

and pursuing the option of entering into a regional revenue-sharing agreement began to emerge. As an Alleghany County–elected official stated, "...if we don't do partnerships...(the community) won't survive.... You've got people here now that understand that. It's harder to get state funds, federal funds. You have to have partnerships" (County-elected official B, Interview, October 20, 2017).

The Commonwealth of Virginia provided important enabling support over and above the authority for the two local governments to enter into the agreement. The state's Commission on Local Government served as the state-level oversight mechanism to ensure that the revenue-sharing agreement was fair and equitable, an objective assessment on which the localities could rely. The Commission also held public hearings in both localities and provided written guidance on the development and execution of the interlocal agreement.

With the voluntary revenue-sharing agreement approved, the County and City are now able to identify sites within both jurisdictions for economic development purposes. As the individual locations are determined, the financial investment for infrastructure needs will be shared. Once a business relocates to the upgraded site, revenues will be shared on a prorated basis. Importantly, the revenue-sharing agreement seems to have opened the way to additional cooperative actions between Alleghany County and the City of Covington; in 2018, the localities utilized this agreement to conduct a joint comprehensive planning process to guide future land development as a region. This is significant because land use is the basis on which localities compete for business, and thus it is generally the last area on which they choose to cooperate.

Case 2: Roanoke City, Roanoke County, and Salem City

The local governments of Roanoke City, Roanoke County, and Salem City share borders in the slowly growing and partly rural West Central Region of Virginia. Although all three jurisdictions are part of the Roanoke MSA, they are of different sizes and have different assets. Salem City is a small jurisdiction (population 23,438), Roanoke City is a medium-size city (population 99,681) that serves as the region's hub, and Roanoke County (population 93,775) is a large suburb that benefits from the increased jobs, finance, and workforce training available in the city. Although the three local governments began collaborating on service delivery initiatives such as water, wastewater provision, and broadband expansion many years ago, they had not previously worked together to directly target economic development opportunities. All three are active members of the Roanoke Regional Partnership and their elected officials and local government managers serve on the Partnership's Board of Directors.

The idea of deepening and extending their relationship arose after the Partnership conducted a survey of available sites for business expansion and identified a lack of sites of 100 acres or more. The challenge was that no one locality had the resources to both purchase the land and build the infrastructure on its own. A Roanoke county official stated, "Well, you know, [the land] is in our county; we could say we'll buy all the land, we'll do all the infrastructure development and all the investment... but it's hard for one locality to do that" (Roanoke County official, Interview, October 2, 2017). The Partnership identified an appropriate location in Roanoke County for development but recognized that the three localities in the region would need to partner to realize opportunities for business development.

To address this challenge, in 2015, the City of Salem, the City of Roanoke, and Roanoke County established the Western Virginia Regional Industrial Facility Authority. Regional industrial facility authorities in Virginia are similar to economic development authorities, with the key difference being multijurisdictional participation and the ability to share tax revenue. Virginia state statute enables these authorities, which create structures through which participating localities can advance regional economic development

initiatives and share the costs and benefits of those initiatives.

The three localities used the Western Virginia Regional Industrial Facility Authority as a structure for shared investment to build the Wood Haven Technology Park project, a US$10 million 109-acre business development site. This approach allowed for the individual local governments to capitalize on their individual assets—available land or development funds. The prorated investment and revenue-sharing agreement was set forth as Roanoke City (44 percent), Roanoke County (44 percent), and Salem City (12 percent), representing the proportional amounts per capita in the agreement. By combining their assets for investment purposes, each locality will share, on the same prorated basis, the additional revenues generated from increased commercial real estate taxes, business personal property taxes, and sales tax revenue.

The ability to leverage the assets of both urban and rural economic development partners was largely dependent on the decisions of local leadership and their membership in the Roanoke Regional Partnership. With the assistance of the Partnership, the elected officials and city and county managers in the West Central Region responded to the site analysis and created the industrial facility authority. Now in place, the Western Virginia Regional Industrial Facility Authority can be utilized for other development projects with a similar investment and revenue-sharing structure for the three localities to continue to leverage local assets and enhance the regional economy.

Implications for Policy and Practice

To conclude this article, we would like to identify four plausible implications for policy and practice. They are as follows:

- *State authority is necessary but not sufficient for interlocal collaboration*. The state-level policies described in this study provided the authority necessary for the localities to craft revenue-sharing agreements. Yet this authority had existed for many years before the localities utilized it. States can go much further to encourage interlocal collaboration.
- *State and federal governments should require interlocal collaboration for economic development and use regional intermediaries to implement these mandates*. Federal and state governments should make economic development assistance funds contingent upon deep and extensive collaboration for economic development across urban and rural jurisdictions within a region. Similar to key services such as roadways and water quality, economic development does not follow jurisdictional boundaries. Although many regions in Virginia and elsewhere have region-wide development strategies, these are often thin partnerships that do not include revenue-sharing or other deep collaborative agreements, such as collaborative land-use planning. State governments, such as Virginia, already encourage interlocal collaboration through various agencies and programs. They also provide technical assistance in many cases, but they do not require specific levels of collaboration. If state or federal governments were to require more extensive interlocal cooperation, these agencies would be able to expand their assistance. Most states already have regional planning agencies that serve as the metropolitan planning organizations required to receive federal transportation funds. Federal or state governments could require similar processes for regional economic development. (Note that Virginia inaugurated a new incentive program, The Virginia Initiative for Growth and Opportunity (n.d.), in 2018 which provides financial incentives for localities within a region, including urban and rural localities, to collaborate on development projects [Virginia Initiative for Growth and Opportunity n.d.].)

- *States should provide additional nonfinancial incentives for interlocal cooperation.* State governments should look to expand their economic development policy tools to include more nonmonetary incentives to strengthen regional collaborative partnerships. Especially in regions with both urban and rural jurisdictions that do not have similar assets or levels of capacity, and which have yet to establish strong collaborative relationships, state agencies can facilitate dialogue and shoulder tasks that some localities do not have the bandwidth to handle. Especially in a state policy environment that requires interlocal collaboration, state agencies can work with local leaders to help them reach across local boundaries and craft collaborative agreements.
- *Urban and rural localities need to recognize, value, and leverage their different assets.* To do so, localities must identify the different types of community capital present within their jurisdictions, often in the form of physical, natural, financial, and political assets, which can influence the potential of their economic profile. The case studies discussed here demonstrated the opportunity for localities within the region to work together through interlocal agreements to bolster service delivery and economic development by leveraging their different, but complementary assets (e.g., land and financial resources). There was clear understanding about the resources each jurisdiction could bring to the table and the expectations for gaining commitment from the different partners. As discussed by Dabson (2007), one of the major hurdles to urban–rural collaboration is a basis upon which to value rural assets (see also Forman 2008). State government, with the assistance of universities and others, can help localities understand the value of local assets to inform stronger collaborative relationships.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The authors received no financial support for the research, authorship, and/or publication of this article.

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