

From Deficits and Dependence to Balanced Budgets and Independence

The Arab Local Authorities' Revenue Sources

Michal Belikoff and Safa Agbaria
Edited by Shirley Racah

Jerusalem – Haifa – Nazareth
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From the Directors

The present policy paper is the result of a collaboration between Sikkuy, which works to promote civic equality between Jewish and Arab citizens of Israel, and the Injaz Center, whose focus is the strengthening and empowerment of the Arab local authorities.

Key state resources and services are provided to citizens through the local authorities—in education, social services, planning, the public space, and more. For some time now, it has been clear that the poor economic state of the Arab local authorities does not allow them to provide services to Arab citizens that are on equal footing with those received by the Jewish citizens of Israel. Against this background, we decided to enlist the professional staff, experience, and tools at the disposal of our two organizations for an in-depth study of the funding sources of the Arab local authorities, and to set in motion a process that would modify the situation in this domain.

This study is unique in two ways. First of all, it covers most of the revenue sources of the local authorities, both their own independent sources (chiefly from property-tax) and central-government sources. Second, it compares Jewish localities with Arab localities in the same geographic region and socioeconomic cluster, which isolates the national element. Had we compared all Arab and Jewish localities in the country without controlling for geographic location and social cohesiveness, we would have obtained a much starker picture of disparities, reflecting all of the gaps between the Jewish and Arab localities in Israel. Our comparison between localities in the same socioeconomic cluster and the same geographical region isolates the national element as one of the chief factors that explains the disparity in the revenue sources of the Arab local authorities.

This is an impressive professional achievement, of which we are proud. But the research painted a difficult and unambiguous picture: The total revenues of the Arab local authorities are significantly lower than those of the Jewish local authorities. *This situation severely impairs the functioning of the Arab local authorities and is a direct cause of extreme inequality in the provision of state services to Arab citizens.*

The study discovered that this disparity in revenues is a direct consequence of central government policy. Over a period of sixty-five years, this policy created a physical space in which the main revenue source for local authorities—property that produces tax revenues, such as industrial and commercial districts, infrastructure facilities, local economy, and government offices—were established and developed almost exclusively in Jewish localities or within their jurisdictional boundaries.

What is more, for many years *it has been argued that the reason for the Arab authorities' smaller revenues is their low rate of property-tax collection.* The study did indeed find a lower collection rate, *but utterly refuted the assertion that this is the main reason for their lower revenues.* We emphasize that in the shadow of the continuing discriminatory policy against the Arab localities, *the assertion that their situation is a result of their failure to collect property-taxes is not only incorrect, but in fact a case of blaming the victim.* We hope that this paper will eliminate this false accusation from the

public arena and mark a shift in public policy and discourse: from blaming the victim to formulating a government policy that promotes distributive justice and improves the situation of the Arab localities and Arab local authorities.

The present document does not merely describe and analyze the situation. It also includes detailed and feasible policy recommendations whose goal is to produce a dramatic increase in the revenues of the Arab localities. This, however, is a long and complex process; until it can be completed, there is an immediate and acute need to enlarge the budgets of the Arab local authorities from central-government sources. We are aware that the trend in recent years has been to decrease equalization grants. In the short term, however, the failure to increase the equalization grants to the Arab local authorities will perpetuate an unjust, unequal, and discriminatory policy towards the Arab citizens of Israel.

It bears mention that the Finance and Interior Ministries are aware of the severe economic distress of the Arab local authorities, have publicly expressed the state's responsibility in this regard, and have embarked on a number of initial policy measures in recent years. But these efforts have not been translated into government policy that effects change, and certainly have not succeeded in improving the economic situation of the Arab local authorities.

Accordingly, we have found that the responsibility for the poor economic situation of the Arab local authorities lies chiefly with the government. But the solution must depend on both sides—both the central government and the Arab local authorities (albeit not in equal measure). We call on the heads of the Arab local authorities not to wait for the central government but to begin immediately by implementing the policy recommendations that are within their power. *Only a combined, coordinated process and effort by both sides, government ministries as well as the leadership of the Arab local authorities, can lead to a profound change in the economic condition of the Arab local authorities.* Each side bears responsibility for acting and moving forward.

The research summarized here was carried out as part of a complex process that required cooperation between our two organizations, team work, multi-disciplinary knowledge, expertise, and persistence. First of all, we would like to thank the researchers, Michal Belikoff and Safa Ali Agbaria, who are responsible for the excellent study you are about to read. We would also like to thank the joint project directors at Sikkuy and Injaz, Muhammad Khaliliye, Abed Kanaanah, and Shirley Racah, for their successful direction of the joint project and contribution to the study. Special thanks go to the academic advisor, Dr. Nahum Ben-Elia, who was unstinting in his advice and efforts to improve the quality of the research and enriched it with insights based on his extensive experience in the field and previous research he conducted on the topic.

We hope that this study will provide readers with a better understanding of the situation and set in motion a broad process to better the economic situation of the Arab local authorities and promote equality between the Jewish and Arab citizens of Israel.

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Executive Summary

The findings of this study clearly show that the main cause for the scanty revenues of the Arab local authorities from their independent sources stems from a low tax base.¹ The findings of the study refute the claim that the fragile economic situation of the Arab local authorities stems exclusively from a low rate of property tax collections. It is true that the property-tax collection rate in Arab local authorities is low and that they do have sufficient maneuvering room, which they can and must use to improve the situation themselves. But higher collection rates by themselves will not ameliorate the situation. They must be accompanied by significant growth in the tax base, through intensive central government investment in the economic and social development in the jurisdictions of the Arab local authorities. The urgent need to increase the tax base is even more pronounced against the background of the continuing cutbacks in government allocations. Consequently, the potential of these allocations to remedy disparities and inequality is low.

For more than a decade, the Arab local authorities have been mired in a protracted financial crisis. As a result, they repeatedly find themselves unable to do their job and fulfill their primary mission as the suppliers of services to their residents. The local-authority crisis is, among other things, a product of the ongoing changes in the relative weights of the various components from which local authorities derive their funding. Whereas the central-government contribution to local-government budgets (mainly for education and social services, and in the form of equalization grants) is decreasing, their independent revenues (chiefly from municipal property taxes [*armona*], levies, and fees) are playing an increasing role in their overall budgets. In 2011, independent revenues accounted for 66 percent of local-authority budgets (national average). For the Arab local authorities, however, the corresponding figure was only 31 percent. At the same time, and as a result of the cutback in central-government funding, local authorities must underwrite an increasing volume of services, but do not always have the necessary resources. The Arab local authorities are not the only ones that face and continue to face this crisis, but it is deeper and more intense for them because of their acute shortage of independent revenues and their greater dependence on central-government budgets.

The present study, a joint project of Sikkuy and Injaz, examines the problems and barriers that affect Arab local authorities' ability to fund their annual budgets and makes policy recommendations for altering this situation. The study looks at the main budgetary sources (independent sources and those provided by the central government).

¹ Tax base: the total of all taxable properties within the municipal boundaries of a local authority. Includes residences, infrastructure facilities, industrial and commercial zones, and hotels.

The disparities in the budgetary sources of Arab and Jewish local authorities are most pronounced in their independent resources. They are the outcome of a number of problems, and especially the small tax base in Arab localities. That is, they have a very small stock of revenue-generating properties in every property-tax category—residential, industrial, commercial, tourism, banking, infrastructure facilities, etc. For example, in the Northern District, per capita revenues from property taxes on commercial premises were NIS 132 in Arab localities, as against NIS 390 in Jewish localities with a similar socioeconomic rank and population. In the Southern District, the discrepancy was even greater—NIS 47 and NIS 355, respectively.

The underlying problem—the low tax base—is exacerbated by low millage rates, large discounts and exemptions, and low collection rates (64 percent of current tax assessments in the Arab local authorities, as against the national average of 80 percent), which take a major slice out of the already inadequate revenues.

We also found that the central-government budgets are not large enough to reduce the revenue gaps between Arab and non-Arab local authorities. Even though, the Arab local authorities have received a per capita equalization grant over the past decade that exceeds that given to other authorities, they have not been able to realize the full potential of this source. This is because they do not reach the minimum collection rate required for such grants and because of the shortfall in the government allocation to this item. In the domain of social services, there is serious under-budgeting by the Ministry of Social Affairs as measured in terms of per-client allocations. This differential is worsened by the paucity of independent revenues. In education, although the Arab local authorities receive larger per-pupil grants (for pupils ages 3–18) than Jewish localities do, the huge difference in per-pupil expenditures persists, chiefly because of the dearth of independent revenues in the former. Because of this, average per-pupil expenditures in Arab localities are roughly two-thirds the figure in Jewish local authorities.

In order to study the importance of the various factors that influence the property-tax revenue gaps between Jewish and Arab local authorities, we asked two questions:

1. How much would the revenues of the Arab local authorities in the regions we studied increase if the total property tax assessments (sheqels per capita) were similar to those of the Jewish localities in the same regions with a socioeconomic rank of 1–5?
2. How much would the revenues of the Arab local authorities in the regions we studied increase if their tax base was similar to that of their Jewish neighbors with a socioeconomic rank of 1–5, even if their collection rates continue to be low?
3. How much would the revenues of the Arab localities increase if their property-tax collection rates were identical to those of the Jewish localities, but with the existing tax base?

In the first case, the revenues of the Arab localities (see list of settlements in Appendix A, p. 40) would have increased by NIS 1.3 billion. This sum actually expresses the gap in potential revenue from property taxes between the Jewish and Arab localities in the same geographic areas, with approximately the same population, and with a socioeconomic rank of 1–5. In the second case, their revenues would have increased by NIS 833 million. In other words, 65 percent of the gap would be eliminated even without a change in collection rates. In the third case, by contrast, revenues would increase by only NIS 130 million, which means only about 10 percent of the gap would be reduced. Thus we conclude that in the current situation, the deficit in the tax base has a greater influence on the gap, but as the tax base increases, so does the impact of the collection rates on the possibility reducing the gap and even closing it entirely.

Much criticism has been leveled against the Arab local authorities, alleging that their property-tax revenues are low chiefly because of low collection rates. Our study refuted this assertion, however, finding that the low property-tax revenues and the discrepancy with Jewish localities derive from their very small tax base. Without the massive development of the local authorities' independent revenue sources and significant investment by the central government, higher collection rates, in and of themselves, would not do much to amend the situation. On the other hand, an improvement in the assessment system and better collection rates could generate a very large increment, albeit still inadequate, for the local authorities' revenues and enhance their ability to provide better service to their residents.

If the Arab local authorities are to escape their perpetual crisis, the primary need is for an increase in their tax base. Economic development depends to a large extent on an investment in the residents, with an emphasis on the development of human capital. An unempowered population is, on the one hand, critically dependent on local services, and, on the other hand, unable to demand them and both unable and unwilling to fund them. Socioeconomically stronger groups need fewer exemptions and discounts, demand more services, and are able and willing to pay for them.

The gaps cannot be reduced without intensive central-government involvement in the development of the Arab localities and a fair distribution of state resources and properties. Expansion of the tax base and empowerment of the population require short-term steps that could bear fruit in the middle and long term. For this reason, until the Arab local authorities are able to consolidate independent sources of revenue, there needs to be an interim period during which the central government supplements their budgets. However, in addition to action by the central government, the Arab local authorities, as the elected local leadership and professional echelon, have a significant role to play and their influence must not be minimized. This is why the policy recommendations presented below are broken down into one set for government ministries and another set addressed to the Arab local authorities.

Recommendations for the Central Government

1. **Expansion of the special programs.** Until the Arab local authorities manage to stabilize their independent revenues, there will be a transitional period in which they require an increase in their regular budgets funded by central-government sources. An immediate budgetary supplement of roughly one billion sheqels a year for the Arab local authorities, to fund specific programs, is an essential intermediate step on the road to an upgrade of the system of local and community services. All Arab localities must be included in earmarked development programs:
 - a. **A special program for community services in education, social services, and community work, funded by an increased budgetary allocation, alongside** physical development, and as an important element of the overall system of economic development within the jurisdictions of the local authorities.
 - b. **Continuation and significant expansion of economic and physical development projects in Arab localities.** These include programs for job placement, development of employment zones (industry, skilled trades, commerce, and services), transportation infrastructure, public transportation, business support and consultation services, and so on. The emphasis should be placed on the development of a local economy in Arab localities. All of these require that government ministries support, advise, and reinforce the professional staffs of Arab local authorities.
2. **Increased equalization grants**

The central government needs to make a major increase in the equalization grants so that they can significantly reduce the disparities in the per-capita expenditures of Arab and Jewish local authorities. We are aware of the trend to reduce these grants in recent years, but a failure to increase the equalization grants to Arab authorities will perpetuate a policy that is unequal and, in fact, discriminatory.
3. **Establishment of a fund to centralize the property-tax payments for government and government-corporation properties**

The best alternative would be the establishment of a government fund that centralizes the property-tax revenues from government and government-corporation properties. It is important to note that back in 2008 the Government decided to set up such a fund, but the decision was never implemented. A best estimate is that such a fund could accumulate revenues of around one billion sheqels a year. Were this sum earmarked for assistance to local authorities that rank low on the socioeconomic scale and have a shortage of tax-producing properties in their jurisdictions, it could contribute to an increase in the revenues of Arab authorities. We recommend implementation of this Government decision. Another possibility is a division of property-tax revenues on a regional basis; but we believe that pressure by strong Jewish authorities will continue to torpedo this idea. Hence this alternative is less attractive than that of a government fund.

