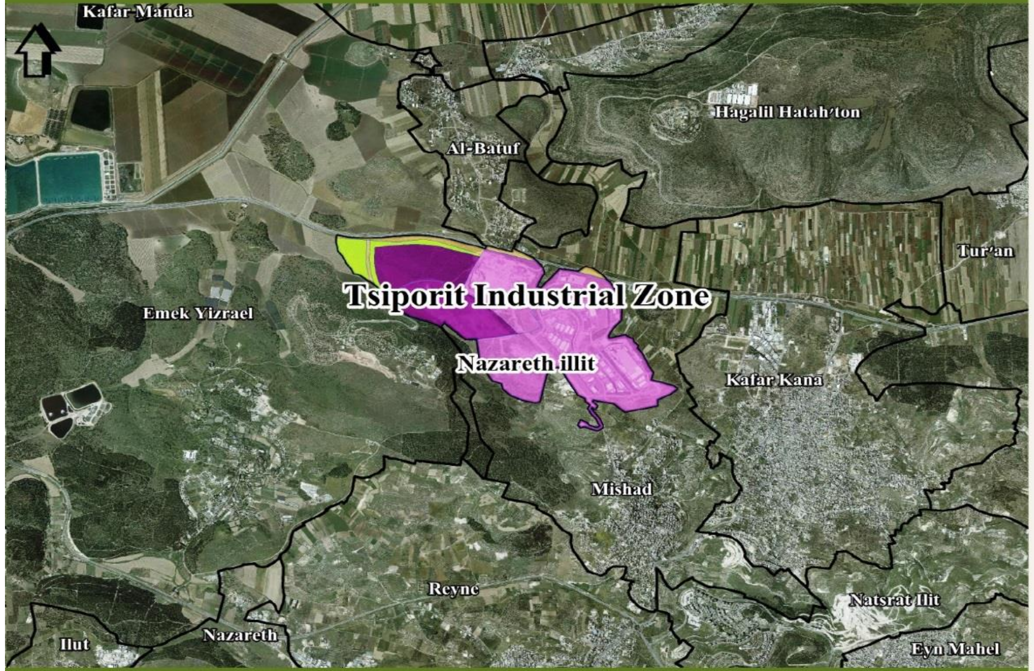


DISTRIBUTIVE JUSTICE

MODEL OF ALLOCATION OF REVENUES FROM THE "TZIPORIT" INDUSTRIAL ZONE

The Arab Center for Alternative Planning , June 2017

DISTRIBUTIVE JUSTICE

MODEL OF ALLOCATION OF REVENUES FROM THE "TZIPORIT" INDUSTRIAL ZONE

The Arab Center for Alternative Planning , June 2017

المركز العربي للتخطيط البديل
המרכז הערבי לתכנון אלטרנטיבי
The Arab Center for Alternative Planning

"تم إنجاز هذا العمل من خلال الدعم السخي للشعب الامريكي عن طريق وزارة الخارجية للولايات المتحدة الأمريكية. مضمون هذا المنشور هو مسؤولية المركز العربي للتخطيط البديل ولا يعكس بالأساس وجهة نظر وزارة الخارجية الأمريكية أو حكومة الولايات المتحدة الأمريكية."

"עבודה זו התאפשרה בזכות התמיכה הנדיבה של העם האמריקאי באמצעות משרד החוץ של ארה"ב. תוכן חוברת זו הוא על אחריותו של המרכז הערבי לתכנון אלטרנטיבי ואינו מבטא את עמדת משרד החוץ האמריקאי או את ממשלת ארה"ב."

"This report is made possible by the generous support of the American people through the United States Department of State. The contents are the responsibility of ACAP and do not necessarily reflect the views of the Department of State or the United States Government."

Embassy of the United States

U.S.-Middle East Partnership Initiative
MEPI

Table of Content:

Introduction

This booklet documents the “Distributive justice from regional industrial areas” project conducted by the Arab Center for Alternative Planning (ACAP) with funding by the Middle East Partnership Initiative (MEPI) between September 1, 2016 and August 31, 2017. The project was designed to promote equitable division of income from two industrial zones in northern Israel: the complex of Oil Refineries, Ltd. in the Haifa Bay (hereafter, ORL) and the Zipporit Industrial Zone designated to Nazareth Illit.

One of the principles and purposes of ACAP is to ensure distributive justice on the regional level, to put an end to the current situation where powerful municipalities reap the benefits of industrial zones that yield substantial municipal tax payments, leaving the marginalized municipalities behind.

To change the existing situation, ACAP proposes a change of approach in the regional division of municipal taxes and other incomes from industrial zones that will take the following elements into account: individuals’ socioeconomic status in communities in the region; the level of services provided in each community and the executive ability of each municipality based on its budget balance. This is opposed to the current situation where only the municipal designation of the industrial zones is taken into account. Accordingly, ACAP proposes to consider also the historical ownership of the land in question, the radius of environmental and health effects around the industrial zone and the overall socioeconomic status of nearby municipalities

Previously, ACAP was active in two redistribution committees: the Redistribution Committee of the Local Industrial Council of “Migdal Tefen” in the Galilee and the Redistribution Committee of Ramat Hovav in the Negev. We are closely following the implementation of the committees’ recommendations, which can contribute to improving the economic situation of the authorities.

The booklet before you summarizes and introduces our new approach performed in the two industrial zones of ORL and

Zipporit. With reference to the ORL Committee, we summarize the events from the inclusion of Arab municipalities in the committee's mandate to the committee discussions held in late 2016 and early 2017 and the committee's current status. With reference to the Zipporit Industrial Zone, we refer to the memorandum of the request to create a redistribution committee prepared by ACAP and submitted to the Ministry of the Interior on behalf of the following municipalities: Mashhad, Kafr Kanna, Reineh, Ein Mahil, and Albattof.

We are grateful to the generous support of MEPI that enabled us to complete this important project, which we plan to expand to other regions in Israel.

