FILE CONTENTS FILE NAME HB 434 Dt Referred 2-5-88

#	Date In	Doc. Type	Date	DESCRIPTION Subject	From	Copied	Init
1	2-6-8	Bill	2/5/8	Bill	Occ	✓	J
2	2/11	Pkt.	"	Sponsor's docs			
3	2/16	Review		Staff Review			
4	2/29	ltr	2/29	AML			
1.1	3/1	FN	3/1	DCRA FN			
1.2	3/2	FN	3/7	Revenue FN			
5	3/2	Memos	vary	from Menard - amend			
6	3/2	Memo	3/1	Legal - Svcs. mem			
7	3/2		"	Creating & Fin. Pub Ent.			
~~8~~	~~3/2~~	~~CS~~	~~3/2~~	~~Com Sub.~~			
8	3/2	PP	3/2	DCRA PP			
A	3/2	WR	3/7				
B	3/2	Min	3/2				
9	3/9	ltr	3/7/8	to Menard from Klinkner			
10	3/10	memo	3/2	To Worley fr Odland			
11	3/11	pkt.		test. - Schaefermeyer.			
1.3	3/11	CS		S-1025X 3/11/88			
12	3/11	Memo	3/11	from Menard			
1.3	3/14	CS		Final C S			
12	3/14	Com Rpt	3/14	CS HB 434 (CRA) 5DP	out 3/14		
12.1	3/14	CS FN	same	Rev CS			
12.2	3/14	CS FN	same	DCRA CS			

(#) = Distributed, all files (Ltr) = Master, Backup, Next Com. Files

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE REFERENCE LIBRARY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

May, 1988

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMPR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

House	C+RA	3-2-88	3:00 p.m.
"	"	3-11-88	3:00 p.m.

2/6, 2/13 D ✓ R 2/6 F ✓ P N

BILL PREPARATION/ACTION*

Bill # HB 434 Date Referred: 2/5/88 Out:

Title: Tax Increment Financing of Development.

Sponsor: Menard, Furen, Zawacki Referrals: CRA FIN

CONTACTS: ***

Name		
Menard	materials 2/6; met him	
DCRA	PP FN 2/24;	
AML 586-1325	2/22 support pls asked; 2/25 neg [2/2];	
DCED Linda Wild Bonding 2505	PP neg FN 2/25 [3/2];	
Rev. Royce Weller 2300	will call Menard PP FN 2/25 [3/2];	

✓ Dave Soulak, City Mgr. — City of Palmer 745-3271; 3/7 will be here, no t/c nec;

✓ Dave Schaefermeyer, City of Seward 224-3331

****

REMARKS:

MEETINGS: ***

Date	Action
* 3/2/8	1st public hrng. Needs work Bring back when done
3/11/8	hrng out 5 DP CS HB 434

*See other side for additional information. CONTAC.TXT

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CS HB 434
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date:
Title: Municipal Development and Redevelopment
Sponsor: Representative Menard, et al
Requestor: House C&RA

Agency Affected: Revenue
BRU:
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Milt Barker
Division: Treasury
Phone: 465-2350
Date: 03/14/88

Approved by Commissioner: Hugh Malone H Malone
Agency: Department of Revenue
Date: 03/14/88

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

(1.3) HB 434

5-1025X
Bannister
3/11/88

Original sponsors: Menard, Larson, Zawacki, et al.

IN THE HOUSE

CS FOR HOUSE BILL NO. 434 (   )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to municipal development and redevelopment."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

(49) AS 29.35.035 (development and redevelopment projects).

* Sec. 2. AS 29.35 is amended by adding a new section to read:

Sec. 29.35.035. DEVELOPMENT AND REDEVELOPMENT PROJECTS. (a) A municipality may undertake development and redevelopment projects in the municipality and issue bonds to finance the projects, including bonds for development or redevelopment purposes in blighted areas. In this subsection

(1) "blighted area" means an area that the municipality determines to be a blighted area on the basis of the substantial presence of factors such as excessive vacant land on which structures were previously located, abandoned or vacant buildings, substandard structures, vacancies, and delinquencies in payment of real property taxes;

(2) "redevelopment purposes" means

(A) the acquisition by the municipality of real property located in a blighted area;

(B) the clearing and preparation for redevelopment of land acquired under (A) of this paragraph;

(C) the rehabilitation of real property acquired under

(A) of this paragraph; in this subparagraph, "rehabilitation" does not include construction, other than rehabilitation, of property or the enlargement of an existing building; and

(D) the relocation of occupants of the real property acquired under (A) of this paragraph.

(b) A municipality may by ordinance create a public corporation to exercise all or some of the powers authorized under (a) of this section. The corporation so established

(1) is an instrumentality of the municipality, but has a legal existence independent of and separate from the municipality; and

(2) has continuing succession by its corporate name until terminated by ordinance.

(c) A municipality may provide by ordinance that the tax increment from the taxes levied each year by or on behalf of the municipality on the property in a development or redevelopment project shall be used to repay the principal and interest on bonds, notes, and other indebtedness that is incurred for the project. To enable and assist a public corporation to repay bonds, notes, and other indebtedness for a development or redevelopment project, the municipality may irrevocably pledge the tax increment from the project for the payment of debt service on the bonds, notes, or other indebtedness issued to finance the project. In this subsection "tax increment" means the difference between the tax due in the calendar year when the taxes are levied and the tax due in the calendar year before the project was authorized.

(d) This section applies to home rule and general law municipalities. The limitations on the exercise of borough powers under AS 29.35.200 - 29.35.220 apply to the exercise of powers under this section.

THE SEAL OF THE STATE OF ALASKA

Official Business

COMMITTEE:

HOUSE COMMUNITY & REGIONAL AFFAIRS

DATE: Friday, March 11, 1988

SIGN-IN

Subject of meeting:

HB 434 Tax Increment Financing of Development

~~Work Session - Debt Financing for Municipal Liability Exposures (AML)~~

~~HB 429 Tax Exemption Old Blds/Removed from Land~~

NAME (PLS PRINT)	YOUR TITLE & ADDRESS	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
David Soulak	City of Palmer City Manager 231 W. [illegible] Palmer AK 99645	745-3271	City of Palmer	Yes
Geo. Krucz	310 2nd St Juneau	586-2323	Alaska State Chamber	Yes.
MIKE WORLEY	STATE ASSESSOR P.O. BOX BH JNU	465-4787	DCRA	YES
Scott Burgess	Juneau	6-1325	AML	Yes

(12.1) HB 434

STATE OF ALASKA
1988 LEGISLATIVE SESSION

Bill Version: CS HB 434
Publish Date:

FISCAL NOTE

REQUEST: HCRA

Revision Date:
Title: Municipal Development & Redevelopment
Sponsor:
Requestor:

Agency Affected: REVENUE
BRU:
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
TOTAL OPERATING	-	-	-	-	-	-
CAPITAL	-	-	-	-	-	-
REVENUE	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB
Division: Treasury

Phone: 465-2350
Date: February 26, 1988

Approved by Commissioner:
Agency: Department of Revenue

Date: 3/1/88

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

(12.2) HB 434

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CS HB 434
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date:
Title: "An act relating to municipal development & redevelopment"
Sponsor: Menard, Larson & Zawacki
Requestor:

Agency Affected: Community & Regional Affairs
BRU:

Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						

REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Jim Plasman, Deputy Director
Phone: 465-4750
Division: Municipal & Regional Assistance
Date: 3/1/88

Approved by Commissioner: [signature]
Date:
Agency: Community & Regional Affairs

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

page ___ of ___

(1.3) HB434

5-1025X

Original sponsors: Menard, Larson, Zawacki, et al.