4. A redivision of property-tax revenues from existing industrial zones

Although large industrial zones have been established near Arab localities, they are located in the jurisdiction of Jewish local authorities; the latter are consequently the beneficiaries of their property-tax payments. Criteria should be set that take account of both distributive justice and of the local authorities that invested efforts and resources to set up the industrial zones. The result should be that part of the property taxes for some existing industrial zones reaches the neighboring Arab localities as well.

Recommendations for Arab Local Authorities

1. Improvement of the assessment system and an increase in property-tax collection rates

Because of the scarcity of budget sources, which is a direct outcome of deliberate long-term central-government policies, Arab local authorities must extract the fullest benefit from their existing revenues sources. First and foremost, this means conducting an up-to-date and precise valuation of the businesses that operate in the locality in order to increase their tax assessments, as well as increasing collection rates.

2. Initiation of and implementation of the planning and construction of economic infrastructure in the jurisdictions of the Arab local authorities

Local authorities must play a key role in economic development. The channeling of central-government budgets to them is essential, but cannot in and of itself guarantee success. The initiation and direction of planning processes that lead to economic development are in the hands of the local authority, which is responsible for drawing up an overall local development strategy from which master plans for various matters in its purview, including education and welfare, can be derived. These must be based on the authority's deep familiarity with the profile and specific needs of the local population, which serve as the basis for setting development objectives.

For years, the Arab local authorities have been the victims of discrimination—in development budgets, in earmarked central-government allocations, and in equalization grants. Recently there has been an improvement in how these budgets are allocated, but the long-term disregard of the communities' economic development has created a severe shortage of taxable property. The shortage in independent revenues creates an urgent need for additional sources so that the authorities can provide services at a reasonable level, alongside efforts to develop an economic infrastructure that will one day be able to supply a suitable response to the residents' needs.

Introduction

This paper is the result of a collaboration between Sikkuy, which works to promote civic equality between Jewish and Arab citizens of Israel, and the Injaz Center, whose focus is the strengthening and empowerment of the Arab local authorities. As part of this joint project, we set ourselves the goal of identifying, mapping, and dealing with the obstacles that hinder or prevent equality in the distribution between Arab local authorities and the other local authorities in Israel. We believe that fair and equal central-government allocations, in combination with local authorities that make effective use of the existing resources and make serious efforts to expand them, can generate a significant change in the volume and quality of the services provided to the residents of the Arab localities.

For more than a decade, the Arab local authorities have been mired in a protracted financial crisis. As a result, they repeatedly find themselves unable to do their job and fulfill their primary mission as the suppliers of services to their residents. The local-authority crisis is, among other things, a product of the ongoing changes in the relative weights of the various components from which local authorities derive their funding. Whereas the central-government contribution to local-government budgets (mainly for education and social services, and in the form of equalization grants) is decreasing, their independent revenues (chiefly from municipal property taxes [*armona*], levies, and fees) are playing an increasing role in their overall budgets. In 2011, independent revenues accounted for 66 percent of local-authority budgets (national average). For the Arab local authorities, however, the corresponding figure was only 31 percent. At the same time, and as a result of the cutback in central-government funding, local authorities must underwrite an increasing volume of services, but do not always have the necessary resources. The Arab local authorities are not the only ones that face and continue to face this crisis, but it is deeper and more intense for them because of their acute shortage of independent revenues and their greater dependence on central-government budgets.

The goal of this study is to examine the problems and obstacles that affect the Arab local authorities' ability to raise money for their annual budgets, and to draft policy recommendations to eliminate these obstacles.

The study looks at the budgetary sources as a whole—both independent revenues and government allocations. It will focus on analyzing the sources for the regular budget, which constitutes 81 percent of the total budget of the local authorities. We do not make light of the importance of development budgets (the other funds provided to the authorities), but must set them aside because of the limited data available to us.² In addition, within the limits of the information that was accessible, we focused on

² To perform comparisons with regard to the development budget, the investment should be examined in light of the specific needs of each locality, and this information is not available to us.

studying the assessment and collection of property taxes, which account for approximately two-thirds of the total independent revenues of local authorities.

Relying on the audited reports of the Ministry of the Interior for 2011 and data from the Central Bureau of Statistics, we examined the revenue sources of the Arab local authorities as compared to other local authorities (Jewish and mixed). The size of a locality, its socioeconomic characteristics, and its geographical location influence the potential for development and revenues; consequently, we compared revenues from independent sources for Arab local authorities against those of Jewish and mixed local authorities (henceforth referred to as “Jewish authorities”) that are in the same geographical region and have comparable populations and similar socioeconomic characteristics. The study covers all local authorities located in the regions classified as 4–7 in the Central Bureau of Statistics’ periphery index. Most of the Arab local authorities are located there. This represents approximately 75 Arab local authorities (of the 82 in the country) whose property-tax revenues were compared to those of Jewish local authorities in the same region, as a function of their socioeconomic rank and population.

To create a common standard for comparison among different local authorities, we based the analysis here on the number of units per resident:³ taxable area per resident (square meters), total tax obligation per resident (sheqels), revenue per resident, and so on. We also looked at the disparities in the budgets provided by the Ministry of Education and the Ministry of Social Affairs and at the obstacles identified by other studies about the central government equalization grants.

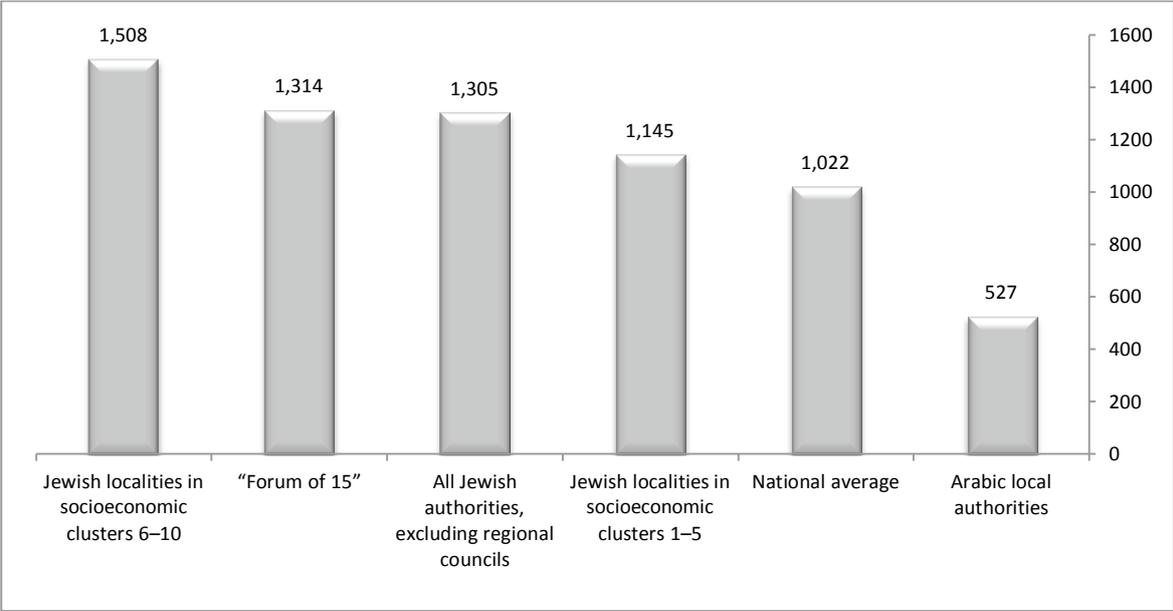
This document comprises five chapters: The first describes the budget of Arab local authorities as compared to their Jewish and mixed counterparts and surveys the structure and main components of the budget. Chapter two addresses independent revenue sources, with the emphasis on the most important of them, property taxes. It compares the taxable area, tax rates, and collection rate in Arab versus Jewish authorities. The third chapter examines the three main elements of revenues from central government sources: equalization grants, the education budget, and the budget of the social services department. We ask to what extent these elements can reduce the gaps between the Arab local authorities and the others. Chapter four briefly surveys the main policy tools available and the extent and manner of their use. The last chapter provides a summary and recommendations for action, which are addressed both to government ministries and to the Arab local authorities.

³ All those registered as a resident of the local authority, from age zero up.

Chapter 1: The Local Authority Budget and its Structure

The total revenues listed in the budgets of local authorities in Israel came to NIS 56 billion in 2011, of which NIS 5 billion were the revenues of the Arab local authorities. *The average revenue per resident of the Arab local authorities is only about two-thirds of the figure for the other local authorities.* These smaller revenues, of course, have direct implications on expenditures. The total average expenditures per resident for “municipal services”⁴ in the Arab local authorities came to NIS 527, or roughly half the figure for Jewish and mixed local authorities in clusters 1–5 (NIS 1,145) and a third of the figure for local authorities in clusters 6–10 (NIS 1,508).⁵ The implications are clear: Arab citizens who live in Arab towns receive services that are significantly inferior to those received by residents of Jewish authorities.

Diagram 1: Expenditures on Municipal Services by Different Categories of Local Authorities, NIS per capita⁶



Source: Ministry of the Interior, audited financial statements of local authorities, 2011

The budgets of local authorities are divided into the *regular budget*, which funds their provision of social and community services on a fixed annual basis and accounts for

⁴ Municipal services include sanitation, urban planning and construction, municipal supervisors, public property, security, agricultural services, festivals, and various municipal campaigns, events, and services.

⁵ Source: Local authorities’ audited financial statements to the Ministry of the Interior, 2011.

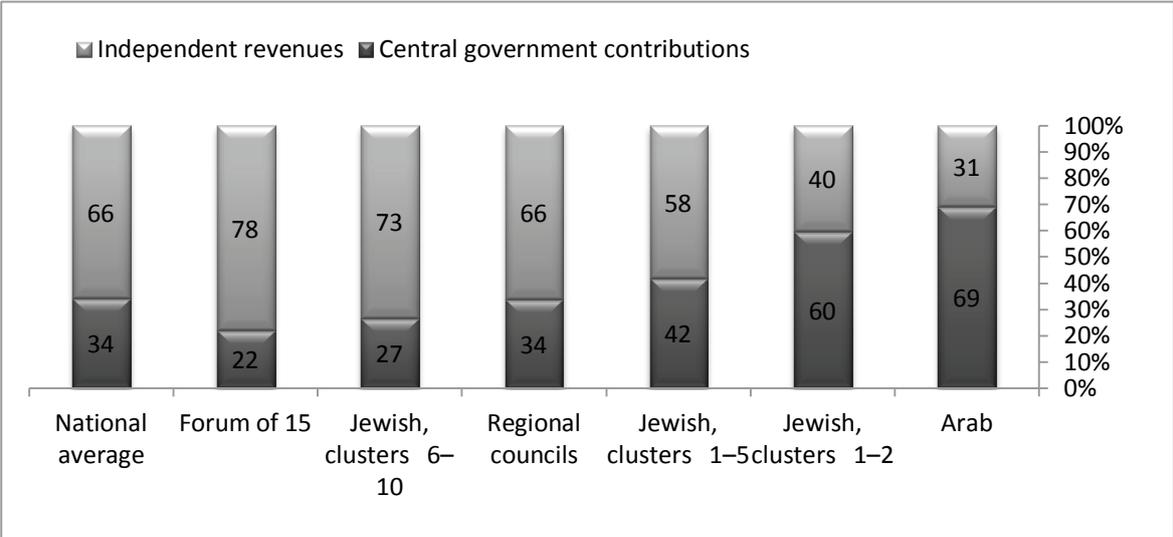
⁶ Figure 1 does not include regional authorities, because the format of services provided in regional councils is very different from that provided by local and urban councils, chiefly because the former cover much more territory.

81 percent of all revenues in local authority budgets, and the *special budget*, which is earmarked for physical development projects in the local authorities. This part of the budget is not fixed, but varies as a function of local needs and the availability of budgets; it constitutes some 19 percent of the budget. As stated, for the purposes of this paper, we will focus on an analysis of the sources in the regular budget only. This focus does not minimize the importance of development budgets; it is merely a function of the constraints of our limited data.