Redistribution of Income from ORL

Following prolonged and intensive efforts, and after planning and legal struggle towards the establishment of the redistribution committees in the Haifa Bay area, ACAP managed to include the municipalities of Shefa-'Amr (Shfar'am), Basmat Tab'un, AlKa'biya-Tabbash-AlHajajra in the list of communities discussed by the Geographic Committee of the Haifa Region with regard to the redistribution of ORL's incomes. Moreover, ACAP managed to renew the committee's activity after these had been suspended for several years, and replace some of its members. The committee was reestablished by the Ministry of the Interior on September 18, 2016, in order to examine several issues in the Haifa area, including the redistribution of income and the redrawing of municipal borders.

After the success in including said municipalities in the scope of the Committee for Redistributing the Income from ORL, ACAP demanded to also include I'billin, because it is located within the radius within which municipalities were entitled to compensation – 9 kilometers from the refineries. However, the response to this demand was that the radius is calculated based on residential areas rather than the entire jurisdiction of the municipality and this is the reason why I'billin was excluded from the committee's scope.

ACAP began representing the three municipalities included in the committee's scope, and in late 2016, the committee began working in collaboration with them. ACAP conducted a field study and collected planning and other relevant data on these municipalities, including their socioeconomic status and the inhabitants' share of the municipal incomes, both from municipal taxes and from national budgets. ACAP reported to the committee on the substantial income gaps between the Arab and Jewish municipalities included in the committee's scope. It also highlighted the significant gap between the share of Arab and Jewish inhabitants from those municipal revenues.

In addition, ACAP conducted a comprehensive study of the area of the refineries since their establishment during the British Mandate period, after which they were appropriated by the State of Israel. This study reviewed the government funding and support for the establishment of various facilities and factories in the area over the decades. ACAP revealed the lack of any persuasive argument in favor of limiting the allocation of revenues from ORL to the municipalities of

Haifa, Kiryat Ata, and Nesher and the Zevulun Regional Council, particularly given the fact that none of them has never funded the establishment of any facility within ORL. This obviously called for the need for criteria for equitable distribution of income that would include all the neighboring communities, criteria that would also take into consideration the environmental damages resulting from ORL's activities and the cost of mitigating their pollution at source and the effects of air, water and soil pollution.

ACAP presented developed a model for equitable distribution of income among all communities included in the committee's scope, which took into account the socioeconomic status of individuals in each of the communities, as well as the geographical distance from ORL and the related environmental effects on the community, its inhabitants and environment.

ACAP representatives participated in all meetings related to the redistribution of income from ORL and reviewed the written materials and data submitted to the community by the various municipalities and the presentations of environmental experts, economists and geographers before the committee.

At the final stage of the committee's work prior to submitting its recommendations, the municipalities of Haifa (with 45% of the income), Kiryat Ata (25%), Nesher (15%), and the Zevulun Regional Council (15%) appealed to the High Court of Justice to prevent the committee from publishing its recommendations. This move delayed the committee's work pending the court ruling to the date of the publication of this report.

As usual, ACAP will continue monitoring developments in this sensitive issue in collaboration with the Arab municipalities represented on the committee – Shefa-'Amr (Shfar'am), Basmat Tab'un, AlKa'biya-Tabbash-AlHajajra , Daliyat El Carmel and Isifya– in order to help them exercise their rights as part of a redistribution of municipal incomes from ORL. We intend to wait until after the court rules on the appeal with the hope of securing another achievement in the area of distributive justice. After our achievement in the "Tefen" Industrial Park, (43%) for the near Arab towns, where we managed to include the municipalities of Kisra-Sumei (23%) and Yanuh-Jat (20%) in the income distribution regime, we will continue our efforts to secure a similar achievement in the Zipporit Industrial Zone in favor of Mashhad, Kafr Kanna, Reineh, Ein Mahil, and Albattof.

Distribution of Revenues from the "Tziporit" Industrial Zone

Introduction

In order to investigate the distribution of revenues and expansion of jurisdictions, the Ministry of the Interior appointed a permanent Geographic Investigation Committee to examine issues concerning these topics.

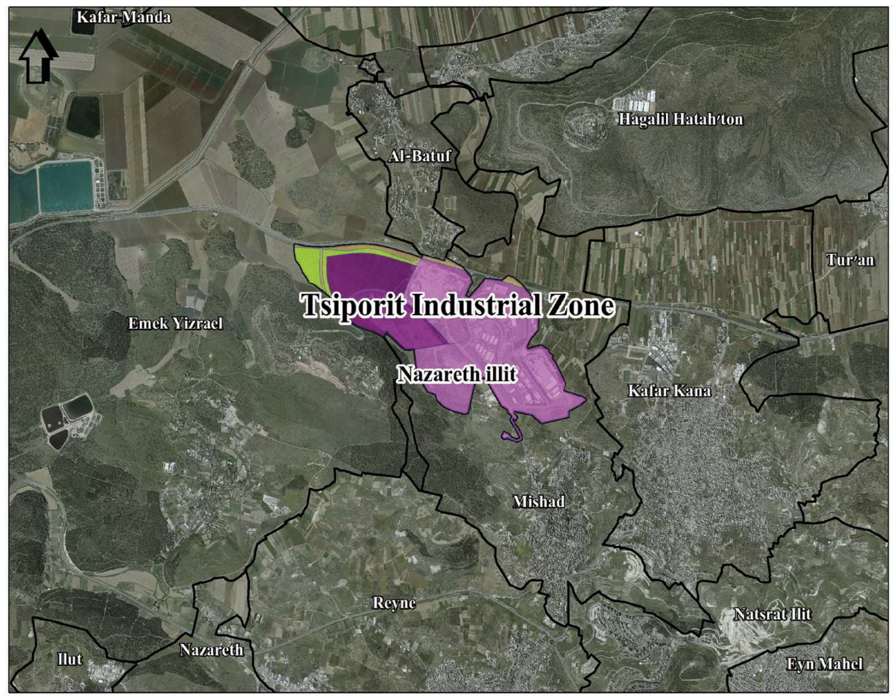
This memorandum is submitted to the Minister of the Interior as a request to examine the distribution of revenues from municipal rates from the "Tziporit" Industrial Zone.