IN THE HOUSE

BY THE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

CS FOR HOUSE BILL NO. 434 (C&RA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to municipal development and redevelopment."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

(49) AS 29.35.035 (development and redevelopment projects).

* Sec. 2. AS 29.35 is amended by adding a new section to read:

Sec. 29.35.035. DEVELOPMENT AND REDEVELOPMENT PROJECTS. (a) A municipality may undertake development and redevelopment projects in the municipality and issue bonds to finance the projects, including bonds for development or redevelopment purposes in blighted areas. In this subsection

(1) "blighted area" means an area that the municipality determines to be a blighted area on the basis of the substantial presence of factors such as excessive vacant land on which structures were previously located, abandoned or vacant buildings, substandard structures, vacancies, and delinquencies in payment of real property taxes;

(2) "redevelopment purposes" means

(A) the acquisition by the municipality of real property located in a blighted area;

(B) the clearing and preparation for redevelopment of land acquired under (A) of this paragraph;

(C) the rehabilitation of real property acquired under

(5)

HOUSE COMMITTEE REPORT

(12) HB 434

Date referred: 2/5/88 FURTHER REFERRALS: Finance

DATE: MAR 11 1988

The Community and Regional Affairs Committee has considered HB 434

"An Act relating to municipal development and redevelopment."

RECOMMENDS:

[X] replace with CS HB434 (CRA) [X] the same title

[ ] attached amendment(s) [ ] a new title

[X] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] additional referral to the ________ Committee

ADOPTS: [ ] ________ letter of intent

ATTACHES NEW FISCAL NOTE(s):

[ ] fiscal impact

[X] zero fiscal note

[ ] zero with analysis

[ ] same as previous fiscal note published ________

[ ] same as previous zero fiscal note published ________

SIGNING DO PASS:

Bettye Cato — Cato

Vernon Collins — Collins

Tim Zawacki — Zawacki

Adelheid Herrmann — Herrmann

Heinrich Springer — Springer

SIGNING OTHER RECOMMENDATIONS:

to clerk 3/11/88

Springer — Heinrich Springer

Chairman's signature

File Contents

HB 434 - Tax Increment Financing of Development

No.	Description
1.	Bill - HB 434
1.1	Zero Fiscal Note - DCRA
1.2	Zero Fiscal Note - Revenue
2.	Sponsor's Packet
3.	Bill Review - Harrision (HCRA Staff)
4.	AML Position PPaper, 2/29/88
5.	Memo - from Menard re Amendments
6.	Memo - from Legal Svcs
7.	Creating and Financing Public Enterprises
8.	Position Paper - DCRA
9.	Letter - to Menard from Klinkner
10.	Memo - to Worley from Odland

HB434.FIL
3/9/88

Official Business

COMMITTEE:

HOUSE COMMUNITY & REGIONAL AFFAIRS

DATE: Wed., Mar. 2, 1988

SIGN-IN

Subject of meeting: (A) HB 434

~~*HB 429 Tax Exemption/Old Bldgs Removed frm Land~~

~~SSHB 159 Relating Property Tax Exempt.~~ to Income

*HB 434 Tax Increment Financing of Development

NAME (PLS PRINT)	YOUR TITLE & ADDRESS	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
WERLEY, MIKE	STATE ASSESSOR P.O. BOX BH, JUNEAU	465-4787	DCRA	YES

HB434

ALASKA STATE LEGISLATURE

2/10/88

Curt Menard

351 W. Swanson Ave.
Wasilla, Alaska 99687
Or
P.O. Box V
Juneau, Alaska 99811

373-CURT
376-5315 Work
376-5855 Home
465-2679 Juneau

THE MAT-SU BOROUGH

Press Release
Rep. Curt Menard

For Immediate Release
465-2679

TIF: CREATIVE FINANCING FOR ALASKAN LOCAL GOVERNMENT

On Friday, February 5, Rep. Curt Menard R-Mat-Su introduced HB434, An Act Realting to Municipal Development and Redevelopment. HB434 would give local government across Alaska the ability to use tax increment financing to redevelop their communities.

Rep. Menard explained "Tax increment financing allows local governments to create public corporations that in turn could offer bonds to finance redevelopment. The bonds would be repaid by a percentage of the incremental increase in property taxes realized by the increase in property assessment due to the redevelopment."

"While tax increment financing is no cure-all, it's time we all started looking at creative ways to help our local communities and businesses finance projects," Menard declared.

Menard cautioned, "The days are gone when all we had to do was ask the state for money; now we have to look to other more innovative ways to finance redevelopment. Whether large or small, all Alaskan communities with a property tax can benefit from the TIF option."

ALASKA STATE LEGISLATURE

Curt Menard

351 W. Swanson Ave.
Wasilla, Alaska 99687
Or
P.O. Box V
Juneau, Alaska 99811

373-CURT
376-5315 Work
376-5855 Home
465-2679 Juneau

THE MAT-SU BOROUGH

Menard said, "Tax increment financing is a positive alternative that allows Municipalities to maximize benefits under federal law. I believe the Legislature should act quickly to provide local communities with this alternative."

Menard also noted that TIF was endorsed by the City of Palmer, the Mat-Su Joint Chambers of Commerce, and by Ron Garzini, Municipal Manager of the City of Anchorage. Rep. Ron Larson, D-Palmer, and Jim Zawacki, R-Turnagain Arm, are co-sponsors.

The legislation looks like it is on a fast track. There are only two committee assignments: first before the House Community and Regional Affairs Committee and then to Finance.

END

WOHLFORTH, FLINT & GRUENING
A PARTNERSHIP OF PROFESSIONAL CORPORATIONS
ATTORNEYS AT LAW
900 WEST 5TH AVENUE, SUITE 600
ANCHORAGE, ALASKA 99501

RECEIVED JAN 27 1988

PETER ARGETSINGER
JULIUS J. BRECHT
CHARLES G. EVANS
ROBERT B. FLINT
CLARK S. GRUENING*
ROBERT M. JOHNSON
ROBERT S. SPITZFADEN*
KENNETH E. VASSAR
ERIC E. WOHLFORTH

JANICE COLEMAN GRAHAM**
STEPHEN E. GREER
THOMAS F. KLINKNER
ROGER A. LUBOVICH
BRADLEY E. MEYEN
DANIEL PATRICK O'TIERNEY
PATRICK RUMLEY
JAMES A. SARAFIN
JAMES R. SZENDER

*JUNEAU OFFICE
**ADMITTED IN NEW YORK ONLY

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TELECOPY
(907) 276-5093

JUNEAU OFFICE
217 SECOND STREET
JUNEAU, ALASKA 99801
TELEPHONE (907) 586-8110

OF COUNSEL
ROGER G. CONNOR
RICHARD W. GARNETT, III

January 25, 1988

Representative Curt Menard
Pouch V
Juneau, Alaska 99811

Re: Legislation Relating to Municipal Redevelopment

Dear Representative Menard:

I was consulted by the Legislative Affairs Agency regarding the drafting of the legislation referred to above. In particular, I was asked for advice regarding the coordination of the terms of this legislation with tax-exempt financing requirements included in the Federal Tax Reform Act of 1986.