The revenue sources of the local authorities are divided among central government allocations (education, social services, equalization grants, and so on), which account for an average of one-third of their regular budgets, and independent sources (property tax, licenses, levies, and so on), which on average contribute two-thirds of the revenues to the regular budgets of all local authorities in Israel. The division between central government and independent sources varies from authority to authority; the central government's share decreases as the locality's socioeconomic rank increases (see Figure 2). The share of independent revenues for Arab local authorities is the smallest (31 percent), and is low even in comparison to the share of independent revenues in the budgets of Jewish local authorities in socioeconomic clusters 1 and 2 (40 percent). The Arab local authorities are the most dependent on central government allocations, which means that their budgets have less flexibility. Their room to maneuver in their budgets, as a function of local priorities, is more limited. They are more exposed to changes in central government policy and more vulnerable to cuts in the central government budgets.

After having seen how the budgetary sources of local authorities are divided into central government funds and local sources, we now turn to the breakdown of the independent and central government revenue sources among the various local authorities.

Diagram 2: Distribution of the Budget Sources of the Local Authorities—Central Government Allocations and Independent Sources, by Category of Local Authorities, 2011



Source: Based on data of the Central Bureau of Statistics, *The Local Authorities in Israel 2011*

Chapter 2:

Independent Revenue Sources

Independent revenue sources fall into three main categories: property taxes, which account for the lion's share of all local revenue sources (about 65 percent), the licenses and levies⁷ collected by the authority (30 percent), and payments collected by the authority for services⁸ (about 5 percent). We will focus on property taxes, both because they are the local authorities' largest source of independent resources by far and because of the limits on the data available to us. We will explain the obstacles that prevent the Arab local authorities from taking full advantage of their tax potential and the extent to which that potential is harnessed.

The level of local authority revenues from property taxes depends on the authority's tax potential and the degree to which it is exploited. The annual tax potential is *the total annual assessment* for taxable properties (the product of multiplying the area of the properties by the tax rate) and is, of course, directly influenced by *collection rates*.

Property-Tax Assessments

On a per-capita basis, the Arab local authorities trail all other sectors in property-tax assessments. Figure 3 presents the share of each group of local authorities of the total taxable area and total assessments in the country, as compared to their share of the population. *The Arab local authorities' small share of assessments (4.7 percent), relative to their proportion of the population (13 percent), is pronounced.*⁹ In the other groups of local authorities, the proportion of total assessments is similar to their proportion of the population and even (for the local authorities affiliated with the Forum of 15) slightly higher.

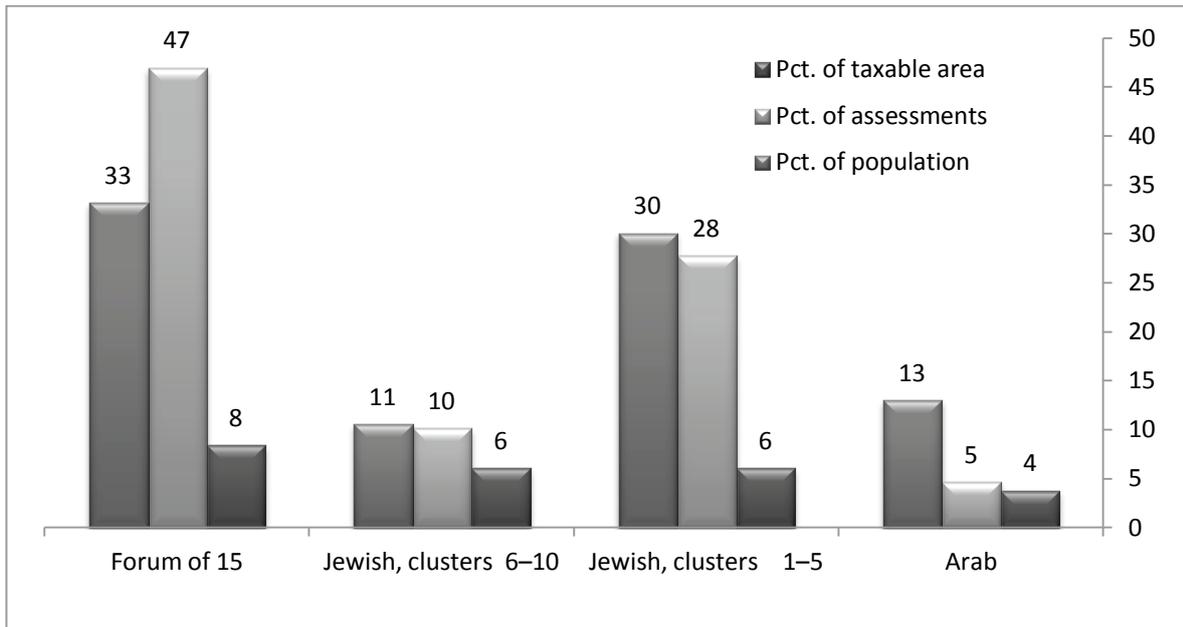
Because the total assessment is the product of two factors, taxable area and tax rate, neither a large area or high tax rates can, on their own, produce large revenues; both are necessary. For example, the local authorities and cities that belong to the Forum of 15 represent the two extremes with regard to the relationship between taxable area and tax rate. Whereas the local authorities cover 75 percent of the assessable area countrywide, they collect only 9 percent of all such taxes (because of low millage rates on land that is chiefly agricultural). By contrast, the cities in the Forum of 15 govern only 8.4 percent of the taxable area, but collect almost half of all property-tax revenues nationwide because of their high millage rates.

⁷ Such as development levies, parking licenses, and so on.

⁸ Such as payments by parents of children in schools and after-school play groups.

⁹ That is, 13 percent of the population of localities that submitted audited financial statements for 2011.

Diagram 3: Local Authorities' Share of Total Taxable Area and Property Assessments Nationwide, relative to their Share of the Israeli Population, by Category 2011



Source: Based on Central Bureau of Statistics, The Local Authorities in Israel, 2011

What influences the size of the taxable area and the millage rate?

Two factors influence the potential revenues from property taxes: the area of the property that is taxed and the tax rate per unit of area (square meter).

Area of Taxable Property

Four factors influence the area of taxable property:

The size of the municipal jurisdiction: Property taxes are levied on properties located within the jurisdiction of the local authority, which means that its boundaries circumscribe the maximum potential area on which it can collect property taxes.

Designated land uses within the authority's jurisdiction: Statutory planning determines the mix of land uses within the authority's jurisdiction (residential, commercial, industrial, public buildings, etc.). The mix of designated land uses, as determined by the master plan, has implications both for the area available for the construction of taxable properties and the types of properties that can be built. As we shall see below, different tax rates apply to different types of property (such as residential, industrial, and agricultural).

Actual Land Use: Actual land use reflects the way in which the designated use is realized. The actual use of land, if and when that land is utilized, stretches out over a period of several years, so that the mix of actual land uses reflects the unit of area on which taxable property is actually built.

Method of Measuring the Area of a Taxable Property: There are four different methods for measuring the taxable area of property (gross/gross; net/net; gross; and net¹⁰). Each local authority adopts the method it deems best; as a result, there are very large disparities in the definition of taxable area.

Tax Rates

Tax rates are set by the property-tax bylaws passed by the local councils. Several factors influence the tax rate:

The range of rates permitted by the National Economic Regulations: The National Economic Regulations define minimum and maximum rates that apply to all the local authorities, which are not permitted to deviate from them. *The local authorities set the property-tax rate (somewhere between the permitted minimum and maximum) as a function of the type of property taxed and the rates set within the aforesaid range.* Each year, regulations or statutes determine the permitted increase in the property-tax rate over the previous year. A local authority that would like to modify its property-tax rate by an amount greater than or less than the figure set for that year must receive the approval of the ministers of the Interior and Finance for a change in the tax ordinance.¹¹

The mix of the categories and subcategories of properties: Every property has a main classification (residential, commercial, industrial, agricultural) and a subcategory, that is, different types of housing, industry, trade, and the like. The different categories have different tax rates. For example, the tax rate for commercial property is higher than that for residential property.

Location of the Property: The location of a local authority in the country (center or the periphery) and the location of the property within the town—in luxury neighborhoods or disadvantaged neighborhoods, in a new and well-kept commercial zone, etc.—all affect the tax rate.

Types of Property

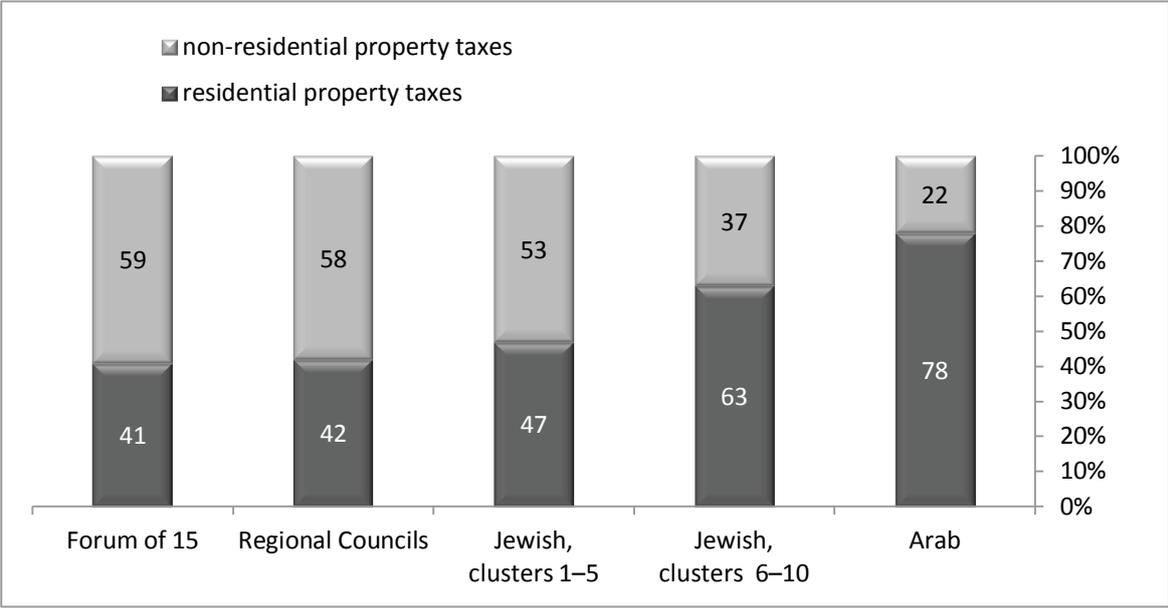
As stated, one of the elements that affect the potential for property-tax revenues is the type of property, since different rates apply to different types of property. The most basic division is between residential and non-residential property (industry, commerce, agriculture, tourism, etc.). In Arab local authorities, the property taxes on residential property account for 78 percent of all such taxes, whereas non-residential property taxes provide only 22 percent of the total. As compared to the other local authorities, this is the lowest proportion of non-residential property tax (see diagram 4). In most

¹⁰ Gross/gross: includes the area of external walls and common areas; net/net: floor space only, excluding internal walls and common areas; gross: external walls, not including common areas; net: floor space plus internal walls.

¹¹ Source: Ministry of the Interior website, www.moin.gov.il

local authorities, non-residential property taxes account for more than 50 percent of the total.

Diagram 4: Property Tax Assessments by Residential and Non-Residential Property, by Local Authority Categories, 2011



Source: Based on Central Bureau of Statistics, *The Local Authorities in Israel, 2011*

Residential Property Taxes

As was noted above, most property-tax assessments in the Arab local authorities apply to residential properties (78 percent). It was also noted that the potential for residential property-tax revenues, as for other categories, depends on variables such as the location of the local authority (center or periphery) and the characteristics of its neighborhoods. Against this background, we studied the potential for residential property-tax revenues in the Arab local authorities, as compared to that for Jewish localities of a similar population and socioeconomic ranking, in a given geographic region.

Table 1 compares Arab and Jewish local authorities in the Northern, Central, Southern, and Haifa districts.¹² In each of these districts, we selected Arab and Jewish local authorities located in regions that are assigned to identical peripheral clusters in the peripheral index developed by the Central Bureau of Statistics.¹³ We then compared Arab local authorities with three categories of Jewish local authorities: authorities of a low socioeconomic status (clusters 1–5); authorities with an intermediate to high socioeconomic status (clusters 6–10), and regional councils. The table notes the socioeconomic cluster to which the Jewish local authorities in each

¹² See Appendix A, list of local authorities included in the comparison.