The request concerning the distribution of revenues relates to the area of the Northern Industrial Zone of the city of Nazareth Illit (Tziporit Industrial Zone) as shown in Comprehensive Outline Plan No. 212-0137604 (see Map No. 2), and is supported by the following local councils: Al-mashhad, Kofr Kanna, Ein Mahel, Al-Reineh and Al-Battuf. As customary under the law, the request for distribution of revenues will be submitted to the Ministry of the Interior, but the Municipality of Nazareth Illit will participate in the process to the extent the Minister decides to authorize the investigation committee to make recommendations on the matter.

The above authorities have authorized the Arab Center for Alternative Planning. (hereinafter - "ACAP") to prepare this memorandum in order to submit it to the Minister of the Interior and to propose a model for the distribution of revenues from municipal rates among the participating authorities.

As part of the task of representing the local authorities with respect to Tziporit, ACAP has developed an empirical model for the distribution of revenues from municipal rates and other sources among the various authorities. The model is based on the know-how and experience accumulated in Israel, and worldwide, in the field of distribution of revenues among adjacent local authorities. Recently, awareness of the need for distribution of revenues originating from industrial and commercial regions among adjacent authorities is on a rising curve, since the gaps in revenues among the authorities have become fixed over time (distributional justice).

It is emphasized that Israel has no agreed upon and binding model serving for distribution of revenues among the authorities. The model proposed by ACAP, representing the above five authorities, adopts part of the findings and recommendations of the previous investigation committees which handled the issue, but also integrates additional aspects and fiscal parameters which broaden the model's effect. The desired target is to develop an empirical, universal and transparent revenues distribution model to be based, as much as possible, on measurable and available quantitative parameters from the publications of the Central Statistics Bureau or other reliable sources of information.



Characteristics of the Tziporit Industrial Zone:

The Tziporit Industrial Zone was established in 1992 on lands annexed to Nazareth Illit, located about 8 kilometers north of the town. At the present stage, it covers 1,600 dunams, and after completion of all the other stages, its area will total 3,560 dunams. The Zone includes heavy industry factories, a park for hi-tech industries and for enterprises with tourist potential. The region is not a residential one; it consists of green areas and public buildings and is managed by an administrative organization.

The Tziporit Industrial Zone is included in the Regional Outline Plan for the Northern Region, TMM 9/2, as a Regional Industrial Zone. The Plan also marks, as a continuation of the Tziporit Industrial Zone, two industrial zones within the boundaries of the villages Al-mashhad and Kofr Kanna. The Kofr Kanna industrial zone has been partially developed. The development of Mashhad's industrial zone has not yet begun, although the Plan has finally been approved.

Selection of the Local Councils Participating in the Request for Distribution of Revenues

The authorities and towns which will participate in the distribution of revenues from the Industrial Zone will be selected on the basis of a number of parameters/criteria as explained below:

- **The Distance Criterion**

A special examination we made, concerning villages/towns located at a maximum distance of 7 kms from the Tziporit Industrial Zone, showed that the Mashhad Local Council and the village of Romat el Hayab belonging to the Al-Battuf Regional Council, as well as the Town of Hoshaya belonging to the Eimek Yezrael Regional Council, border on the Tziporit

Industrial Zone; villages/towns that do not border on the Tziporit Industrial Zone but are another 3 kms away, are the Kofr Kanna and Reina Local Councils, and the villages Romana and Aluzir, which belong to the Al-Battuf Regional Council, moshav Tzippori and the communal villages of Beit Rimon. At a distance of a further 6 kms from Tziporit are the villages of Tura'n, Ein Mahel and Yafat Alnasera, Nazareth and Nazareth Illit.

- **The Socio-Economic Cluster Criterion**

Of the towns/villages mentioned above, Al-mashhad, Kofr Kanna, Ein Mahel, Yafat Alnasera, Nazareth, Tura'n and those in the Al-Battuf Regional Council are in the lowest socio-economic clusters - 1-3. Nazareth Illit is in Cluster 5 and the Eimek Yezrael Regional Council is in Cluster 8.

- **The Municipal Rates Revenues from Employment Criterion:**

In the majority of the villages/towns mentioned above, the principal source of revenue is residential municipal rates, except for the Eimek Yezrael Regional Council and Nazareth Illit, who have yielding employment (see Table No. 1). Almost all the villages/towns have no independent yielding industrial zones, and regarding those who do, like Nazareth, Kofr Kanna and Reina, their industrial zones are weak and revenues are insignificant and do not contribute to the authorities' economic strength.

Table No. 1: Revenues from Municipal Rates per Capita in Each Place:

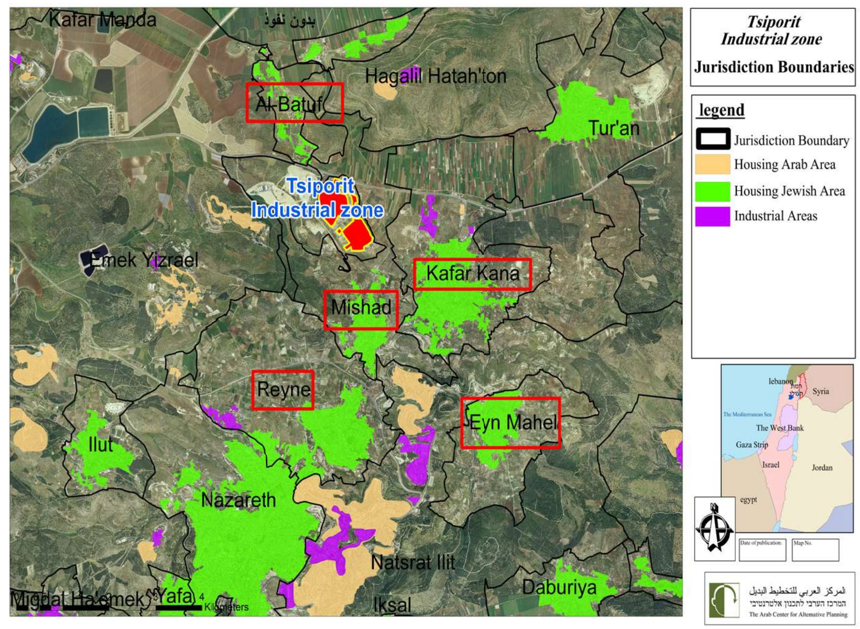
Town / Village	Population Size	Overall Municipal Rates Collected per Capita NIS	Non-Residential Municipal Rates per Capita NIS
Eimek Yezrael	39,000	3,164	1,995
Nazareth Illit	40,198	2,881	1,879
Nazareth	75,726	1,100	543
Tura'n	13,337	933	454
Kofr Kanna	21,296	759	333
Al-mashhad	7,858	646	80
Yafat Alnasera	18,234	612	198
Al-Reineh	18,475	549	126
Ein Mahel 2012	12,484	490	36
Al-Battuf	7,300	402	28