The 1986 federal tax legislation imposed many restrictions on tax-exempt redevelopment financing. Most of these restrictions can, and should, be addressed in local planning for a redevelopment project and in the implementing municipal ordinances. However, Section 144(c)(2), provides that a bond shall not be treated as a qualified (i.e., tax-exempt) redevelopment bond unless the bond, among other things, is issued pursuant to "a state law which authorizes the issuance of such bonds for redevelopment purposes in blighted areas." Obviously, state legislation is necessary to fulfill this requirement. In the bill that is the subject of this letter, this purpose is served by proposed Section 29.35.035(a).

Please contact me if I can provide further information or assistance regarding this legislation.

Yours truly,

Thomas F. Klinkner

Thomas F. Klinkner

TFK/mlo

A180628

fw / CRA

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

FEB 3 _ 1988

M E M O R A N D U M

TO: All Members
House of Representatives

FROM: Curt Menard CDM
Representative

DATE: February 2, 1988

RE: Tax Increment Financing

TIF: CREATIVE FINANCING FOR ALASKAN LOCAL GOVERNMENT

On Friday, February 5, I will introduce legislation that would give local government across Alaska the ability to use tax increment financing (TIF) to develop or redevelop their communities.

Tax increment financing allows local governments to create public corporations that in turn could offer bonds to finance redevelopment. The bonds would be repaid by a percentage of the incremental increase in property taxes realized by the increase in property assessment due to the redevelopment.

The days are gone when all local government had to do was ask the state for money; now we have to look to other more innovative ways to finance redevelopment. Whether large or small, all Alaskan communities with property tax can benefit from the TIF option.

TIF has been endorsed by the City of Palmer, the Mat-Su Joint Chambers of Commerce, and by Ron Garzini, Municipal Manager of the City of Anchorage.

I invite you to sponsor this legislation with me. Please call x2679 if you would like to add your support to this bill. Thank you.

IN THE HOUSE BY MENARD AND LARSON

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to municipal development and redevelopment."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

(49) AS 29.35.035 (development and redevelopment projects).

* Sec. 2. AS 29.35 is amended by adding a new section to read:

Sec. 29.35.035. DEVELOPMENT AND REDEVELOPMENT PROJECTS. (a) A municipality may undertake development and redevelopment projects in the municipality and issue bonds for development or redevelopment purposes in blighted areas.

(b) A municipality may by ordinance create a public corporation to exercise all or some of the powers authorized under (a) of this section. The corporation so established

(1) is an instrumentality of the municipality, but has a legal existence independent of and separate from the municipality; and

(2) has continuing succession by its corporate name until terminated by ordinance.

(c) A municipality may provide by ordinance that the tax increment from the taxes levied each year by or on behalf of the municipality on the property in a development or redevelopment project shall be used to repay the principal and interest on bonds, notes, and other indebtedness that is incurred for the project. To enable and assist a public corporation to repay bonds, notes, and other indebtedness for a development or redevelopment project, the municipality may irrevocably pledge the tax increment from the project for the payment of debt service on the bonds, notes, or other indebtedness issued to finance the project. In this subsection "tax increment" means the portion of the tax that is attributable to the difference between the value of the property shown on the taxing agency's assessment roll for the year when the taxes are levied and the value of the property shown on the taxing agency's last assessment roll that was equalized before the project was authorized.

(d) This section applies to home rule and general law municipalities.

(2) HB 434

5-1025L
Bannister
1/4/88
~~Chenoweth~~

IN THE HOUSE BY MENARD

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to municipal redevelopment."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.35 is amended by adding a new section to read:

Sec. 29.35.035. REDEVELOPMENT PROJECTS. (a) A municipality may undertake redevelopment projects in the municipality and issue bonds for redevelopment purposes in blighted areas.

(b) A municipality may by ordinance create a public corporation to exercise all or some of the redevelopment powers authorized under (a) of this section. The corporation so established

(1) is an instrumentality of the municipality, but has a legal existence independent of and separate from the municipality; and

(2) has continuing succession by its corporate name until terminated by ordinance.

(c) A municipality may provide by ordinance that the tax increment from the taxes levied each year by or on behalf of the municipality on the property in a redevelopment project shall be used to repay the principal and interest on bonds, notes, and other indebtedness that is incurred for the redevelopment project. To enable and assist a public corporation to repay bonds, notes, and other indebtedness for a redevelopment project, the municipality may irrevocably pledge the tax increment from a redevelopment project for the payment of debt service on the bonds, notes, or other indebtedness issued to finance the project. In this subsection "tax increment" means the portion of the tax that is attributable to the difference between the value of the property shown on the taxing agency's assessment roll for the year when the taxes are levied and the value of the property shown on the taxing agency's last assessment roll that was equalized before the redevelopment project was authorized.

For "blighted" see next page

"(A) a program of general application to which the Higher Education Act of 1965 applies if—

"(i) limitations are imposed under the program on—

"(I) the maximum amount of loans outstanding to any student, and

"(II) the maximum rate of interest payable on any loan,

"(ii) the loans are directly or indirectly guaranteed by the Federal Government,

"(iii) the financing of loans under the program is not limited by Federal law to the proceeds of tax-exempt bonds, and

"(iv) special allowance payments under section 438 of the Higher Education Act of 1965—

"(I) are authorized to be paid with respect to loans made under the program, or

"(II) would be authorized to be made with respect to loans under the program if such loans were not financed with the proceeds of tax-exempt bonds, or

"(B) a program of general application approved by the State to which part B of title IV of the Higher Education Act of 1965 (relating to guaranteed student loans) does not apply if no loan under such program exceeds the difference between the total cost of attendance and other forms of student assistance (not including loans pursuant to section 428B(a)(1) of such Act (relating to parent loans) or subpart I of part C of title VII of the Public Health Service Act (relating to student assistance)) for which the student borrower may be eligible. A bond issued as part of an issue shall be treated as a qualified student loan bond only if no bond which is part of such issue meets the private business tests of paragraphs (1) and (2) of section 141(b).

"(2) APPLICABLE PERCENTAGE.—For purposes of paragraph (1), the term 'applicable percentage' means—

"(A) 90 percent in the case of the program described in paragraph (1)(A), and

"(B) 95 percent in the case of the program described in paragraph (1)(B).

"(3) STUDENT BORROWERS MUST BE RESIDENTS OF ISSUING STATE, ETC.—A student loan shall be treated as being made or financed under a program described in paragraph (1) with respect to an issue only if the student is—

"(A) a resident of the State from which the volume cap under section 146 for such loan was derived, or

"(B) enrolled at an educational institution located in such State.