¹³ The peripheral index developed by the CBS classifies local authorities into 10 clusters (1 equals most peripheral, 10 equals most central) on the basis of two criteria: the distance between a given local authority and the Tel Aviv Metropolitan area, and the distance from the nearest big city.

region belong. All of the Jewish local authorities included in the comparison fall into the general population range of the Arab local authorities (up to 80,000 residents). To create a common scale for comparison among the various local authorities, the analysis presented is based on units per resident.¹⁴ The following findings emerge from Table 1:

Taxable area per resident (square meter per resident): The residential area, in terms of assessment per resident, is influenced by the ratio between the size of an average household and the size of an average residential unit. For a given unit of area, the larger the household, the fewer square meters per person—and vice versa. In Arab localities, the number of square meters per person is lower than in the other local authorities (except for Ultra-orthodox localities in the Central District), and is particularly low in the Southern District, where households are exceptionally large. For example, in the Northern District, the taxable area per resident in the Arab local authorities comes to 27 square meters, as against 34 square meters per resident in Jewish local authorities in clusters 4 and 5; in the Southern District, the figures are 14 and 28 meters, respectively.

Tax rate (sheqels per square meter): The tax rate per square meter in Arab localities is relatively lower than that in other urban localities with similar populations and socioeconomic ranks, in each region. In the Northern District, the figure is NIS 30 per square meter in the Arab authorities as against NIS 36 per square meter in the Jewish authorities; in the Haifa District, the figures are NIS 31 per square meter and NIS 38 per square meter, respectively; in the Central District, NIS 32 and NIS 38; and in the Southern District, NIS 31 and NIS 33 per square meter, respectively.

Total tax assessment per resident (sheqels per resident): In Arab localities, the housing density (number of persons per taxable square meter) is greater and the tax rate is lower. Thus, *in all districts, Arab local authorities have the lowest total per capita assessments*. It is important to emphasize that the principle cause of the disparity in per capita assessment is the difference in housing density. For example, in the Northern District, the difference in housing density explains 80 percent of the difference in per capita assessments, which means that in order for the per capita assessments in Arab local authorities in the Northern District to be on par with those for Jewish authorities in the lower socioeconomic clusters, the Arab localities would have to raise their tax rate to compensate for the shortfall of residential space per resident and set a rate of NIS 45 per square meter. As shown in Table 1, the average tax rate in the localities in the Northern District was NIS 30 per square meter, while in the Jewish localities in socioeconomic clusters 4–5, it was NIS 36 per square meter. In the Southern District, in order for the per capita assessments in Arab localities to equal the figures in Jewish authorities in the lower socioeconomic clusters (3–5), the tax rate there would have to be NIS 66 per square meter. By contrast, the current rates typical of local authorities in the lower socioeconomic clusters are NIS 31 per square meter in Arab localities, and NIS 33 per square meter in Jewish localities. Such huge tax

¹⁴ Resident: a person registered as resident of a local authority, from age zero

increases are not realistic in light of the socioeconomic situation of the Arab population.

Not only is the potential of the residential property-tax assessments low, residential property-taxes account for 78 percent of all property assessments in Arab localities. These facts make the basic tax problem of these authorities clear. The low potential of residential property assessments requires an emphasis on development of the non-residential tax base, as was done in Jewish and mixed local authorities in the lower socioeconomic clusters, chiefly in the periphery. By contrast, in the stronger Jewish authorities, in clusters 6–10, there is a combination of a larger per capita taxable area with a higher rate per square meter; as a result, they do not have as great a need for non-residential taxable property.

Table 1: Residential Property Taxes by District and Type of Local Authority, 2011 (square meter per capita, sheqels per square meter, and sheqels per person)

		Residential Property-Taxes 2011		
		Sq.m. per capita	NIS per sq.m.	NIS per capita
Northern District	Arab	27	30	809
Peripheral Index 4,5,6	Jewish, Clusters 4–5	34	36	1,217
	Jewish, Clusters 6–9	38	40	1,493
	Regional Councils	35	31	1,112
Haifa District	Arab	28	31	880
Peripheral Index 5,6	Jewish, Clusters 2, 4, 5	32	38	1,210
	Jewish, Clusters 6–8	39	41	1,574
	Regional Councils	40	32	1,270
	Haifa and Hadera	34	52	1,795
Central District	Arab	29	32	901
Peripheral Index 6,7	Jewish, Clusters 2–5	27	38	1,048
	Jewish, Clusters 6–9	40	38	1,518
	Regional Councils	39	35	1,351
	Netanya and Modi'in	36	47	1,683
Southern District	Arab	14	31	437
Peripheral Index 4,5	Jewish, Clusters 3–5	28	33	929
	Jewish, Clusters 6–10	53	44	2,338
	Regional Councils	34	31	1,079
	Beer Sheba	36	37	1,333

Source: Central Bureau of Statistics, *The Local Authorities in Israel*, 2011

Non-Residential Property-Taxes

The taxable area for non-residential property-taxes within the jurisdiction of the Arab authorities is the smallest in each category (industry and skilled trades, commerce, banks, tourism, etc.¹⁵), in every district and for all groups of local authorities. In addition, the tax rates themselves are low.

Table 2 shows that the per capita taxable area and the total per capita property assessments for industry in the development towns are 6–10 times greater than those in the Arab local authorities. In the business category, too, the taxable area is 2–4 times larger in Jewish authorities and the total property assessments per resident are 5–8 times greater. In addition to the low per capita property assessments per resident from industry and business, collections from residential properties are low.

Table 2: Property Taxes Paid by Businesses, Industry, and Skilled Trades, by District and Type of Local Authority, 2011

	Population up to 75,000'	Commercial			Industry and Skilled Trades		
		Sq.m. per capita	NIS per sq.m.	NIS per capita	Sq.m. per capita	NIS per sq.m.	NIS per capita
Northern District Peripheral Index 4, 5, 6	Arab	2.1	63	132	0.9	50	45
	Jewish, clusters 4–5	4.0	146	583	7.4	53	45
	Jewish, clusters 6–9	3.9	81	312	6.6	98	641
	Regional councils	4.4	62	273	15.9	35	562
Haifa District Peripheral Index 5, 6	Arab	1.3	62	79	1.2	56	69
	Jewish, clusters 2,4,5	2.9	113	326	3.6	83	304
	Jewish, clusters 6-8	3.2	119	378	3.4	75	255
	Regional councils	3.3	67	218	8.3	24	197
	Haifa and Hadera	16.0	78	1,249	18.7	42	775
Central District Peripheral Index 6, 7	Arab	1.5	64	97	1.5	50	77
	Jewish, clusters 2 & 5	3.0	117	354	6.7	81	538
	Jewish, clusters 6-9	1.9	107	200	1.2	81	94
	Regional councils	6.3	72	453	13.0	39	509
	Netanya and	3.7	142	525	2.2	110	239

¹⁵ See Appendix B, Nonresidential Property-tax Assessments.

	Modi'in						
Southern District Peripheral Index 4, 5	Arab	0.8	61	47	0.6	55	30
	Jewish, clusters 3 & 5	3.6	100	355	9.3	62	576
	Jewish, clusters 6-10	1.2	100	124	2.5	109	269
	Regional councils	5.8	73	429	16.9	52	881
	Beer Sheba	3.6	208	739	3.8	60	229

Source: Based on Central Bureau of Statistics, *The Local Authorities in Israel*, 2011

The total of per capita property-tax assessments for both residential and non-residential properties yields the maximum revenue potential from property taxes, assuming a 100 percent collection rates and no statutory discounts and exemptions. As can be seen from Tables 1 and 2 above, in Arab localities this potential is very low, as compared also with Jewish local authorities with similar socioeconomic characteristics in the same geographic region. The findings point to vast differences between them. What this means is that *the potential property revenues in the Arab local authorities is very low, even if taxes are collected in full. However, as we will see below, the especially low collection rates and large number of discounts and exemptions decrease the already low potential for revenues even further.*

The Property-Tax Assessment System

Alongside the main problem—economic underdevelopment and a consequent shortage of taxable properties—the reports by the State Comptroller¹⁶ indicate deficiencies in the collection system in the six localities where he conducted audits during the last four years. We will not generalize from these few cases; the dimensions of the phenomenon in the other Arab local authorities cannot be estimated on the basis of these audits. Nonetheless, a number of phenomena recurred in the Comptroller's reports and therefore bear mentioning:

Much of the area assessed for property taxes was registered on the basis of estimates and without actual measurement of the properties.

There was a lack of cooperation between the local engineering department and the collections department, and between the business licensing department and the collections department. This led to inconsistencies in the records of several departments, such that information about new construction, openings of new businesses, and so forth, was not forwarded.

¹⁶ State Comptroller, *Audit of Local Government*, 2009, 2010, 2012.

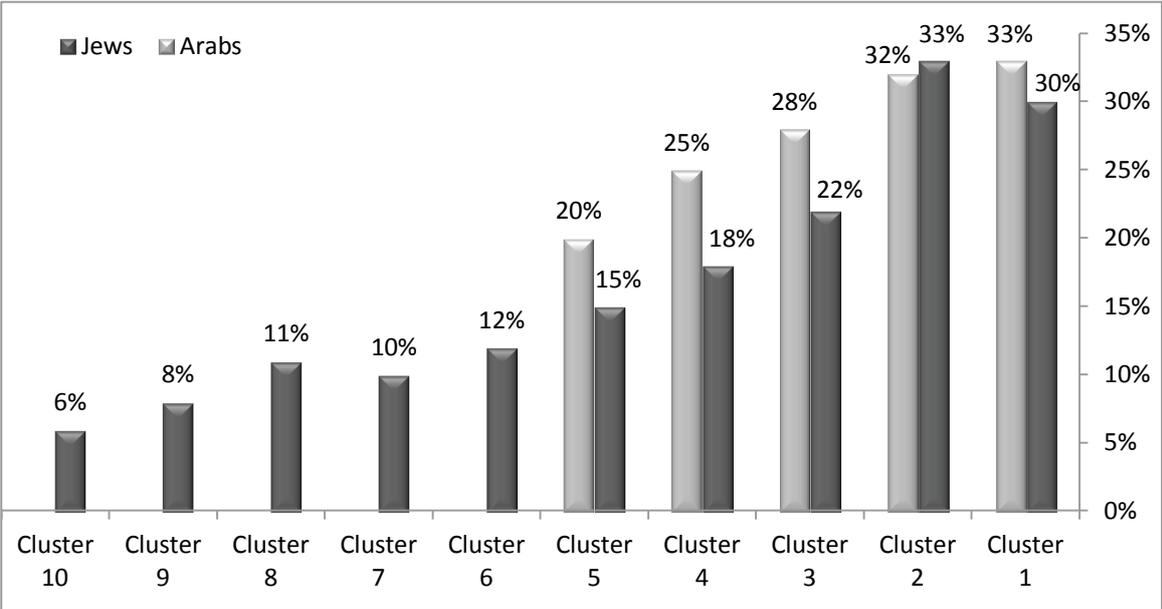
Data were not updated. In one local authority, there had been no measurement of taxable areas since 1981; in another, there had not been a survey of businesses since 1997.

Precisely in light of the scarcity of taxable properties in Arab localities, an efficient assessment system is vital for realizing the existing potential.

Discounts as a Share of Total Yearly Tax Assessments

Discounts on property taxes are granted because of a severe economic situation caused by poverty, illness, or family status. Consequently, in localities in the lowest socioeconomic clusters, a higher percentage of persons eligible for discounts and exemptions can be expected. The proportion of discounts does indeed decrease as one climbs the socioeconomic scale (Diagram 5, below), both in Arab authorities and Jewish and mixed local authorities. In clusters 1 and 2, the rate of discounts is similar in Jewish and Arab authorities, but the rate is higher in Arab authorities in clusters 3–5.