In light of the figures in Table 1, we have determined that the towns/villages that should be included in the investigation concerning revenues from the Tziporit Industrial Zone are: Al-mashhad, Kofr Kanna, Al-Reineh, Al-Battuf Regional

Council and Ein Mahel, based on their distance from Tziporit, and the low revenues from business municipal rates within their boundaries.

It is clarified that Tura'n, Yafat Alnasera and Nazareth are not included in the list of towns/villages requesting distribution of revenues from the Industrial Zone for a number of reasons, including:

1. The Tura'n Regional Council submitted to the Ministry of the Interior a request for distribution of revenues from the "Kidmat HaGalil" Industrial Zone and from the "Shimshon" camp that is within the boundaries of the Lower Galilee Regional Council and adjacent to the Tura'n jurisdiction.
2. In our opinion, for Nazareth and Yafat Alnasera, a more efficient solution should be found than distribution of revenues from the joint industrial zone of a number of authorities. As large towns in the region, they both need an independent and yielding industrial zone to improve their economic situation and the social condition of their inhabitants.



Map No. 2: Authorities included in the Request for Distribution of Revenues

Characteristics of the Authorities:

The table below presents the general characteristics of the five Local Councils: Kofr Kanna, Mashhad, Reina, Ein Mahel and the Al-Battuf Regional Council

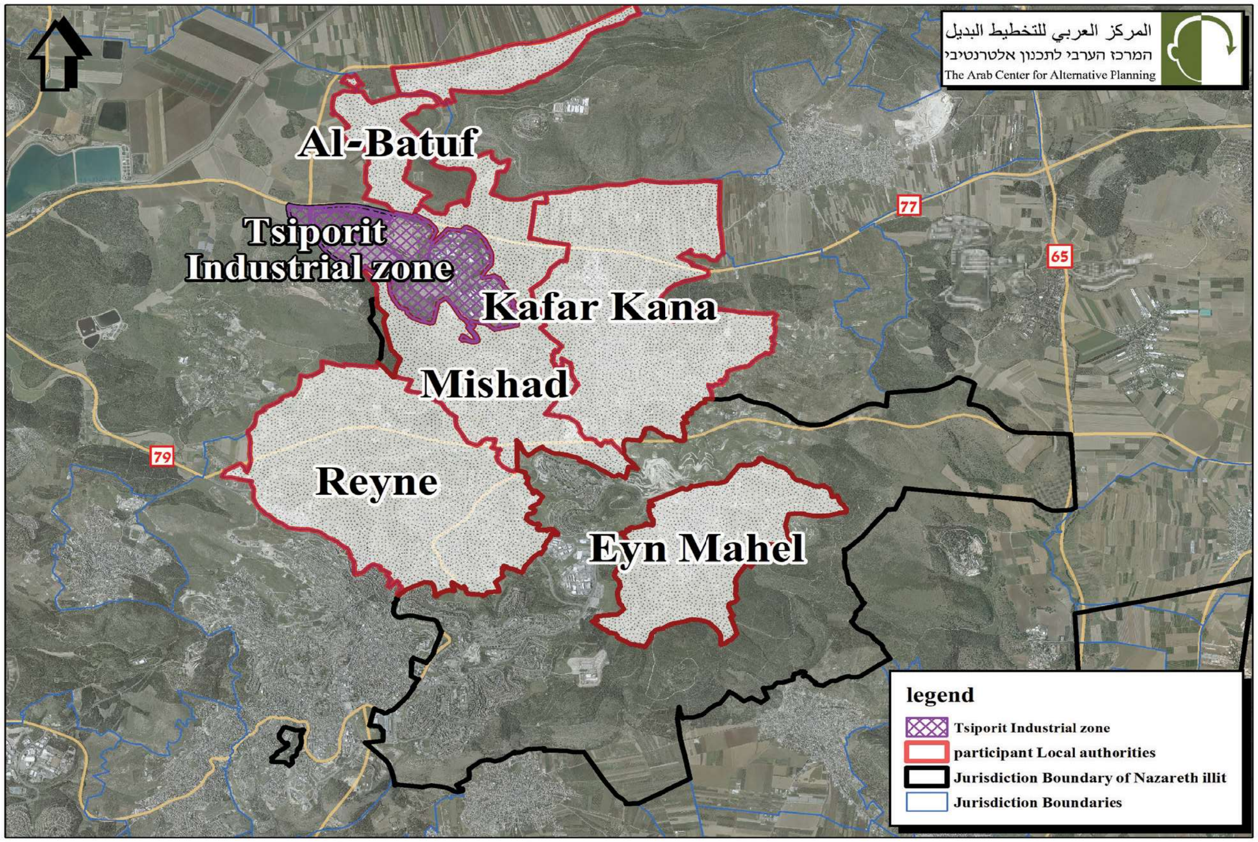
Table No. 2: Characteristics of the Authorities Included in the Distribution of Revenues:

Local Council	Kofr Kanna	Al-mashhad	Al-Reineh	Ein Mahel	Regional Council Al-Battuf
Towns/Village	Kofr Kanna	Al-mashhad	Al-Reineh	Ein Mahel	Aluzir, Romana, Romat al Heyb, Wadi al Hamam
Year Authority Established	1,968	1,960	1,968	1,964	2,000
Population - 2015	21,296	7,858	18,475	12,484	7,300
Socio-Economic Cluster	2	2	3	2	1
Regular Annual Budget (Income) (Millions NIS)	127	39.5	89.5	-	58.5

Local Council	Kofr Kanna	Al-mashhad	Al-Reineh	Ein Mahel	Regional Council Al-Battuf
Municipal Rates Charged **(Millions NIS)**	29.8 (NIS 1,400 per Capita)	7.8 (NIS 893 per Capita)	26.7 (NIS 451.4 per Capita)	-	5.5 (NIS 756 per Capita)
Jurisdiction Area (Dunams)	10,050	7,240	10,800	5,200	3,760

The table shows that the ranking of the five authorities in socio-economic clusters in the lower half, and that they suffer from low self-income (below NIS 1500 per capita) due to the lack of significant active industrial regions and commercial and occupational centers in the absolute majority of them.

The following map shows the location of the authorities participating in the distribution of revenues in relation to the Tziporit Industrial Zone in the Lower Galilee, in the Northern Region, including jurisdictional areas:



Map No. 3: Orientation Map

Development of an Empirical Development of an Empirical Model for Distribution of Revenues among the Authorities:

An empirical model is proposed for distribution of revenues among the local authorities bordering on and adjacent to an employment region or to another source of income whose revenues are non-residential, such as a quarry or military camp or industrial factory on a regional or national scale. The region, all or some of whose revenues are distributed among a number of relevant local authorities, will be called subsequently the **"Revenues Distribution Area", or "RDA".**

The distribution of revenues among the participating (or receiving) local authorities is determined by three main criteria:

1. Special considerations;
2. Distance of the participating authority's built-up area from the revenues distribution area;
3. The financial gaps between the authorities participating in the distribution of revenues.

Special considerations: Often, the decision to distribute revenues from a yielding area ("rates goldmine") among adjacent local authorities comes as a substitute or compromise for contradictory requests and pressures to annex areas to the jurisdiction of neighboring authorities. The method of distributing revenues based on objective, transparent and universal criteria blunts regional conflicts and competition among the authorities, establishes a mechanism of regional cooperation and encourages the authorities to find common interests.

There are cases in which specific authorities had (and still have) a special relationship and strong ties with an RDA - a kind of “mother authority”. Cases have been known where an extensive industrial zone, business center, or other rich source of income was established on land that used to belong (either proprietary or municipally) to a neighboring authority or place, but administrative/governmental and planning decisions prevented the place with the special relationship from deriving any benefit from the development and growth in the area. Moreover, the very fact of the establishment of the RDA close to the “mother authority” prevented promotion and initiation of an employment region and other economic ventures within its boundaries, which was detrimental to the financial strength of the authority and its development opportunities.

There is no way of determining universal decision-making rules concerning special demands by authorities to receive part of the distributable amount due to a special relationship with the RDA. But it is often impossible to deny such special demands. Therefore, it is necessary to enable the committee which is deciding on the distribution of revenues to exercise discretion based on the particulars of each and every case.

To summarize, it is reasonable to allocate part of the global distributable amount based on special considerations in order to respond to the expectations of authorities who have a unique and proven relationship with the RDA to be allotted a larger share of the distributable amount, which will constitute a kind of compensation for the loss of the development and growth opportunity and the special relationship with the relevant RDA.

Distance of the participating authority’s built-up area from the revenues distribution area: The purpose behind the distribution of revenues among the participating authorities based on distance (from the source of the revenues), is to compensate the surrounding authorities for any damage or inconvenience caused to them and their populations as a result of their proximity to the source of the revenue. The damage or the inconvenience may be regarding health, environment, landscape, image, security, traffic or planning and development restrictions within the boundaries of the receiving authorities deriving from the physical proximity to the source.

Physical principles determine that the greater the distance from the inconvenience (which is the source of the income), the smaller the force of the effect. And vice versa, the closer the authority or the place is to the inconvenience, the more intensive and more powerful is its negative effect.

The rationale behind the distribution of revenues from municipal rates imposed on the source of the inconvenience is that the economic benefit enjoyed by the authority from receiving the revenues partially balances and cancels out the negative effect and constitutes a kind of compensation for the various kinds of damage incurred by it and its inhabitants. Furthermore, this compensation can be used for taking steps and actions to reduce and limit the said negative effects.

A further factor that justifies receipt of part of the revenues from the industrial zone by an adjacent authority is that the very existence of the industrial zone often constitutes a reason or grounds to reject initiatives by the authorities to establish employment areas in the vicinity, based on various environmental and economic considerations. This fact leads to loss of development and growth opportunities for the neighboring authorities. These losses increase relatively, the closer the authority is to the industrial zone, and the compensation for the loss of opportunities must increase accordingly.

It is noted that the greater and more intensive the power of the negative effect, it would be reasonable to say that the part of the revenues to be distributed among the adjacent authorities based on the distance criterion will be proportionately greater. For the sake of illustration, it is more logical to give the distance criterion greater weight in the case of an active quarry or in a region of heavy and polluting industries than in the case of a light industry region or a clean industries park.

Financial gaps between the authorities participating in the distribution of revenues: The purpose behind the distribution of revenues based on the criterion of financial gaps between the authorities participating in the distribution of revenues is the implementation of the principle of distributional justice and taking steps to reduce the gaps between the authorities located in the relevant region. Given a situation where the various authorities in a particular geographic region compete among themselves to attract entrepreneurs and businesses to settle in them, even to the extent of giving discounts and incentives that reduce their relative income from municipal rates on businesses, all in order to improve their financial-economic situation, then distribution of revenues on a regional scale will reduce the competition and reinforce the authorities' stability and bargaining power.