"(4) DISCRIMINATION ON BASIS OF SCHOOL LOCATION NOT PERMITTED.—A program shall not be treated as described in paragraph (1)(A) if such program discriminates on the basis of the location (in the United States) of the educational institution in which the student is enrolled.

"(c) QUALIFIED REDEVELOPMENT BOND.—For purposes of this part—

"(1) IN GENERAL.—The term 'qualified redevelopment bond' means any bond issued as part of an issue 95 percent or more of the net proceeds of which are to be used for 1 or more redevelopment purposes in any designated blighted area.

Exhibit C

"(2) ADDITIONAL REQUIREMENTS.—A bond shall not be treated as a qualified redevelopment bond unless—

"(A) the issue described in paragraph (1) is issued pursuant to—

"(i) a State law which authorizes the issuance of such bonds for redevelopment purposes in blighted areas, and

"(ii) a redevelopment plan which is adopted before such issuance by the governing body described in paragraph (4)(A) with respect to the designated blighted area,

"(B)(i) the payment of the principal and interest on such issue is primarily secured by taxes of general applicability imposed by a general purpose governmental unit, or

"(ii) any increase in real property tax revenues (attributable to increases in assessed value) by reason of the carrying out of such purposes in such area is reserved exclusively for debt service on such issue (and similar issues) to the extent such increase does not exceed such debt service,

"(C) each interest in real property located in such area—

"(i) which is acquired by a governmental unit with the proceeds of the issue, and

"(ii) which is transferred to a person other than a governmental unit,

is transferred for fair market value,

"(D) the financed area with respect to such issue meets the no additional charge requirements of paragraph (5), and

"(E) the use of the proceeds of the issue meets the requirements of paragraph (6).

"(3) REDEVELOPMENT PURPOSES.—For purposes of paragraph (1)—

"(A) IN GENERAL.—The term 'redevelopment purposes' means, with respect to any designated blighted area—

"(i) the acquisition (by a governmental unit having the power to exercise eminent domain) of real property located in such area,

"(ii) the clearing and preparation for redevelopment of land in such area which was acquired by such governmental unit,

"(iii) the rehabilitation of real property located in such area which was acquired by such governmental unit, and

"(iv) the relocation of occupants of such real property.

"(B) NEW CONSTRUCTION NOT PERMITTED.—The term 'redevelopment purposes' does not include the construction (other than the rehabilitation) of any property or the enlargement of an existing building.

"(4) DESIGNATED BLIGHTED AREA.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'designated blighted area' means any blighted area designated by the governing body of a local general purpose governmental unit in the jurisdiction of which such area is located.

"(B) BLIGHTED AREA.—The term 'blighted area' means any area which the governing body described in subparagraph (A) determines to be a blighted area on the basis of the substantial presence of factors such as excessive vacant land on which structures were previously located, abandoned or vacant buildings, substandard structures, vacancies, and delinquencies in payment of real property taxes.

"(C) DESIGNATED AREAS MAY NOT EXCEED 20 PERCENT OF TOTAL ASSESSED VALUE OF REAL PROPERTY IN GOVERNMENT'S JURISDICTION.—

"(i) IN GENERAL.—An area may be designated by a governmental unit as a blighted area only if the designation percentage with respect to such area, when added to the designation percentages of all other designated blighted areas within the jurisdiction of such governmental unit, does not exceed 20 percent.

"(ii) DESIGNATION PERCENTAGE.—For purposes of this subparagraph, the term 'designation percentage' means, with respect to any area, the percentage (determined at the time such area is designated) which the assessed value of real property located in such area is of the total assessed value of all real property located within the jurisdiction of the governmental unit which designated such area.

"(iii) EXCEPTION WHERE BONDS NOT OUTSTANDING.—The designation percentage of a previously designated blighted area shall not be taken into account under clause (i) if no qualified redevelopment bond (or similar bond) is or will be outstanding with respect to such area.

"(D) MINIMUM DESIGNATED AREA.—

"(i) IN GENERAL.—Except as provided in clause (ii), an area shall not be treated as a designated blighted area for purposes of this subsection unless such area is contiguous and compact and its area equals or exceeds 100 acres.

"(ii) 10-ACRE MINIMUM IN CERTAIN CASES.—Clause (i) shall be applied by substituting '10 acres' for '100 acres' if not more than 25 percent of the financed area is to be provided (pursuant to the issue and all other such issues) to 1 person. For purposes of the preceding sentence, all related persons (as defined in subsection (a)(3)) shall be treated as 1 person. For purposes of this clause, an area provided to a developer on a short-term interim basis shall not be treated as provided to such developer.

"(5) NO ADDITIONAL CHARGE REQUIREMENTS.—The financed area with respect to any issue meets the requirements of this paragraph if, while any bond which is part of such issue is outstanding—

"(A) no owner or user of property located in the financed area is subject to a charge or fee which similarly situated owners or users of comparable property located outside such area are not subject, and

"(B) the assessment method or rate of real property taxes with respect to property located in the financed area does not differ from the assessment method or rate of real property taxes with respect to comparable property located outside such area.

For purposes of the preceding sentence, the term 'comparable property' means property which is of the same type as the property to which it is being compared and which is located within the jurisdiction of the designating governmental unit.

"(6) USE OF PROCEEDS REQUIREMENTS.—The use of the proceeds of an issue meets the requirements of this paragraph if—

"(A) not more than 25 percent of the net proceeds of such issue are to be used to provide (including the provision of land for) facilities described in subsection (a)(8) or section 147(e), and

"(B) no portion of the proceeds of such issue is to be used to provide (including the provision of land for) any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises.

"(7) FINANCED AREA.—For purposes of this subsection, the term 'financed area' means, with respect to any issue, the portion of the designated blighted area with respect to which the proceeds of such issue are to be used.

"(8) RESTRICTION ON ACQUISITION OF LAND NOT TO APPLY.—Section 147(c) (other than paragraphs (1)(B) and (2) thereof) shall not apply to any qualified redevelopment bond.

"SEC. 145. QUALIFIED 501(c)(3) BOND.

"(a) IN GENERAL.—For purposes of this part, except as otherwise provided in this section, the term 'qualified 501(c)(3) bond' means any private activity bond issued as part of an issue if—

"(1) all property which is to be provided by the net proceeds of the issue is to be owned by a 501(c)(3) organization or a governmental unit, and

"(2) such bond would not be a private activity bond if—

"(A) 501(c)(3) organizations were treated as governmental units with respect to their activities which do not constitute unrelated trades or businesses, determined by applying section 513(a), and

"(B) paragraphs (1) and (2) of section 141(b) were applied by substituting '5 percent' for '10 percent' each place it appears and by substituting 'net proceeds' for 'proceeds' each place it appears.

"(b) $150,000,000 LIMITATION ON BONDS OTHER THAN HOSPITAL BONDS.—

"(1) IN GENERAL.—A bond (other than a qualified hospital bond) shall not be treated as a qualified 501(c)(3) bond if the aggregate authorized face amount of the issue (of which such bond is a part) allocated to any 501(c)(3) organization which is a test-period beneficiary (when increased by the outstanding tax-exempt nonhospital bonds of such organization) exceeds $150,000,000.