Diagram 5: Discounts as a Share of all Property Tax Assessments, by Socioeconomic Cluster and Population Group, Local Authorities and Cities, 2011



Source: Local Authorities' Audited Annual Financial Statements to the Ministry of the Interior, 2011

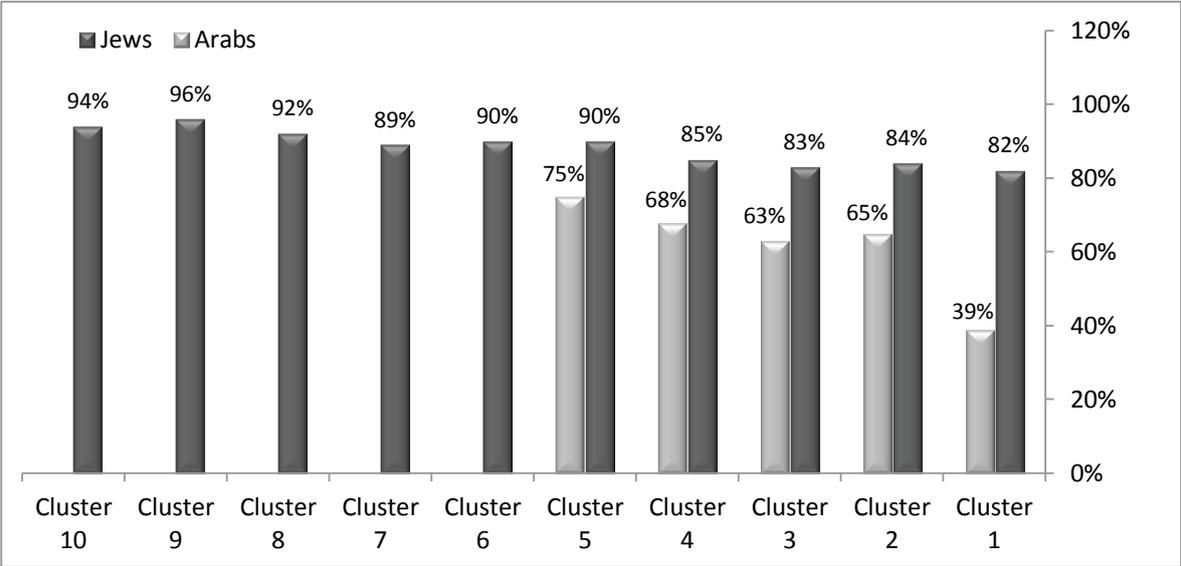
Property-Tax Collection Rates

The share of the net¹⁷ annual property-tax assessments that is collected by the Arab local authorities is the lowest of all, even as compared to other local authorities in the same socioeconomic ranking. The average total collection rate in Arab localities came

¹⁷ Less discounts and exemptions.

to 64 percent in 2011, or sixteen percentage points less than the nationwide average of 80 percent. Figure 6 shows that the collection rate in the Arab authorities is lower in every socioeconomic cluster, which indicates that there are other factors that influence collection rates in addition to the socioeconomic component.

Diagram 6: Property-Tax Collection Rate in Jewish and Arab Local Authorities, by Socioeconomic Cluster, 2011



Source: Based on Central Bureau of Statistics, *The Local Authorities in Israel*, 2011

The main reason for the Arab local authorities' lower property-tax revenues is their smaller tax base.

It has frequently been alleged that the Arab local authorities' property-tax revenues are low chiefly because of low collection rates. This study has disproved this charge.

Comparative data for Arab and Jewish authorities in socioeconomic clusters 1–5 (75 of the 82 Arab local authorities and 25 Jewish authorities in the same regions; see Appendix A) indicate clearly that the crux of the problem stems from their lower tax base. In other words, the Arab local authorities have a scarcity of taxable properties, especially in nonresidential categories (commerce, industry, tourism, banks, insurance companies, etc.). We also found that measured in terms of square meters per inhabitant, the residential property base is smaller than in Jewish authorities, because of the difference in the size of the average household.

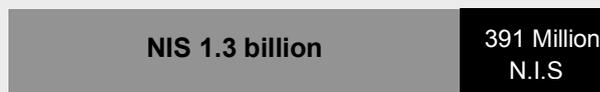
To make the extent of the disparities in the tax bases of Arab and Jewish authorities tangible, we ask three hypothetical questions:

1. How much would the revenues of the Arab local authorities in the regions we studied (where most Arab authorities are located) increase if their total property tax revenues per capita were on a par with those of the Jewish localities in the same regions with a socioeconomic rank of 1–5?
2. How much would the revenues of those Arab local authorities increase if their tax base was similar to that of their Jewish neighbors, even if their collection rates continue to be low?
3. How much would the revenues of those Arab localities increase if their property-tax collection rates were identical to those of the Jewish localities, but with the existing tax base?

In the first case, that of equal per-capita property tax revenues (residential and nonresidential) for Arab and Jewish localities, the income of the former would increase by NIS 1.3 billion. This would be in addition to their actual 2011 revenues of NIS 391 million (see Figure 7a).

This supplement of NIS 1.3 billion represents the full disparity in property-tax revenues (adjusted for population) between the Arab and Jewish local authorities in socioeconomic clusters 1–5 and in the same region.

Diagram 7a: Additional Property-Tax Revenues for Arab Local Authorities, Adjusted for Population



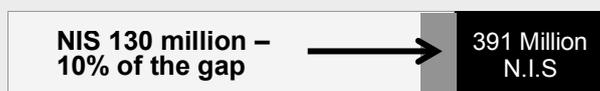
In the second case, in which the tax base of the Arab authorities was equal to that of their Jewish counterparts, with no change in the collection rate, their revenues would have increased by NIS 833 million. In other words, 65 percent of the gap would be eliminated.

Diagram 7b: Additional Property-Tax Revenues for Arab Local Authorities, assuming an Equal Tax Base and no Change in the Collection Rate



In the third case—identical collection rates for Arab and Jewish authorities in similar socioeconomic clusters, but the current tax base—revenues would increase by only NIS 130 million, which means only about 10 percent of the gap would be reduced.

Diagram 7c: Additional Property-Tax Revenues for Arab Local Authorities, assuming an Equal Collection Rate and no Change in the Tax Base



The entire gap could be erased through a combination of an increase in the tax base and in the collection rate.

An examination of these cases highlights the larger weight of the smaller tax base in the disparity in property-tax revenues. It bears note that there is a direct link between the size of the tax base and the potential impact of collection rates on the disparity. The larger the tax base, the greater the influence of collection rates, and vice versa. Hence the gap can be significantly reduced and perhaps even be eliminated only through a combined improvement in both factors—both a larger tax base and higher collection rates.

Without massive development of revenue sources, as a result of efforts by both the central government and local authorities, higher collection rates cannot, in and of themselves, provide a remedy to the Arab local authorities revenue deficiency. At the same time, an improvement in the assessment system and increased collection rates could produce a substantial, it still inadequate, supplement to local authorities' revenues and improve their ability to provide better services to their citizens.

Chapter 3:

Revenues from Central Government Sources

Some 69 percent of the revenues of Arab authorities come from allocations by the central government. Because of their shortage of independent resources, the Arab local authorities are heavily dependent on central government budgets. Do the government allocations reduce the gap between Jewish and Arab localities to any extent?

We will review the main items in central government allocations to local authorities' regular budgets. Education constitutes 51 percent of all government contributions to the regular budget; social services comprise 22 percent, and equalization grants 17 percent.

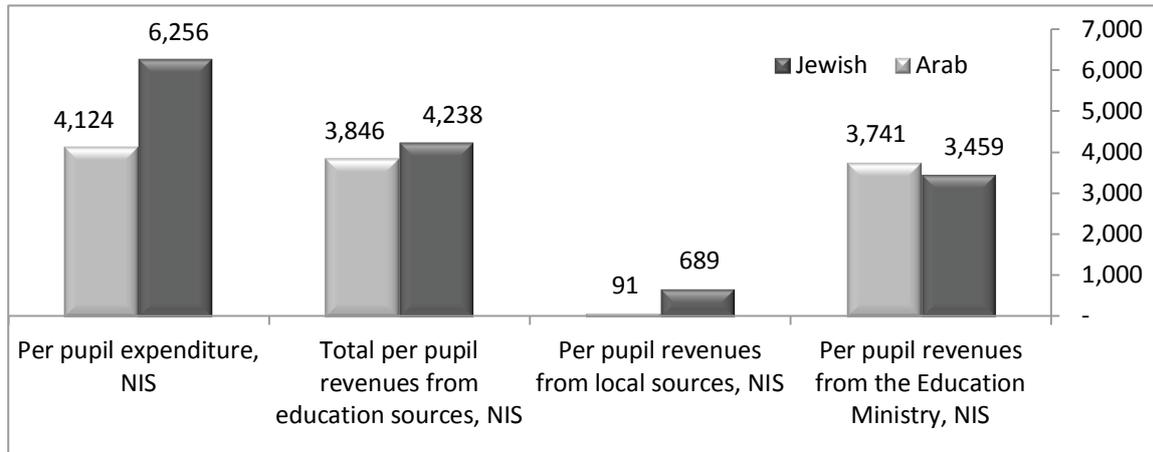
Allocations from the Education Ministry and Total Outlays per Pupil

In 2011, the Education Ministry budget for local authorities came to NIS 8 billion. *The revenues per pupil (age 3–18) from the Education Ministry were slightly higher for the Arab local authorities than the average contribution to Jewish and mixed authorities (NIS 3,741 and NIS 3,459 per pupil, respectively).* On the other hand, Jewish authorities' independent revenues for education¹⁸ were at least seven times higher (NIS 689 versus NIS 91 per pupil). Diagram 8 shows that the greater revenues from the Education Ministry received by Arab localities offsets their lower revenues from independent sources for education to some extent, but does not prevent the emergence of an advantage for the Jewish authorities. A comparative look of the values of total outlays per pupil in Arab and Jewish local authorities reveals a larger gap. Per pupil expenditure in Arab local authorities is only 66 percent of the per pupil expenditure in Jewish local authorities (NIS 4,124 and NIS 6,256, respectively).

Total outlays on education include allocations from the Education Ministry, the local authorities' independent revenues for education (parents' payment), and whatever supplement each local authority makes from its own resources (chiefly property taxes), as a function of its capacity and internal priorities. Arab authorities that depend on central government budgets and are unable to bridge the gap by means of their independent revenues leave Arab pupils significantly behind. *Thus, this disparity in the investment in education is a direct result of the smaller independent revenue sources of the Arab authorities as compared to the Jewish authorities.*

¹⁸ Chiefly payments by parents.

Diagram 8: Education Budget Revenues and Expenditures, for Arab and for Jewish and Mixed Local Authorities, 2011 (NIS per capita)

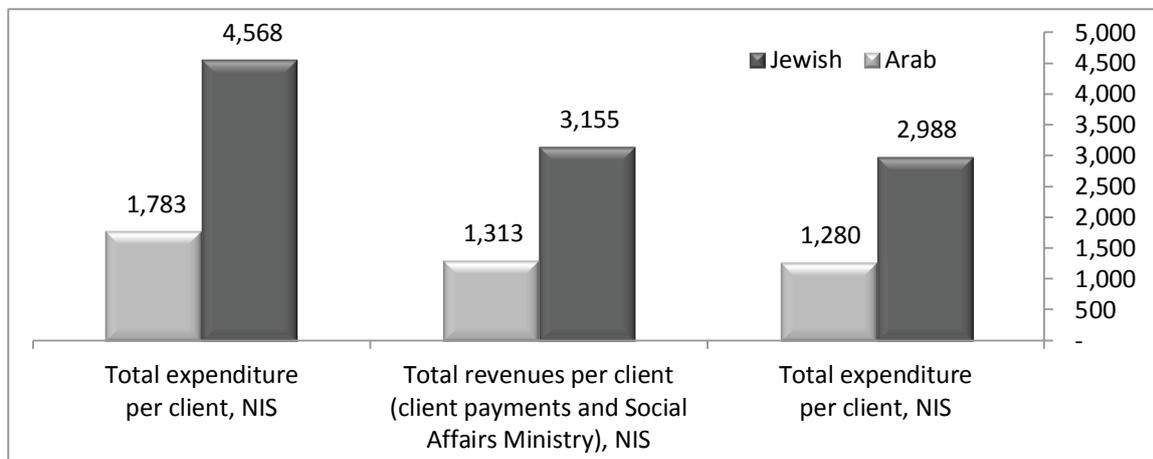


Source: Central Bureau of Statistics, *The Local Authorities in Israel*, 2011

Income from the Ministry of Social Affairs and Total Expenditures per Client

The Ministry of Social Affairs funds 75 percent of the welfare budget, against a matching 25 percent from the local authority's budget. A comparison of all revenues from the Ministry of Social Affairs from 2011 indicates that the Ministry's contribution per client in Jewish authorities was 2.3 times greater than in Arab local authorities. The disparity is magnified when independent revenues from welfare services are included; ultimately, the total outlay per welfare client in Jewish authorities is 2.6 times greater than in Arab local authorities. The per-client expenditure in Arab authorities is only 39 percent of that in Jewish and mixed local authorities. Note that in this case, the main source of the discrepancy is the difference in the allocations by the Social Affairs Ministry to clients. In addition, the matching requirement impedes utilization of the budgets allocated.