Furthermore, distribution of revenues on a regional scale reduces the pressure to establish employment and industrial areas in every authority in the region even if this entails causing environmental damage and disrupting the inhabitants' quality of life. Thus there is the sense that every development project or industrial enterprise established in the region is divided equally among the authorities and the inhabitants of that region.

The Parameters that Affect the Distribution Criteria

The two aforesaid criteria (i.e., the physical distance from the source of the revenue, and the financial gaps between the participating authorities, which determine the manner of distributing the revenues among the participating authorities) are set forth in an empirical formula that is a function of a number of physical and economic parameters which characterize the authorities. The distribution formula determines the amount which is due to each authority out of the overall distributable amount in accordance with the parameters that characterize it which are measurable, universal and transparent.

The Distance Criterion

The parameters which determine the value of the revenues distribution coefficients according to the distance criterion are the physical distance from the source and the population size of the participating authorities.

The Physical Distance Criterion

The physical distance is the distance measured from the center of the source of income up to the center of the town/village (or towns/villages) of the participating authority. In the event that the participating authority is composed of a number of towns/villages or physically and geographically defined population centers (as in the present case), the distance from the center of the source of revenue will be measured to the center of each place or population center separately. Towns/villages that our outside an agreed radius of influence will not be taken into account and will not be included in the distribution formula even if they belong municipally to the authority defined as an authority participating in the distribution (e.g. the towns/villages in a regional council of which only some are within the agreed radius of influence).

The proposed model relates to the effect of the physical distance of the places belonging to the participating authorities on the value of the distribution coefficients which the formula calculates at two levels of power:

- Enhanced power for authorities (or part thereof) which border physically on the source of the revenue. For these adjacent authorities the revenues distribution coefficient is in inverse proportion to the physical distance from the source.
- Reduced power for authorities who are not adjacent (but are physically close and are included in the request for distribution of revenues). For these proximate authorities, the revenues distribution coefficient is in inverse proportion to the square of the physical distance from the source.
-

The Population Size Parameter

The size of the population of the participating authority (or parts thereof) within the agreed radius of influence is considered the parameter which influences the revenues distribution coefficient based on the criterion of physical distance from the source.

The logic behind the inclusion of population size as an influencing parameter is that, in the event two places are at an equal distance from the source, it would be reasonable for the authority with the largest population to be given the more significant share of the distribution money than the authority with the smaller population, since more inhabitants in the larger authority are exposed to the negative effect deriving from their being close to the source.

Nevertheless, since the population of the authority is also included as a parameter in determining the distribution coefficients according to the criterion of closing the financial gaps between the participating authorities (as presented below), its effect in the formula of calculating the coefficients has been limited, so that the part transferred to the participating authority depends linearly on the square root of the size of the population. Thus the effect of the population size of the authorities on the distribution coefficients is reasonably moderated, and a situation whereby the large authorities constitute a kind of "black hole" that swallows the majority of the distributed amount will be prevented.

It is important to note and emphasize that the socio-economic stastus of the participating authorities is not a parameter affecting the distribution coefficients based on the distance from the source parameter. Well established authorities are entitled to receive compensation for damage and negative effects caused to their inhabitants by factories and disturbances located in their proximity regardless of their socio-economic status. The explanation for that lies in the principle that when an individual citizen or group of citizens or a whole town are affected negatively by their proximity to a plant or environmental disturbance of any kind whatsoever, then they are entitled to receive compensation or a right in part of the municipal rates paid by the influencing entity regardless of the relationship or independent of their socio-economic status. Even rich and well-established people should be compensated if they incur damage or inconvenience.

The Financial Gaps Reduction Criterion

The parameters which determine the value of the revenues distribution coefficients according to the financial gaps reduction criterion between the participating authorities are:

1. The authority's overall self-income from the municipal rates imposed on businesses and residence within its boundaries;
2. The socio-economic rank of the authority;
3. The size of the authority's population.

The Authority's Self-Income Parameter

The higher the authority's income from its own sources, the greater its financial strength and the less its dependence on government grants and support in order to achieve budgetary balance.

Local authorities who within their boundaries are regions of employment, industry, special factories and government or public institutions, usually benefit from high self-income originating from the municipal rates payable to them. Local authorities who are within the high socio-economic clusters because the majority of their populations are well-established and rich, also benefit from high revenues from residential municipal rates. Often, authorities who obtain high self-income from businesses are also blessed with a well-established population and therefore belong to the high socio-economic clusters. However there are local authorities belonging to the high socio-economic clusters solely because of the well-established population living in them, and despite the fact that they do not include any businesses yielding high revenues. These authorities are typified by their high collection percentage of municipal rates and their financial strength and impressive municipal stability.

On the other hand, there are authorities who possess hardly any areas producing significant business rates, nor do they have a well-established and rich population. These authorities usually belong to the low socio-economic clusters, find it difficult to balance their budget and rely on the grants provided to them by the government each year.

It is noted that the trend in the past decade is to reduce government grants without providing alternative sources of self-income for the local authorities, and therefore, there is an increase in downsizing processes, and reduction of expenses and provision of services to inhabitants, and also a lack of financing sources for developing municipal enterprises. Therefore, a need has also developed for distribution of revenues from municipal rates collected from industrial plants and employment areas and special plants among the authorities on a local/regional basis.

The purpose of distributing revenues from collection of municipal rates from businesses and factories among local authorities located in their close proximity is to reduce the financial gaps between them which were created due to the differences between the self-income of the various authorities from municipal rates (business and residential). The purpose is worthy, logical and moral, especially with respect to the distribution of revenues originating from businesses, plants and public institutions constructed, initiated and led mainly by the government, and less by the efforts of entrepreneurs and led by a specific local authority.

Government budget-balancing grants are not taken into account when comparing the self-income of the authorities participating in the distribution. In principle, the grants are given to weak authorities to compensate them for a lack of self-income sources. Including the grants in the comparison of self-income of the participating authorities would distort the true financial gaps existing among them.