"(2) OUTSTANDING TAX-EXEMPT NONHOSPITAL BONDS.—

"(A) IN GENERAL.—For purposes of applying paragraph (1) with respect to any issue, the outstanding tax-exempt nonhospital bonds of any organization which is a test-period beneficiary with respect to such issue is the aggregate amount of tax-exempt bonds referred to in subparagraph (B)—

CITY OF PALMER, ALASKA

RESOLUTION NO. 761

A RESOLUTION IN SUPPORT OF THE CREATION OF DEVELOPMENT AUTHORITIES IN LOCAL MUNICIPALITIES.

WHEREAS, the Alaska Municipal League's Policy Statement for Economic Development urges the adoption of legislation which will afford local municipalities broader economic development incentives, and

WHEREAS, legislation has been introduced which will create Development Authorities as well as afford new financing approaches to economic development, namely tax increment financing, and

WHEREAS, the creation of Development Authorities will allow local municipalities to fund needed capital improvements through tax increment financing, and

WHEREAS, tax increment financing capital improvements costs are borne only by the impacted area, and

WHEREAS, Development Authorities would have the power to perform the economic development activities within the local municipalities, and

WHEREAS, the need for creative financing and economic development is needed in the time of austere budgets.

NOW, THEREFORE, BE IT RESOLVED the City of Palmer supports legislation which will create economic Development Authorities provided the ability to utilize tax increment financing is afforded.

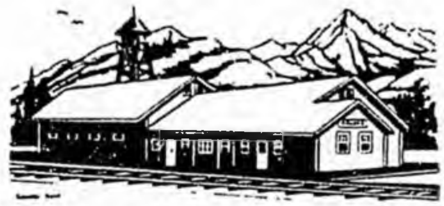
Passed and approved by the Palmer City Council, this 22nd day of September, 1987.

G. W. Carte

GEORGE W. CARTE', MAYOR

DAVID L. SOULAK, CITY CLERK

CITY OF PALMER



231 W. EVERGREEN AVE.
PALMER, ALASKA 99645

Phone (907) 745-3271

A HOME RULE CITY

March 19, 1987

The Honorable Curtis Menard
Representative
State of Alaska
P.O. Box V
Juneau, Alaska 99811

RE: Tax Increment Financing - Downtown Development Authority

Dear Representative Menard,

Over the past couple of years, the City of Palmer as well as other communities in the State of Alaska has been interested in the adoption of legislation which would allow the use of Tax Increment Financing.

I have enclosed a copy of Economic Development in Michigan's Downtown: DDA's-TIF's for your perusal. After you have had a chance to read this information, I would very much like to discuss the drafting of legislation similar to what Michigan has done which would allow the formation of these two important economic development tools.

With the current economic state of the State as a whole, I am sure you will agree that the local municipalities should have more economic development tools available to them such as the Downtown Development Authorities and Tax Increment Financing Authorities.

Another publication from the Michigan Municipal Management Association is the Community Guide to Economic and Industrial Development which shows what can be done to help stimulate an economy which was devastated by the recent Recession in the 1970's.

Should you have any questions, please contact me.

Yours truly,

David L. Soulak
City Manager
City of Palmer

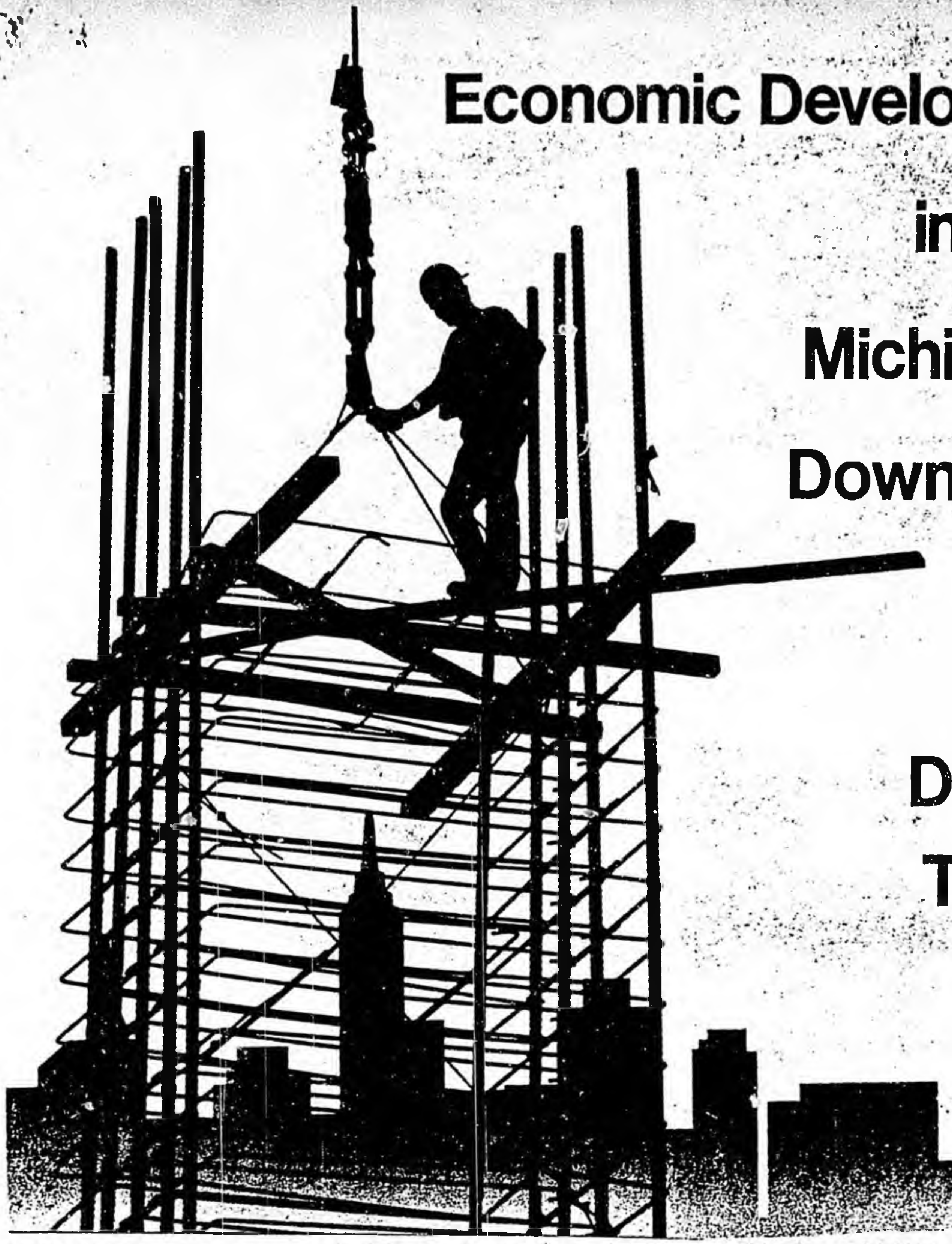
DLS/cac

Encl.

cc: Mayor Carte'
Scott Burgess, AML

Economic Development in Michigan's Downtown:

DDA's TIF's



Number 13 in a continuing series produced for:

MICHIGAN CITY MANAGEMENT ASSOCIATION

ECONOMIC DEVELOPMENT IN MICHIGAN'S DOWNTOWNS: DDA'S AND TIF'S

By

Jean P. Telkowski

For

The Michigan City Management Association

In Cooperation With

The Institute of Public Policy Studies
University of Michigan

and

The Michigan Municipal League

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FOREWORD

The following report is a product of a graduate research assistantship established by the Michigan City Management Association and the Institute of Public Policy Studies, University of Michigan. The Board of Directors of the Michigan City Management Association selected this research project as being beneficial to members of the Association and to the academic and professional development of the graduate student involved. The Michigan Municipal League cooperated with the Michigan City Management Association and the Institute of Public Policy Studies in the formation of this project.