Diagram 9: Social Services Budget Income and Expenditures, for Arab and for Jewish and Mixed Local Authorities, 2011 (NIS per capita)

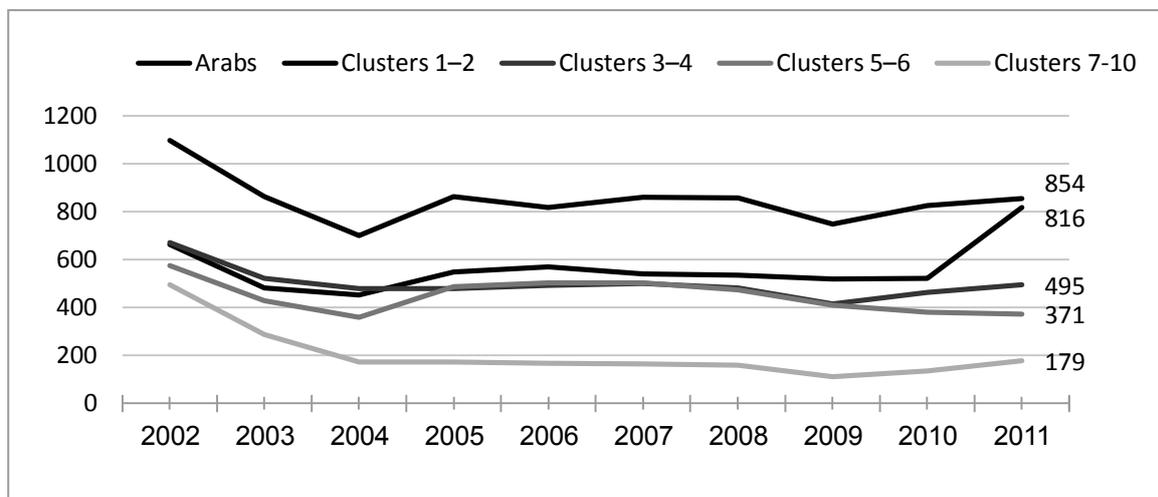


Source: Central Bureau of Statistics, *The Local Authorities in Israel*, 2011

The General Allocation (Equalization Grant)

The general allocation (the equalization grant) is intended to balance a local authority's total expenditures with its total income. On average, the general grant constitutes only 5 percent of the local authorities' total revenues. However, for the Arab local authorities, like Jewish local authorities in socioeconomic clusters 1 and 2, the equalization grant provides 18 percent of total revenues. Over the past decade, the Arab local authorities enjoyed larger equalization grants, measured per capita, than did other local authorities (see Diagram 10). A closer look reveals several problems that show that the equalization budgets are actually too small.

Diagram 10: Per Capita Income (NIS) from the General Grant, Arab Local Authorities and Jewish Local Authorities, by Socioeconomic Cluster, 2011



Source: Central Bureau of Statistics, The Local Authorities in Israel, 2011

1. There is a gap between the model budget defined by the Gadish Committee¹⁹ and actual allocations set in the State budget: The actual allocation in 2011 was only 89.7 percent of the model budget. The government employs the Gadish formula only for allocations and does not make up the full deficit in funding sources as compared to the formula.²⁰
2. The Gadish Committee defined a total outlay, which it referred to as the “standard outlay” for all local authorities. For this, it relied on 2002 data for expenditures by local authorities. Since 2002, the total expenditures defined as standard and used to set the total government allocation for the equalization grant has not been updated. This is despite the fact that the Gadish Committee itself recommended

¹⁹ The Gadish Committee was appointed by the Interior Minister to set criteria for the distribution of equalization grant budgets. Its conclusions were first implemented in 2004.

²⁰ Itay Hoter, Erosion in the Equalization Budget of the Local Authorities, Economic Unit of the Union of Local Authorities, PowerPoint presentation to the Knesset Finance Committee, June 24, 2013.

that the variables in the formula be reevaluated each year to reflect the actual outlays of the local authorities.²¹

3. Another problem is that the equalization budget for the local authorities is set in accordance with the standard property-tax rates, as determined by the Gadish Committee. If a local authority's actual property-tax rate is lower than this standard, the equalization budget to which it is entitled is reduced proportionally.²² Actual property-tax rates in Arab local authorities are lower than the standard defined by the Gadish formula.²³
4. Some 15 percent of the equalization grant is conditional on improved the property-tax collection rate to 80 percent. Only 25 of the 82 Arab local authorities managed to reach this threshold at the end of 2012.²⁴

The equalization grant is allocated according to a formula devised by the Gadish Committee, which has been in use since 2004. The deficient application of the allocation principles based on the formula and the Interior Ministry's stipulation that the full allocation will be paid only if the local authority achieves the collection threshold has led to incomplete enjoyment of the equalization grants. In its present format, not only does the equalization grant fail to reduce the gap in the tax base of Arab and Jewish local authorities, it is also lower than the standard outlay defined by the Gadish Committee, which has not been updated since 2002.

Interim Summary: The main factor behind the shortage of budgetary resources is the limited tax base.

The disparities in the budgetary sources of Jewish and Arab local authorities, which are evident chiefly in their independent sources, stem from a number of problems, of which the most important is the low tax base. That is, there is a very sparse inventory of taxable properties in every category, including residential, industrial, commercial, tourism, banks, and infrastructure facilities. The underlying problem of a low tax base is exacerbated by low tax rates, many discounts and exemptions, and low collection rates, which reduce the already scanty income even further.

We also found that central government budgets are inadequate to reduce the revenue gaps between the Arab local authorities and the other local authorities. According the Gadish formula, the Arab local authorities should be benefiting from a larger per

²¹ Ibid.

²² Ibid.

²³ Tal Shahor, *The Interior Ministry Equalization Grant: Does it Reduce the Disparities Between the Local Authorities?* Policy Study 12, Program for Economics and Society, Van Leer Jerusalem Institute, 2010.

²⁴ PowerPoint presentation, Summary of Interior Ministry Activities 2009–2013, Government meeting on March 10, 2013.

capita equalization grant for the past decade than the other local authorities. However, the under-implementation of the allocation principles set by the formula and the fact that the Interior Ministry conditions receipt of the full allocation on satisfying a collection rate threshold has led to under-allocations and incomplete use of the equalization grants. Consequently, the equalization grants do not close the gap in independent revenues and do not bring the local authorities' budgets up to the standard level set by the Gadish formula.

Measured in terms of per-client allocations for social services, there is under-funding from the budget of the Ministry of Social Affairs. The disparity in the allocation per client is exacerbated by the shortfall in the local authorities' independent revenues. There is also a gap in total outlays per pupil in the education budget, which stems chiefly from low independent revenues.

If the Arab local authorities are to escape their perpetual crisis, the primary need is for an increase in their tax base. Economic development depends to a large extent on an investment in the residents, with an emphasis on the development of human capital. An unempowered population is, on the one hand, critically dependent on local services, and, on the other hand, unable to demand them and both unable and unwilling to fund them. Socioeconomically stronger groups need fewer exemptions and discounts, demand more services, and are able and willing to pay for them.

It follows that to create a solid basis for increasing the total revenues of the Arab local authorities, there are three main policy objectives:

- Expanding the tax base
- Strengthening the local population
- Increasing the exploitation of local revenue sources

In the next chapter, we will consider the extent to which current policy measures serve these objectives.

Chapter 4:

The Existing Policy Toolbox

One can distinguish two main groups of policy tools. The first is composed of policy measures to expand the tax base and level of economic and physical development of the Arab local authority, such as development plans and re-division of revenues. The second is designed to improve the exploitation of the existing revenue potential (and includes Interior Ministry sanctions, incentives, and supervision of collection rates).

Development Plans

Between 2010 and 2012, the Government passed six resolutions²⁵ that include development plans for Arab localities, to the overall tune of some NIS 3.8 billion. These plans chiefly include budgets earmarked for the economic and physical development of the localities: budgets for detailed planning, sewer infrastructure, public buildings, transportation infrastructure, the upgrading and development of industrial zones, and employment programs. As part of the development plans for the Bedouin communities in the south (Resolution 3708) and for the Druze and Circassian localities (Resolution 2861), resources were allocated to education and social services as well. In the plans for the rest of the Arab population, however, the emphasis is on economic and physical development and there are no budgets for projects in the fields of education, welfare, and community services.

The Division of Revenues

An attempt to establish a fund for the distribution on a countrywide basis of the tax revenues on properties owned by the government and government corporations, which has yet to bear fruit: In 2008, the Government decided to establish a fund to concentrate the tax payments on account of its own properties (offices and facilities) and those owned by government corporations. The overall size of this fund was estimated at about NIS 1.1 billion. As of 2009, the Arab authorities' share of all property taxes paid by the central government was estimated at 0.2 percent, most of it in Nazareth.²⁶ This was an opportunity for a fair distribution on the basis of universal criteria of the revenues from state-owned properties.

²⁵ Resolution 1539, March 21, 2010: Five-Year Plan for Economic Development of Localities in the Minorities' Sector, 2010-2014; Resolution 2861, February 13, 2011—Development Plan for the Druze and Circassian localities, 2001-2014; Resolution 3211, May 15, 2011—Multi-Year Plan for Development and Empowerment of the Bedouin Settlements in the North, 2001-2015; Resolution 3701, September 11, 2011: Plan to Promote Economic Growth and Development of the Bedouin Population, 2012–2016; Resolution 4432, January 29, 2012—Development Plan for Residences for the Minorities as Part of the Implementation of the Recommendations of the Report of the Committee for Socioeconomic Change—the Trajtenberg Committee Report; Resolution 4193, January 29, 2012—Increasing the Labor Force Participation Rate and Employment Rate.

²⁶ Tamir Agmon, *The Distribution of Government Property Tax Payments by Districts and Sectors*, Knesset Research Report, June 2009.

The distribution of revenues on a regional basis pursuant to articles 8, 9, and 9 of the Municipalities Ordinance (new version): The Minister of the Interior is authorized to appoint committees to study a regional distribution of property-tax revenues. After studying the committee's report and obtaining the consent of the Minister of Finance, he may order revenues from general property taxes, the betterment levy, or one or more obligatory payments, made on account of property within the jurisdiction of one or more local authorities, to be divided among those authorities, or among one or more local authorities adjacent to or bordering on the aforesaid local authority. During the course of 2013, three such distribution areas were designated in the Negev, but the committees have not yet completed their work.

The distribution of revenues on a regional basis by the Interior Minister's fiat, rather than on the basis of transparent universal criteria, leaves the political echelon with the authority to decide where and among which local authorities a redistribution will take place. A professional committee appointed by the political echelon submits recommendations, but the power to accept or reject them is reserved to the political echelons.

Frameworks for Regional Cooperation

Regional cooperation is essential for the operations and survival of small and medium-sized localities, especially in the periphery.

1. *Shared employment zones.* The importance of shared industrial or employment zones is their contribution to regional economic development and the expansion of the sphere of economic opportunity. On the other hand, agreements to divide revenues from an employment zone and joint management agreements are difficult to draw up and can be violated with relative ease.²⁷ Since 1999, only seven such agreements have been signed, and their contribution to increasing the revenues of the Arab authorities has been marginal at best. There are two reasons for this: (1) there are very few agreements; (2) the share allotted to the Arab authorities by these agreements is miniscule. In most cases, it involves a share from the land added to the employment zone as a result of the Arab authority's joining the partnership, rather than an equal share for the entire industrial zone; thus, there is no actual redivision of existing industrial or employment zones, but only of the increment. In this way, the Jewish authorities continue to enjoy the advantage with regard to tax-producing properties in the original resource pie and also get part of the increment. This method cannot reduce the disparities in the tax-producing properties available to the Arab local authorities.
2. A regional cluster. This is a project being run by the Interior Ministry and Elka (JDC Israel), whose goal is to deal with the two main weak points of small and medium-sized localities in the periphery: the absence of the advantages of scale and the distance from service centers. This is a partnership that addresses both municipal services and to economic development. The creation of the cluster is intended to

²⁷ Rezin and Hazan, *Municipal Arrangements: Directions for a Reform in the Frameworks of Local Government and Administration in Israel*, Floersheimer Institute, 2012.

produce a better utilization of existing budgets. In particular, it would reduce costs thanks to joint purchases of services and permit the introduction of new services that are not economically viable for a small community but for which the cooperation of several localities may attain an entry threshold.²⁸ This project is in its first stages, so it is important that Arab localities be brought into it.

Interior Ministry Monitoring and Oversight Tools

In 2001–2003, many local authorities were facing an economic crisis. In the aftermath, since 2004 the Interior Ministry has been adhering to legislative amendments that require it to monitor the budget limits of local authorities. Three main tools are deployed for this purpose:

An Outside Auditor: An outside auditor representing the Interior Ministry approves every expenditure by the local authority and reports directly to the Interior Ministry. As of July 2013, 75 outside auditors were working in 57 Arab authorities and 18 Jewish authorities.²⁹

Recovery Plan: A recovery plan includes efficiency measures (cutbacks) in expenditures for activities and wages and/or measures to increase independent revenues, such as setting objectives for property tax collections and amending municipal bylaws on the collection of license fees and levies. In addition, as part of an authority's recovery plan, it receives assistance to cover part of its accumulated deficit through grants and/or permission to take long-term loans.