Concerning the mutual relationship between distribution of revenues originating from local and regional enterprises and grants originating from government budgets, it is necessary to warn against making the method of distributing revenues among the authorities into a zero sum game, i.e. more self-income to the authorities will be offset by reducing government grants due to them without distribution of revenues. Thus the move will become a kind of deliberate tactic used by the Government to get rid of weak authorities and of the need to support them by means of budget-balancing grants. To the extent that that is what will happen, the absolute amount of the resources available for the weaker authorities as a result of the distribution of revenues will not increase perceptibly, if at all.

Effect of the Size of the Authority's Population

The size of the authority's population has a considerable effect on the size of the share which the authority will receive from distribution of revenues according to the criterion of reduction of financial gaps. The larger the authority's population, the greater the amount the authority will gain from the distribution.

Since the financial gaps reduction criterion derives from the principal of distributional justice, it is logical and just for a larger population to receive a larger allocation of the amount to be distributed among the authorities.

The quantitative aspects of the effect of population size will be described and clarified subsequently, together with presentation of the model for calculation of distribution coefficients among the participating authorities.

Effect of the Authority's Socio-Economic Status

In actual fact, the socio-economic status of the authorities participating in the distribution of revenues is a kind of "white elephant", present in fact or conjecture in the majority of the parameters affecting the revenues distribution coefficients, based on the criterion of reducing financial gaps among the authorities.

The scope of the revenues of each local authority is affected directly by its socio-economic status. Almost always, authorities belonging to the higher clusters benefit from high per capita income, whether because their population consists of businesses and generous "municipal gold-mines" businesses, or their inhabitants are well-established and pay their dues to the authority.

In municipal terms, that means high per-capita rates charged in well-established authorities, together with high collection percentage rates, with very few alleviations and discounts on municipal rates, while in the weaker authorities (who are in the low socio-economic clusters) there are low municipal charges and poor collection percentages, and on the other hand - the weaker the authority, the larger the alleviations and discounts.

The direct manner in which the effect of the socio-economic ranking of the authorities in the revenues distribution model is expressed is the reduction (or more accurately - doubling) of the self-income of each authority by a normative collection coefficient, the value of which is derived from its socio-economic status. The value of the normative collection coefficient for the authorities in the high clusters is close to 100%, which decreases as the authority's rank becomes lower.

Description of the Distribution Model Based on the Financial Gaps Closing Criterion

The distribution model is binary, i.e. it entitles the The distribution model is binary, i.e. it entitles the authorities to a part of the distributed revenues provided the per capital self-income from general municipal rates (residential and business) in any authority is lower than the average per capita self-income in the group of participating authorities. An authority whose average per capita self-income is higher than the said average is not entitled to a part of the distributed amount based on the financial gaps closing criterion.

This approach is based on the declared purpose of reducing the financial gaps among the participating authorities. If a well-established authority (from among the participating authorities) receives part of the distributed revenues, the amount to which a weaker authority should be entitled will have to be increased in order to reduce the financial gap between them, and thus the purpose of reducing the financial gaps will be thwarted, or there will be a need for especially high amounts to achieve a significant reduction in gaps.

To the extent the amount of the distributed revenues is so high that the average per capita self-income in the weaker authorities becomes equal to the average income in all participating authorities as a result of the distribution activity, then the well-established authorities (with their above-average income) will also be entitled to a pro rata share of the revenues.

The proposed model is not a threshold value effort of average self-income in order to include or exclude any authority in or from the distribution. The approach is to strive to reduce gaps among the participating authorities based on their relative financial strength, and not to adopt any absolute self-income value as a threshold for entry into or exit from the revenues distribution work.

The proposed model is especially suited for use when the source of distributable revenues is from a region or enterprise external to the participating authorities, such as the present case of distribution of revenues from the Tziporit Industrial Zone among the authorities included in the request. To the extent all or some of the distributable revenues originate from the self-income of the participating authorities, it will be necessary to adapt the relevant parameters in the model.

To complete the theoretical picture with regards to the revenue distribution model, there is an additional approach based on distribution of revenues among all participating authorities, including the well-established authorities with their self-income that is higher than the average per capita income in all the authorities. According to this approach, the share to which each authority will be entitled will be a function of the size of the population of the authority and the ratio between the average per capita self-income and the average revenues of all authorities.

- **Examination of the Effect of the Revenues Distribution on the Reduction of Gaps**

In conclusion, the proposed model contains within it a tool for examining the contribution of revenues distribution among the participating authorities to the reduction of financial gaps among them compared with the initial situation. The comparison is made by calculating the GINI coefficient for the per capita self-income in the authorities before and after the distribution. The effectiveness of the revenues distribution and the contribution achieved to reduce the financial gaps among the participating authorities can also be estimated.

Application of the Revenues Distribution Model to the Case of the Tziporit Industrial Zone

The proposed revenues distribution model will serve to determine and calculate revenues distribution coefficients from the Tzipporit Industrial Zone among the local authorities included in the request: Mashhad Local Council; Kfar Kanna Local Council; Al-Battuf Local Council; Ein Maahal Local Council; Reina Local Council (hereinafter - the **"Participating Authorities"**).