Ms. Jean P. Telkowski, a graduate student at the Institute of Public Policy Studies, undertook the study during the 1982-83 academic year. Since then, Ms. Telkowski completed the requirements for a Master's Degree in Public Policy Studies and accepted a position with the Burroughs Corporation.

The data for this report was obtained from questionnaires received from 63 Downtown Development Authorities and 20 Tax Increment Financing Authorities. In addition, Ms. Telkowski interviewed numerous municipal officials to gain more detailed information for this study.

Grateful acknowledgement is extended to all Michigan officials who gave freely of their time and effort to participate in the preparation of this study. In addition, Ms. Telkowski was provided with graduate study direction by Dr. Edward M. Gramlich, Director of the Institute of Public Policy Studies, University of Michigan. Ms. Telkowski was supervised in her efforts by Mr. John A. O'Keefe, Assistant Director, Michigan Municipal League.

MICHIGAN CITY MANAGEMENT ASSOCIATION

George D. Goodman
Secretary-Treasurer

INTRODUCTION

Recently the federal government has cut funds for programs which help subsidize the costs of public improvement projects undertaken by local governments. The State of Michigan, faced with its budget crisis, could not supply the funds formerly provided by the federal government. During the 1980s and beyond, municipalities* will have to marshall their resources and those of the private sector to finance community development programs. Localization and privitization are the twin themes of economic recovery for Michigan municipalities.

Fortunately, the Michigan state legislature has provided municipalities with a new way to finance economic development. On August 13, 1975, Governor Milliken signed Public Act No. 197 which allows municipalities to create Downtown Development Authorities (DDAs or Authorities). The governing body of a municipality** authorizes the creation of a DDA which is a group of municipal officials, business persons and residents who develop and implement plans to correct and prevent property value deterioration in business districts. The DDAs can use a relatively new mechanism known as tax increment financing to fund the public share of community development projects.

Since the DDAs can operate only in business districts, Governor Milliken approved Public Act No. 450 on January 15, 1981 which authorized the creation of Tax Increment Finance Authorities (TIFAs or Authorities). The TIFAs have basically the same powers as DDAs, but TIFAs can operate in any area of a city*** which suffers from declining property values.

As of March 1983, there were 84 DDAs and 27 TIFAs in Michigan. A survey conducted by the Michigan Chapter of the International City Management Association between March and May, 1983 (hereinafter known as the "Michigan ICMA Survey") gathered information on the process of creating, financing and implementing the development programs of DDAs and TIFAs. This report presents the findings of the Michigan ICMA Survey.

* Municipalities refers to cities, villages and townships

** Governing body of a municipality refers to the elected body of a municipality having legislative powers.

*** Villages and townships are not authorized to create TIFAs.

The purpose of this report is to provide a broad overview of the process of establishing and operating a DDA or a TIFA. The report will be of value to municipal officials and citizens who want to know more about a DDA or a TIFA before they establish an Authority in their community as well as to established DDAs and TIFAs who want to know more about the activities of other Authorities so as to improve their operations. This report is "the tip of the iceberg"; municipal officials and others who want to learn more about specific aspects of the operation of an Authority are encouraged to contact established Authorities for details. Appendix C to this report list all DDAs and TIFAs in Michigan as of November 15, 1983. Appendix D lists the financial and development activities undertaken by the Authorities responding to the Michigan ICMA survey to make it easier for municipalities and Authorities to contact each other to learn more about specific financial and operational matters.

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SURVEY RESPONSE

The Michigan ICMA survey was sent to 84 DDAs and 27 TIFAs in March 1983. By mid-May, 63 (75%) of the DDAs and 20 (74%) of the TIFAs had responded to the survey. Table 1 presents a profile of the survey group by population of municipality which authorized the DDA or TIFA.

Table 1 shows that 79% of the DDAs are located in communities of population less than 25,000. This does not mean that DDAs are better suited to smaller communities or that smaller communities are less able to receive state or federal economic development funds. The concentration of DDAs in small communities is more likely due to the fact that over 90% of Michigan municipalities have populations less than 25,000. Therefore, it is surprising that TIFAs are equally represented in population groups larger and smaller than 25,000. This may be because TIFAs have primarily been established to develop industrial sites and parks which tend to be located in larger communities.

TABLE 1: REPORTING SUMMARY

DDAs

Population of Municipalities	No. of DDAs Surveyed	% of Total Surveyed	No. of DDAs Responding	% of Population Group Responding	% of Total Respondents
Less than 4,000	24	29%	17	71%	27%
4,000 to 9,999	24	29%	19	79%	30%
10,000 to 24,999	18	21%	15	83%	24%
25,000 to 49,999	6	7%	3	50%	5%
50,000 to 99,999	7	8%	5	71%	8%
100,000 to 249,999	4	5%	4	100%	6%
Over 250,000	1	1%	0	0	0
TOTAL	84	100%	63	75%	100%

TIFAs

Population of Municipalities	No. of TIFAs Surveyed	% of Total Surveyed	No. of TIFAs Responding	% of Population Group Responding	% of Total Respondents
Less than 4,000	5	19%	4	80%	20%
4,000 to 9,999	5	19%	4	80%	20%
10,000 to 24,999	5	19%	3	60%	15%
25,000 to 49,999	4	15%	3	75%	15%
50,000 to 99,999	5	19%	4	80%	20%
100,000 to 249,999	2	7%	2	100%	10%
Over 250,000	1	4%	0	0	0
TOTAL	27	102%*	20	74%	100%

*Rounding error

CREATING THE AUTHORITY

Activities Undertaken Prior to Creation of the Authority

A municipality should thoroughly examine its prospects for redevelopment before it creates an Authority. This involves, first, a precise definition of the boundaries of decline in the community and the reasons for the decline. Second, municipal officials, residents, business persons and other potential beneficiaries of community improvement projects should discuss the community's needs, goals of future development and possible development strategies. Third, at this point, it may be appropriate to create a formal organization to coordinate the development effort. There are a variety of economic development organizations including DDAs and TIFAs as well as Economic Development Corporations and Industrial Development Corporations. A municipality should examine carefully the powers and limitations of each type of organization and, depending on the municipality's redevelopment needs, choose the organization which best fits its development strategy. Discussions with established organizations may be very helpful in making this decision.

Table 2 shows the results of the Michigan ICMA survey with regard to the types of activities undertaken by municipalities prior to the creation of an Authority.