Appointed Council: This is the most severe method and the one that wreaks the greatest damage to the principle of local democracy. The Ministry of the Interior is authorized to disband an elected local council and remove the council head from office because of budgetary failure, failure to meet the objectives of a recovery plan, or failure to submit a recovery plan or non-approval of a budget. On the eve of local authority elections in October 2013, appointed councils were functioning in 22 local authorities, 16 of which were in the Arab sector.³⁰

In a situation of an extreme shortage of budgetary sources, the adoption of intervention methods and close supervision of expenditures leads to discontent and despair, unless a development plan that can provide a budgetary supplement is put in place. The inculcation of sound management procedures is important and desirable, but it is not a substitute for revenue sources that can be used to finance services, even if only at a basic level.

Table 3 presents the existing policy tools and the extent to which they serve the three objectives: expanding the tax base, strengthening the local population, and improving the capacity for full utilization of existing revenue sources.

²⁸ Entry threshold: the minimum population required for operating a public service so that it meets economic efficiency criteria.

²⁹ List of outside auditors, July 1, 2013, at the website of the Interior Ministry, www.moin.gov.il.

³⁰ Sheri Spector-Ben Ari, Local Authorities in Israel, A Background Paper for the Knesset Interior and Environment Committee, *Knesset Research Report*, April 2013.

Table 3: Existing Policy Tools to Promote Development and Increase the Revenues of Arab Local Authorities

	Expanding the Tax Base	Strengthening the Population	Greater Efficiency and Fuller Use of Existing Sources of Revenue
Specific Development Plans Government Resolutions 1539, 2861, 3211, 3708, 4432, 4193 Total of approx. NIS 3.8 billion for 2010–2016.	Budgeting for development and upgrading of industrial zones in Arab localities, to the tune of NIS 259 million.	Establishment of employment centers, vocational training. Establishment of job-supporting infrastructure, such as public transportation and daycare centers “A city without violence” A campaign to help Arabs find jobs An allocation to community services, but only in the development plans for the Druze, Circassians, and Bedouins in the Negev. The other local authorities do not have specific programs relating to social and community services.	Transfer of businesses operating out of private residences to employment zones. This would make it possible to levy property taxes at the commercial rate, which is higher than that for residences.
Frameworks for regional cooperation among local authorities		Shared industrial zones: increasing the supply of jobs to help put the regional economy on a solid footing. Cluster: expanding the availability of services to residents by means of regional cooperation and a pooling of resources, which makes it possible to introduce new services.	Cluster: Joint purchase of services lowers costs and frees up budgets for other goals.
Division of revenues	A revenue-sharing region set up by the Interior Ministry pursuant to articles 8 and 9 of the Municipalities Law (new version). Appointment of boundary commissions in the Negev. Division of the revenues from property taxes on the properties owned by the central government and government-owned corporations (approx. NIS 1 billion)—not implemented.		
Interior Ministry Monitoring and Oversight Tools			Outside auditor, recovery plan, appointed council: In 2013, 57 outside auditors were active in Arab local authorities; there were appointed councils in 16 local authorities.

Summary and Recommendations

The current revenue levels of Arab local authorities are among the lowest in the country. As a direct result, they are more limited than other local authorities with regard to outlays on services to benefit their residents. It has frequently been alleged that the budgetary shortfall of the Arab local authorities stems from low tax collection rates. Our research, however, found that the main problem is a very limited tax base. In other words, Arab local authorities have very little property within their jurisdiction on which a large property-tax bill can be levied. This includes businesses; industrial, commercial, and employment zones; infrastructure facilities; government buildings; and residential neighborhoods that are disproportionately large vis-à-vis their population. The comparative data about the taxable area per person highlight the paucity of economic development within the jurisdictions of the Arab local authorities, which leads directly to a scarcity of revenue sources. It is true that local tax-collection rates are lower in the Arab authorities and that higher payment rates could improve the situation. But given the current shortage of taxable property, the Arab local authorities would still not be on equal footing with their Jewish counterparts and certainly would not achieve economic stability.

At the end of the twentieth century, the central government began to recognize the imperative to invest in development for the Arab population as a strategic need for the future stability of the Israeli economy. The first buds of such action began to emerge over the past decade, as manifested in several aspects of government development policy. Making Arab localities an objective for development, especially in the periphery, is no trivial matter. Over the years, the bulk of the state's effort has focused on enhancing Jewish control of the periphery. An investment in the development of the Arab localities was (and still is) viewed as contrary to this goal. As a result, until the early twenty-first century, Arab localities were totally excluded from development zone maps, even though (or perhaps because) they were immediately adjacent to Jewish localities, which were included. This discriminatory policy created a physical space in which most taxable property is located within the jurisdiction of the Jewish local authorities. The Arab localities have become "bedroom towns," with no economic base that can provide a living for their residents or revenues for the local authority.

Developing the periphery would be a challenge even if the central government was more supportive and the local population was stronger. However, neither of these applies to the Arab local authorities, which is why they have been left behind. The establishment and consolidation of an economic infrastructure that would lead to an increase in the Arab local authorities' independent budgetary sources is a continuing process. It needs to be maintained in the short term and expanded so that it can bear fruit in the medium and long term. However, the residents of the Arab local authorities need services urgently. Economic and physical development of these localities must continue and increase. There is also a pressing need for immediate investment in community services, with an emphasis on education and welfare. In their current

budgetary situation, the Arab local authorities cannot increase their expenditures in these domains without a significant increase in revenues.

The investment in human and social capital in the Arab local authorities is an immediate need. In the medium and long term, it will bear fruit by enhancing residents' capacity to find jobs and will contribute to the productivity of the labor market and the growth of the economy. Today, despite the increasing proportion of Arabs with a university education, there is still a significant gap in the field of education. This barrier prevents Arabs from finding jobs in prestigious fields and earning higher salaries.

Not only would an investment in community services contribute to the economy, it could help rehabilitate the relationship and trust between the residents and the local authority and build a healthier system of interaction between the Arab local authorities and the central government. A strong community that believes in itself is an essential condition for building a firm economic, administrative, and organizational infrastructure in the Arab local authorities. Enforcement measures alone cannot create the social and economic conditions for an increased willingness to pay local taxes. On the other hand, an upgrading of local services could contribute to an increase in the level of trust in local government and the motivation to participate in the collective effort and pay taxes.

Alongside action by the central government, the Arab local authorities, as the elected local leadership and the local professional echelon, have a significant influence and role to play, and their importance must not be minimized. A local initiative to develop a town and make optimal use of existing central government budgets and independent revenue sources is also essential for moving forward from the crisis.

Consequently, the policy recommendations that follow are divided into those directed at government ministries and those addressed to the Arab local authorities.

Recommendations for the Central Government

An immediate increase in the budgets of the Arab local authorities: Without intensive central government involvement in the development of Arab localities and a fair division of national assets and resources, it will be impossible to close the gaps. Until the Arab local authorities are able to consolidate independent resources, there is an immediate need to increase their budgets from central government sources. Today, the per capita revenues in their budgets coincide with the average for socioeconomic cluster 2 (roughly NIS 4,000 per capita in the regular budget). *A supplement of NIS 1 billion to the budgets of the Arab local authorities* would bring their per capita revenues significantly closer to those of local authorities in cluster 3, namely, some NIS 5,000 per person in the regular budget. This is an essential interim step, whose goal is to place the Arab local authorities at a better starting point and to upgrade local and community services.

An increase in the local budget would be implemented by enlarging the national allocations for social and community services and by expanding the scale of central government investment in the fiscal and economic development of the Arab localities and their inclusion in targeted development plans. In addition, it is essential to increase the equalization grants and redivide the revenues from taxable properties, as stated below.

1. Increasing earmarked budgets by means of targeted development plans

- a. *Targeted plans for community services, funded by means of budget supplements:* Physical development must be accompanied by targeted plans to strengthen and upgrade community services in the fields of education (both formal and non-formal), social services, and community work. Such a plan would be an important part of the economic development of the local authority. Investment in human capital and an enhanced level of higher education would lay the essential foundations for mid- and long-term economic development. It is important that implementation of the plan be delegated to a government staff unit that oversees the plan, vis-à-vis both the local authorities and the various government ministries, similar to what is done in development plans that have been launched thus far.
- b. *Continuation and significant expansion of economic and physical development projects in Arab localities:* These include programs for job placement, development of employment zones (industry, skilled trades, commerce, and services), transportation infrastructure, public transportation, business support and consultations services, and so on. The emphasis should be placed on the development of a local economy in Arab localities. All of these require that government ministries support, advise, and reinforce the professional staffs of Arab local authorities.

2. Increased equalization grants

The study painted an unambiguous picture: The total revenues of the Arab local authorities are significantly lower than those of the Jewish local authorities. The main reason for this, according to our study, is not tax collections, but the lack of taxable properties. This dearth of revenue sources severely harms the functioning of the Arab local authorities, directly causes extreme inequality in the provision of state services to Arab citizens, and stunts the economic development of Arab society and its localities.

The central government must work together with the Arab local authorities to develop the local economy, in order to increase the authorities' independent revenue sources. The other policy recommendations in this chapter should also be implemented. But this is a long and complex process. Even if the central government and Arab local authorities were to begin immediately, many years would pass before we saw any large increase in the Arab authorities' independent revenue sources.

Consequently, *in the immediate term, the central government must significantly increase the equalization grants to the Arab authorities in order to substantially reduce*

the disparities in the expenditures of Arab local authorities and their Jewish counterparts. We are aware of the trend to reduce these grants in recent years, but a failure to increase the equalization grants to Arab authorities will perpetuate a policy that is unequal and, in fact, discriminatory.

3. Establishment of a central fund for the property-tax payments for government and government-corporation properties

State-owned property (government buildings, infrastructure facilities, etc.) are assets from which all local authorities should benefit, on the basis of distributive justice and universal criteria. Today, the taxes on government-owned property are collected almost exclusively by Jewish local authorities. This is one of the causes of the inequality in the revenues of the Arab authorities.

The best alternative would be the establishment of a fund that centralizes the property-tax revenues from government and government-corporation properties. A best estimate is that such a fund could accumulate revenues of around one billion sheqels a year. Were this sum earmarked for assistance to local authorities that rank low on the socioeconomic scale and have a shortage of tax-producing properties in their jurisdictions, the revenues of Arab authorities would increase. Of course, it is possible that not all property taxes would go to the government fund, but the burden that the government facility imposes on the town in which it is located would be taken into consideration. It is important to note that the Government decided to set up such a fund back in 2008, but the decision was never implemented. We recommend doing so now. In our view, the alternative of reallocation on the country-wide level has the best prospects for government implementation.

Another alternative would be distribution on a regional basis. The advantage here is that the authorities that bear the burden of a facility would benefit from the revenues it produces. The disadvantage is that local authorities that are not adjacent to such facilities would not benefit. Moreover, because the Interior Ministry retains exclusive authority to establish zones for the distribution of revenues and to approve the recommendations of the Boundary Commission, we believe that pressure by strong Jewish authorities will continue to torpedo this idea. Consequently, this alternative has lower precedence than the government fund.

One way or another, the State has an obligation to redistribute property-tax revenues on government properties by implementing the preferred alternative (establishment of a government fund), creating a new regional division, or some intelligent combination of these two alternatives.

4. A redivision of property-tax revenues from existing industrial zones

Large industrial zones have been established near Arab localities, but in the jurisdiction of Jewish local authorities; the latter are consequently the beneficiaries of their property-tax payments. Criteria should be set that take account of both distributive justice and of which local authorities invested efforts and resources to set

up the industrial zones. The result should be that part of the property taxes for some existing industrial zones reach the neighboring Arab localities as well. Such a redivision would supplement the economic development of Arab localities, and not be a substitute for it.

Recommendations for Arab Local Authorities

1. Improving the assessment system and increasing property-tax collection rates

Because of the scarcity of budget sources, which is a direct outcome of deliberate long-term central-government policies, Arab local authorities must extract the fullest benefit from their existing revenues sources. First and foremost, this means conducting an up-to-date and precise valuation of the businesses that operate in the locality in order to increase their tax assessments, as well as increasing collection rates.

The Arab local authorities collect the lowest share of annual property-tax assessments, even in comparison with local authorities in the same socioeconomic cluster. This indicates that factors other than socioeconomic rank influence collection rates.

The tax rates in the Arab local authorities are lower than those in other authorities of the same socioeconomic ranking and in the same geographical area. Given the difficulty of collecting taxes in any case, it would not make sense to raise rates; doing so would adversely affect the collection rate, which is already the weakest link. To maximize revenues, efforts should be invested primarily in making the collection system better and more efficient and increasing and stabilizing the collection rate.