- **The Distributable Amount**

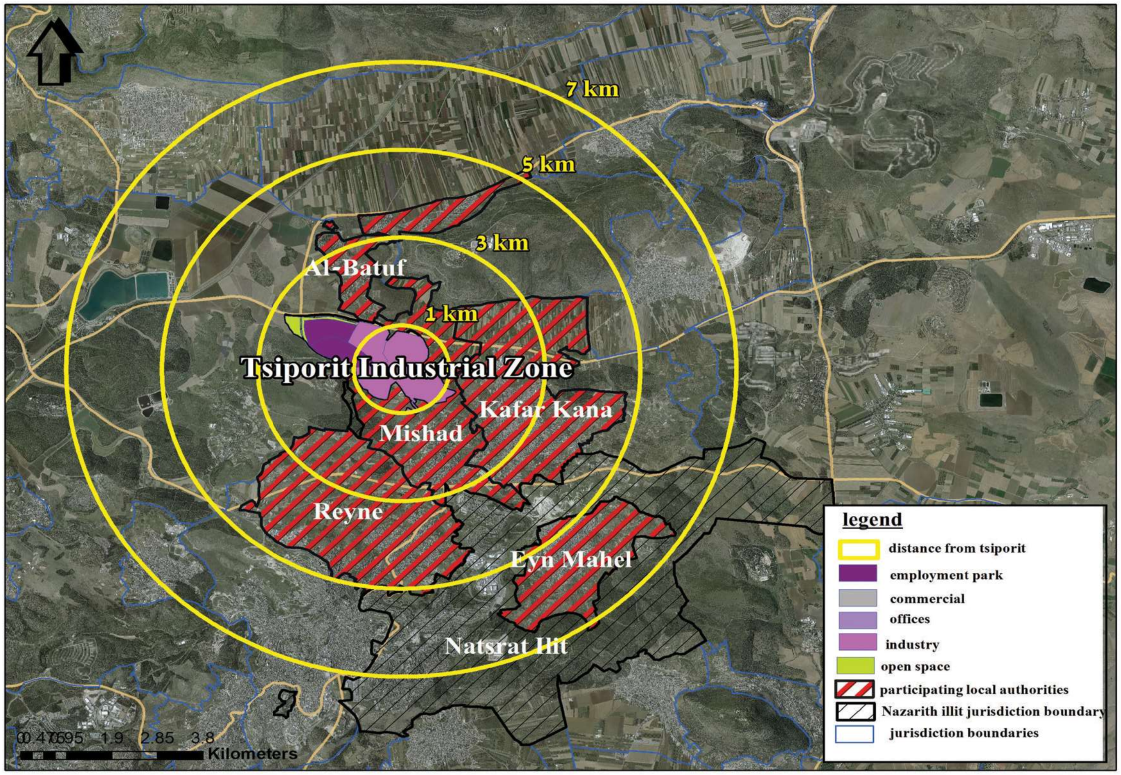
The Geographical Investigation Committee appointed by the Minister of the Interior is authorized to determine the amounts to be distributed among the Participating Authorities, taking account of the revenues originating from the municipal rates collected from the businesses operating in the industrial zone, and the costs of providing municipal services, including development and maintenance.

The Committee should examine and decide on the amounts of municipal rates to be charged to the enterprises and businesses in the Industrial Zone, and which part of the municipal revenues will be designated for distribution among the Participating Authorities.

It is emphasized that there is a necessity to offset the municipal costs expended by the Municipality of Nazareth Illit for the purpose of maintenance, operation and development of the Industrial Zone and retaining its image and its attraction for new businesses, simultaneously with the need for professional and efficient management.

- ## Stages of Implementing the Distribution Model

First Stage - Distribution of Revenues Based on the Distance Criterion



Map No. 4: Distance Radius of Towns/Villages from the Industrial Zone

The following table summarizes the physical data required to calculate the revenues distribution coefficients among the Participating Authorities based on the Distance Criterion:

Authority	Equivalent Distance (kms)	Population 2015
Kofr Kanna	3.5	21,296
Al-mashhad	2.7	7,858
Al-Reineh	4.6	18,475
Ein Mahel	5.9	12,484
Al-Battuf (Romana al Hayeb, Uzir)	2.7	7,300
Nazareth Illit	6.5	40,198

The equivalent distances were calculated from the map The equivalent distances were calculated from the map presented below. The distances from the Tziporit Industrial Zone were measured from the center of the Industrial Zone to the centers of the built-up areas of the Participating Authorities. For authorities consisting of more than one place the equivalent distances were calculated, i.e. one representative distance for each town/village in the authority that is within the influence circle of the Industrial Zone.

Second Stage - Distribution of Revenues based on the Gaps Reduction Criterion

The table below presents the information and the socio-economic data for all the authorities:

Authority	Nazareth Illit	Kofr Kanna	Al-mashhad	Al-Reineh	Ein Mahel	Al-Battuf Regional Council
Population - 2015	40,198	21,296	7,858	18475	12484	7300
Socio-Economic Cluster	5	2	2	3	2	1
General Municipal Rates Charged (Thousands NIS)	132,799	29,790	7,831	26,699	-	2,339
Residential Rates Charged (Thousands NIS)	56,320	21,766	7,018	21,644	-	-
Non-Residential Rates Charged (Thousands NIS)	76,479	8,024	813	5,055	-	-
Non-Residential Rates Charged (NIS/per capita)	1,902	376	103	273	-	-

The revenue distribution will aspire to reduce the existing gaps in per capital charge of non-residential municipal rates among the Participating Authorities, as shown in the table. The figures concerning municipal charges, population and normative collection percentages of the municipal rates (as a function of the authorities' socio-economic status) will serve to run the model so as to calculate the revenues distribution coefficients among the Participating Authorities.

Examination of the Extent of Reduction in Financial Gaps Among the Authorities

The overall purpose of the distribution of revenues among the authorities is to reduce the gaps among them and to realize the principle of distributional justice. After distribution of revenues from any public source among a number of authorities who have gaps between them, an examination is required as to the extent the distribution contributed to the reduction of the gaps and a lessening of the differences among the Participating Authorities.

The GINI index serves as a common and relatively simple tool to measure gaps existing in income between population groups or authorities and places. The index expresses the deviation of the actual revenues distribution from the egalitarian distribution in which the revenues are distributed proportionately among the various groups.

A zero value in the GINI index means egalitarian distribution of revenues among the components of the group. At one end, when the index value is one, this indicates that there is an absolute lack of proportion in the distribution of revenues among the group components, when one component (individual, or authority, etc.) gets everything, and all the others have no income at all.

In our case, at the first stage, the GINI coefficient will be calculated for the normative self-income in the Participating Authorities prior to distribution of revenues from the Tziporit Industrial zone. After the distribution of revenues among the authorities by means of the proposed distribution model the GINI index will be re-calculated. The comparison between the index values before and after the distribution will reveal the effectiveness of the distribution made regarding the reduction of gaps among the Participating Authorities.