TABLE 2

Activities Undertaken Prior to Creation of the Authority

	Municipalities	
Activity	No.	%*
Interviews with business persons, residents and potential investors to determine prevailing attitudes with respect to future development of municipality.	41	62%
Analysis of municipality's redevelopment needs	40	61%
Contacts with established Authorities	38	58%
Market study to determine current market conditions and potential for market growth of municipality	23	35%

*Total Respondents = 66. Percentages do not add to 100 because municipalities often undertook more than one activity. Specifically, 33% of municipalities undertook 2 of the above activites while 38% of municipalities undertook 3 or more activities.

Persons Involved in Creating the Authority

If a community decides that it should create a DDA or a TIFA, municipal officials should solicit the support and assistance of as many groups as possible to facilitate the smooth operation of the Authority. Table 3 presents a list of which groups or persons were most likely to get involved in creating an Authority according to the respondents to the Michigan ICMA survey.

TABLE 3

Persons/Groups Involved in Creating the Authority

Person/Group	Municipalities No.*
Municipal Manager/Administrator	61
Mayor	56
Council	55
Business Persons	38
Municipal Attorney	35
Downtown Merchants Association	33
Chamber of Commerce	29
Municipal Community/Economic Development Dept.	18
Municipal Tax Assessor	17
Municipal Planning Dept.	17
Local Banks	16
Private Planning Consultants	12
Economic Development Corporation	10
Municipal Finance Director	6
Residents	6
Private Developers	6
Private Legal Consultants	6
Municipal Treasurer	5
School Officials	1

*Total Respondents = 68. Percentages are not used since not all municipalities have each type of person or group.

Table 3 shows that primarily the municipal administrator, elected municipal officials, the municipal attorney and business persons are involved in creating DDAs and TIFAs. The next most important groups included local agencies such as the community or economic development department, planning department and the tax assessor's office as well as local banks. These results are not surprising since they include the people who are usually most active in community development projects. What is surprising is that more communities did not involve residents and school officials in the planning process since their support may be needed later on bond issues, tax increases or the implementation of tax increment financing plans.

The use of private legal and planning consultants and private developers is also noteworthy; if a community needs their skills, they should be consulted as early as possible in the planning process to take full advantage of their expertise. Some comfort (or lack of it!) can be found in that, due to the vicissitudes of electoral politics, the private consultants and developers may be one group who can be counted on to stay with a development program from start to finish.

One final comment, although many communities have established Economic Development Corporations, few communities chose to include them in creating DDAs or TIFAs. Since the activities of these organizations will most likely overlap, it may be wise to coordinate (consolidate, if possible) the activites of these groups.

Legal Steps to Create the Authority

Once a municipality recognizes that it should create a DDA or a TIFA, there are formal procedures the municipality must follow to legally establish an Authority. The procedures are set forth in Public Act No. 197 of 1975 (as amended) for DDAs and Public Act No. 450 of 1980 (as amended) for TIFAs. Both Acts are reprinted in Appendix B to this report. The procedures are different for both Authorities. The procedures for a DDA are briefly summarized as follows:

1. When the governing body of a municipality determines that it is necessary to halt property value deterioration in its business district and to promote economic growth, the governing body of a municipality must adopt a resolution declaring its intent to create a DDA. (A municipality may create more than one DDA.)

2. The governing body must conduct a public hearing on creation of the Authority and designation of the boundaries of the downtown district (which is within the municipality's zoned business district) in which the Authority will operate. Notice of the hearing must be given by publication twice in a newspaper of general circulation in the municipality at least 20 days, and not more than 40 days, before the date of the hearing, by mail to the property taxpayers of record in the district no less than 20 days before the hearing and notice must also by published in at least 20 conspicuous places in the proposed downtown district

not less than 20 days before the hearing.

3. Following the hearing, the governing body must adopt an ordinance establishing the Authority and designating the boundaries of the downtown district. The ordinance must be published once in a newspaper of general circulation in the municipality. In addition, the boundaries of the downtown district may be altered by amendment to the ordinance following the same procedures used to establish the original boundaries.

4. The Authority shall be under the supervision and control of a board of directors consisting of the chief executive officer of a municipality (i.e., a mayor or city manager of a city, a president of a village, or a supervisor of a township) and not less than 8, or more than 12 members chosen by the governing body of the municipality. A majority of the board members must have an interest in property (interpreted as a property owner, renter or lessee) located in the downtown district and if more than 100 persons reside within the district, at least one of the board members must be a resident of the district. Members of the Authority board serve for staggered four year terms. The business of the board is conducted at public meetings held in compliance with Public Act No. 267 of 1976. Finally, the board may employ and pay a director, treasurer, secretary, legal counsel or other person it deems necessary to aid in carrying out its duties.

5. The powers of the Authority are broad including economic analysis, study, planning, plan implementation, acquisition of property, improvement of land or buildings, construction of public facilities, leasing of buildings or property under its control, and collection of fees or rents. The Authority is not endowed with the power of eminent domain, but the incorporating municipality may condemn property for the use of the Authority in connection with an approved development plan and transfer it to the Authority. Such action is subject to state law with regard to relocation assistance in the case of condemnation of residential property. All in all, the broad powers of the Authority should be viewed in light of the more restrictive financial powers of the Authority which are described below.

6. The final legal requirements that apply to DDAs are discussed in more detail below. They include a public hearing to discuss the DDAs proposed development, and if applicable, tax increment financing plans; an ordinance approving either or both plans; and upon completion of development, an ordinance dissolving the Authority.

The procedures to create a TIFA are as follows:

1. When the governing body of a municipality (i.e., a city) determines that it is necessary to halt property value decline anywhere in the municipality and to provide for economic growth, the governing body of the municipality must adopt a resolution declaring its intent to create a TIFA. (A municipality may create only one TIFA.)

2. Same as Step #2 for a DDA (changing "downtown district" to "Authority district"), except a municipality is not required to post notice of the public hearing.

3. Same as Step #3 for a DDA.

4. The governing body of a municipality may appoint the board of directors of the Economic Development Corporation, DDA, Urban Redevelopment Corporation or members of the commission established under the Blighted Area Rehabilitation Act (Public Act No. 344 of 1945) to serve as members of the board of the TIFA. Or the chief executive officer of the municipality may appoint 7, but no more than 13, persons to serve as board members subject to the approval of the governing body of the municipality. The board members serve staggered 4 year terms and conduct business at public meetings. The board may employ and pay a director, treasurer, secretary, legal counsel or other persons considered necessary to carry out its duties.

5. The powers of a TIFA are the same as those of a DDA.

6. Same as Step #6 for a DDA.

FINANCING DEVELOPMENT

Despite the broad powers delegated to the Authority, the incorporating municipality of a DDA or a TIFA has considerable control over the financial operations of the Authority. The Authority's budget must be approved by the governing body of the municipality and no municipal funds may be used by the Authority unless specifically appropriated for that purpose by the governing body of the municipality. Further, any levy and collection of taxes to fund the operations or development activities of the Authority are carried out by the municipality and the municipality can charge a fee (pro rata share of its overhead cost) to the Authority for this service.

The activities of either Authority can be financed from one or more of the following sources, unless noted to the contrary. The starred items are described below in greater detail.