2. Initiating and directing planning efforts and erecting economic infrastructure in the jurisdictions of the Arab local authorities

Local authorities must play a key role in economic development. The channeling of central-government budgets to them is essential, but cannot in and of itself guarantee success. The initiation and direction of planning processes that lead to economic development are in the hands of the local authority, which is responsible for drawing up an overall local development strategy from which master plans for various matters in its purview, including education and welfare, can be derived. These must be based on the authority's deep familiarity with the profile and specific needs of the local population, which serve as the basis for setting development objectives.

The initiative to plan for economic development should be taken by the local authorities, who are charged with consolidating an overall strategy for local development. The master plans in the various fields for which they are responsible—such as education, social and community services, the environment, transportation, and jobs—derive from this strategy. This is because the local authorities have a solid knowledge of their residents and their specific needs, which are the basis for setting

development objectives. The process of setting up economic infrastructure requires working in concert with government ministries, attracting and encouraging investors, and making land available for development. In addition, the local authorities must take the lead in adopting and implementing socioeconomic development programs.

It is commonly believed that the development of industrial zones is the only way to improve the economic situation of the Arab local authorities. The present study, however, shows that in addition to industrial zones, significant revenues could also flow from businesses, services, and employment and commercial zones. *A locality with a flourishing economy and an abundance of business establishments can increase its revenues significantly. Hence, it is crucial to work towards this goal, alongside the establishment of industrial zones in Arab localities.*

Appendices

Appendix A: Localities included in the Property-Tax Revenues Comparison, by District and type of Authority

	Arab		Jewish, clusters 1–5	Jewish, clusters 6–10	Regional Councils
Northern District	Tamra	Kaukub Abu al-Hija	Beit She'an	Upper Yoqne'am	Gilboa
	Nazareth	Kasra Sami'	Tiberias	Kefar Veradim	Lower Galilee
	Sakhnin	Kabiye Tubas Hajajra	Karmiel	Kefar Tavor	Megiddo
	Shefar'am	Kafr Yasif	Migdal ha'Emeq	Ramot Yishai	Matteh Asher
	Abu Snein	Kafr Kana	Ma'alot Tarshiha		Misgav
	Iksal	Kafr Manda	Nahariyya		Jordan Valley
	I'blin	Maghar	Upper Nazareth		Ma'ayanot Valley
	Bueina Nujidat	Majd al-Kurum	Acre		Jezreel Valley
	Bir al-Maksur	Misra'a	Afula		
	Beit Jann	M'iliya	Yavne'el		
	Bosmat-Tiv'on	Mashhad	Kefar Kama		
	Baama	Nahaf	Migdal		
	Judeida-Makr	Sajur	Shlomi		
	Julis	Eilaboun			
	Daburiyya	Ilut			
	Dir al-Asad	Ein Ma'ahal			
	Dir Hana	Arabbe			
	Zarzir	Peqi'in			
	Tour'an	Rama			
	Yanoah-Jatt	Reina			
Yafi'	Shibli Umm al-Ghanem				
Yarka	Sha'ab				
Kabul	al-Batuf				
Bustan al-Marj					
Haifa District	Umm al-Fahm		Or Aqiva	Nesher	Alona
	Basma		Tirat Karmel	Qiryat Bialik	Zevulun
	Jisr a-Zarka		Qiryat Ata	Qiryat Motzkin	Hof Carmel
	Jatt		Qiryat Yam	Binyamina–Giv'at Ada	Menashe
	Daliyat al-Karmil		Rekhasim	Zikhron Ya'akov	
	Ma'aleh Iron			Pardes Hanna–Karkur	
	Usfiya			Qatzir-Harish	
	Ar'ara			Qiryat Tiv'on	
	Fureidis				
	Kafr Kara				

Central District	Tayyibe		Elad	Even Yehuda	Bar-ner
	Tira		Yavne	Gedera	Gederot
	Kafr Qassim		Alikhin	Gan Yavne	Gezer
	Qalansuwe		Bnei Ayish	Kokhav Ya'ir	Hevel Yavne
	Jaljulya		Qiryat Eqron	Kefar Yona	Hevel Modi'in
	Zemer			Mazkeret Batya	Hof haSharon
	Kafr Bara			Pardessiya	Lev haSharon
				Qadima-Tzoran	Emeq Hefer
				Shoham	Nahal Soreq
				Tel Mond	
Southern District	Rahat		Ofaqim	Lehavim	Eshkol
	Houra		Netivot	Meitar	Bnei Shimon
	Kseifa		Sederot	Omer	Lakhish
	Lagiya				Merhavim
	Ara'ara (Negev)				Sedot Negev
	Segev Shalom				Sha'ar haNegev
	Tel Sheva				
	Abu Basma				

Appendix B: Nonresidential Property Taxes, by Category

	Commercial			Industry and Skilled Trades			Banks			Hotels			Institutions and Facilities			Parking Lots			Other			
	Population ≤ 75,000	Sq.m · per capit a	NIS per sq.m	NIS per capit a	Sq.m · per capit a	NIS per sq.m	NIS per capit a	Sq.m · per capit a	NIS per sq.m	NIS per capit a	Sq.m · per capit a	NIS per sq.m	NIS per capit a	Sq.m · per capit a	NIS per sq.m	Sq.m · per capit a	NIS per sq.m	NIS per capit a				
Northern District Peripher y index 4, 5, 6	Arab	2.1	63	132	0.9	50	45	0.03	660	20.8	0.1	36	3.9	0.3	27.9	9.4	0.1	7.9	0.7	70	0.7	45.9
	Jewish, cluster 4–5	4.0	146	583	7.4	53	390	0.09	1,057	98.4	1.1	60	67.8	0.5	89.5	46.1	0.4	26.0	9.5	106	2.2	231.5
Haifa District Peripher y index 5, 6	Jewish, clusters 6–9	3.9	81	312	6.6	98	641	0.09	681	63.8	0.1	53	4.5	-	0.0	0.0	1.3	26.8	35.5	283	0.3	93.3
	Regional councils	4.4	62	273	15.9	35	562	0.00	585	0.8	1.2	44	51.7	11.6	0.2	2.2	0.1	0.7	0.1	3,041	0.2	484.5
Central District Peripher y index 6, 7	Arab	1.3	62	79	1.2	56	69	0.0	446	10	0.01	40	0.4	0.03	31.1	0.9	0.1	4	0.5	24	1.6	38
	Jewish, clusters 2, 4, 5	2.9	113	326	3.6	83	304	0.1	1,060	61	0.00	0.0	0.0	0.00	0.0	0.0	0.1	20	2.0	36	7.8	284
Southern District Peripher y index 4, 5	Jewish, clusters 6–8	3.2	119	378	3.4	75	255	0.1	917	79	0.25	64	16.2	0.20	68.0	13.6	0.0	20	1.0	282	0.7	207
	Regional councils	3.3	67	218	8.3	24	197	0.0	710	3	1.00	49	48.8	13.01	0.3	4.2	0.0	0.0	0.0	2,048	0.3	609
Northern District Peripher y index 4, 5, 6	Haifa and Hadera	16.0	78	1,249	18.7	42	775	0.1	1,057	158	0.00	66	34.5	11.97	21.1	252.8	1.0	32	31.1	72	2.0	142
	Arab	1.5	64	97	1.5	50	77	0.02	567	13	0.01	0.0	0.4	0.03	0.1	0.1	0.01	46	0.4	156	0.4	70.0
Central District Peripher y index 6, 7	Jewish, clusters 2 & 5	3.0	117	354	6.7	81	538	0.03	1,188	41	0.01	0.0	0.0	0.01	0.2	0.01	31	0.3	19	15.3	286.4	
	Jewish, clusters 6–9	1.9	107	200	1.2	81	94	0.04	739	30	0.15	58	0.15	0.15	58	8.4	0.11	26	2.9	106	1.1	115.7
Southern District Peripher y index 4, 5	Regional councils	6.3	72	453	13.0	39	509	0.00	930	3	0.33	56.3	18.4	0.92	2	2.1	1.76	6	10.5	1,328	0.4	561.5
	Netanya and Modi'in	3.7	142	525	2.2	110	239	0.08	1,154	94	0.36	78.3	28.2	0.01	7	0.1	2.08	21	42.8	6	25.4	152.1
Northern District Peripher y index 4, 5, 6	Arab	0.8	61	47	0.6	55	30	0.01	619	4	0.02	0.0	0.0	0.02	50	1	0.07	1	0.1	6	3.9	25
	Jewish 3–5	3.6	100	355	9.3	62	576	0.08	875	68	0.03	0.0	0.0	0.03	41	1	0.05	35	1.7	47	3.1	145
Central District Peripher y index 6, 7	Jewish, clusters 6–10	1.2	100	124	2.5	109	269	0.05	957	48	0.12	36	4	3.93	2	6	0.3	3	0.7	4	18.4	81
	Regional councils	5.8	73	429	16.9	52	881	0.00	564	3	0.12	36	4	3.93	2	6	0.3	3	0.7	8,164	0.1	922
Southern District Peripher y index 4, 5	Beer-Sheba	3.6	208	739	3.8	60	229	0.10	1,132	117	0.08	65	5	1.43	31	44	1.1	9	10.2	4	64.9	242

Appendix C: Three Scenarios: Equality in Per Capita Property-Tax Revenues, Equality in total Property-Tax Assessments, Equality in Collection Rate

District	Local authorities by socioeconomic cluster	Total Assessment (Net potential collections after statutory discounts), 2011, NIS million	Current collections, 2011, NIS million	Per-capita assessment, 2011, NIS	Collection rate, 2011	Population, 2011 (thousands)	Net potential per-capita assessment, 2001, NIS	Collection rates by socioeconomic cluster (national average, Jewish localities)	Added property-tax revenues if the collection rate matched the national average, NIS million	Added property-tax revenues were the tax base equal to that of Jewish localities with the same collection rates, NIS million	Total property-tax revenues assuming parity of per-capita revenues from property taxes, NIS million
Haifa District	Arab 1	6,014	1,962	651	33%	12.9		82%	2,969		
	Arab 2	68,278	38,055	826	63%	104.1		84%	14,163		
	Arab 3	13,507	6,889	854	51%	15.8		83%	4,457		
	Arab 4	24,866	9,582	908	42%	27.4		85%	8,583		
	Arab Jewish (2, 4, 5)	112,665	56,488	810	54%	160.2	703		30,173	118,666	278,617
Northern District	Arab 1, 2	185,407	127,764	879	70%	287.1		83%	23,979		
	Arab 3	218,301	132,230	1,058	65%	242.8		84%	41,265		
	Arab 4	24,448	18,708	1,246	78%	26.7		83%	1,185		
	Arab 5	3,829	3,115	1,615	81%	2.9		90%	331		
	Arab Jewish (4, 5)	431,985	281,817	982	70%	559.5	772		66,760	619,398	1,139,562
Central District	Arab 2	15,666	5,216	676	48%	28.5		84%	5,612		
	Arab3	52,450	30,488	1,323	58%	52.2		83%	12,888		
	Arab Jewish (2, 4, 5)	68,116	35,704	1,107	55%	80.7	844		18,499	51,290	141,709
Southern District	Arab 1	8,657	1,009	752	12%	16.4		82%	6,090		
	Arab 2	27,551	16,675	446	53%	110.5		84%	8,553		
	Arab Jewish (3, 4, 5)	36,208	17,684	497	46%	126.9	285		14,643	43,480	108,598
Total Arab			391,692						130,075	832,834	1,668,846

Sikkuy: The Association for the Advancement of Civic Equality in Israel:

Sikkuy is a civil society organization shared by Arab and Jewish citizens of Israel. Founded in 1991, Sikkuy's mission is to promote full equality in all fields and on all levels between the Arab-Palestinian citizens of Israel and the Jewish citizens. Sikkuy has a shared board of directors with Jewish and Arab co-chairs and Arab and Jewish co-executive directors. The Association's agenda and actions are the outcome of an in-depth and honest dialogue between the Arab and Jewish staff and board members who represent the main streams of their societies.



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Injaz Center for Professional Arab Local Governance

is a dynamic non-profit organization working to strengthen the capacity of Arab leadership within local authorities, towns and villages in Israel in order to advance social and economic development for Palestinian Arab citizens. Promoting principles of democracy, public participation and transparency, Injaz aims to achieve Arab municipal governance that initiates processes of social change, creating the conditions for dignity, development and a sense of belonging. Through training, research, strategic planning and pilot projects on the ground, Injaz Center contributes to transforming the local authorities from mere service providers to a driving force, working to improve the lives of Palestinian citizens in Israel.



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