1. Donations to the Authority for the performance of its functions.
*2. Proceeds of an ad valorem tax levied on property in the downtown district (applicable only to DDAs).
*3. Revenue bonds issued by the Authority.
4. Revenues from any property, building, or facility owned, leased, licensed, or operated by the Authority or under its control, subject to the limitations imposed upon the Authority by trusts or other agreements.
*5. Proceeds of a tax increment financing plan.
6. Proceeds from a special assessment district created as provided by law (applicable only to DDAs).
7. Money obtained from other sources approved by the governing body of the municipality.

<u>Ad Valorem Tax</u> (DDAs only)

The DDA with the approval of the municipal governing body and by vote of the electorate (in accordance with the Headlee Amendment) may levy an ad valorem tax not exceeding 2 mills (not more than 1 mill for municipalities with population greater than 1 million) on all taxable property in the downtown district. The municipality collects the tax at the same time and in addition to all other municipal taxes.

Until recently, the tax revenues could be used only to finance the operations of the DDA. The term "operations" was defined as "office : ·intenance, including salaries and expenses of employees, office supplies, consultation fees, design costs, and other expenses incurred in the daily management of the Authority and planning of its activities." This excluded use of the revenues for promotional or actual development activities; the revenues could be used only to plan improvements to the downtown district. On June 16, 1983, Governor Blanchard approved an amendment to the DDA legislation to allow the DDA to use the tax revenues for any purpose that is approved by the governing body of the municipality.

Another problem associated with the ad valorem tax revenue has not been corrected. In smaller downtown districts, the tax often does not provide enough revenue to cover even the operational costs of the DDA. The results of the Michigan ICMA survey show that, of the 23 DDAs who levied the tax, 15 claimed the tax did not finance their operational costs. Under these circumstances, it would seem appropriate to allow the residents of the downtown district to vote to increase the millage in order to finance adequately the activities of the DDA.

One other aspect of the tax: a DDA can request a municipality to borrow money by issuing notes pursuant to Public Act No. 202 of 1943 in anticipation of collection of the ad valorem tax. This would help a DDA to acquire start-up funds early in the development process rather than wait for the collection of tax revenues.

Revenue Bonds

DDAs and TIFAs are authorized to issue revenue bonds in accordance with the provisions of Public Act No. 94 of 1933 (the "Revenue Bond Act"). Revenue bonds can be used to fund the acquisition or construction by the Authority of any type of public improvement defined in the Revenue Bond Act. Examples of revenue-producing public improvements include housing, recreational facilities, parking lots or structures and convention halls. By definition, the structure must produce revenue that will cover the costs of operating and maintaining the structure, as well as the reserve fund established to retire the bonds. The bonds must be approved by the Michigan Municipal Finance Commission and be offered through public sale.

The governing body of a municipality may pledge its full faith and credit to support the Authority's revenue bonds. This does not mean the project does not have to be self-supporting; the municipality's pledge stands only as additional security to the investor that in case the revenues are not sufficient, the municipality will pay principal and interest on the bonds with money from the municipality's general fund or by levying a tax. One note of caution, the Michigan Constitution (Article 7, Section 24 and Article 9, Section 18) stipulates that a municipality can only pledge its full faith and credit to bonds the proceeds of which are for public use. If bond proceeds go to a private enterprise, the municipality has made an unconstitutional lending of credit; the revenue bonds may be redefined as industrial development bonds and interest on the bonds may not be tax-exempt.

An Authority can not issue bonds unless the governing body of the municipality has approved a development plan prepared by the Authority. The development plan outlines the intended improvements to the development area*, cost of improvements, proposed method of financing development, timing of development and plans for relocation of residents and/or businesses. The municipal governing body must hold a public hearing on the plan. Notice of the hearing must be published twice in a newspaper of general circulation and mailed to taxpayers in the development area not less than 20 days before the date set for the hearing. Following the public hearing, the governing body may adopt a resolution approving the development plan, and the Authority may begin to implement the plan.

— — — — — —

* The development area refers to that area within either the downtown district of a DDA or the authority district of a TIFA where actual public and private development takes place. An Authority exercises control over the downtown district or authority district for taxation purposes. A downtown district or authority district may have more than one development area.

If the proposed development area has 100 or more residents and a change in zoning or taking of property by eminent domain is necessary to accomplish the development program, then a Development Area Citizens' Council must be established. The Council consists of at least 9 adult residents of the development area appointed by the governing body of the municipality. The Council acts as an advisory body to the Authority and the municipal governing body in the adoption of the development plan and the tax increment financing p'an (if applicable). Only 7 of the 83 Authorities who responded to the Michigan ICMA survey established Development Area Citizens' Councils.

Tax Increment Financing

Perhaps the most novel and controversial financial tool available to DDAs and TIFAs is tax increment financing. Tax increment financing is a way for municipalities to pay for public improvements (streets, sidewalks, lighting, parking facilities, etc) in the development area by using the increase in tax revenues from private development that occurs in the development area.* For example, assume the initial assessed value, that is, the state equalized value of all taxable property in the development area prior to the start of public/private improvements, is $100,000,000. And the Authority estimates that in the first year after adoption of the tax increment financing plan the current assessed value (as finally equalized) will rise to $102,000,000; the increase resulting from new construction or an increase in the value of existing property through inflation or the presence of new construction nearby. The captured assessed value is the difference between the current assessed value and the initial assessed value or, in this example, $2,000,000 ($102,000,000-$100,000,000).

The Authority will collect part of the captured assessed value known as the tax increment revenue. The tax increment revenue is the product of the municipality's tax rate, say 60 mills, and the captured assessed value of $2,000,000, or $120,000 (.60 X $2,000,000). The Authority can spend $120,000 to make public improvements in the development area during the first year. The second year of the tax increment financing plan will result in a different captured assessed value and a different amount of tax increment revenue to be used for public improvements. An example of an estimate of tax increment revenues from a 5 year development plan may look something like this:

Year	Current Assessed Value	-	Initial Assessed Value	=	Captured Assessed Value	X	Tax Rate	=	Tax Increment Revenue
1	$102,000,000		$100,000,000		$2,000,000		.60		$120,000
2	103,000,000		100,000,000		3,000,000		.60		180,000
3	105,000,000		100,000,000		5,000,000		.60		300,000
4	107,000,000		100,000,000		7,000,000		.60		420,000
5	106,000,000		100,000,000		6,000,000		.60		360,000
	TOTAL FOR PUBLIC DEVELOPMENT								$1,380,000

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* Again, the increase in tax revenues can only be used for public improvements or the municipality will have made an unconstitutional lending of credit.

Of course, there is no guarantee that the current assessed value will increase over time, or even be greater than the initial assessed value. The risk involved with tax increment financing is that there may be no tax increment and development will have to be stopped or other funds found to continue development.

Throughout the life of the development plan, the initial assessed value of the development area is frozen. Any increase in assessed value and thereby increase in tax revenue goes only to the DDA or TIFA. The other tax entities with jurisdiction over the development area (e.g., school, county, water district, etc.) will continue to receive tax revenues based on the initial assessed value; they will not receive any of the additional revenues resulting from improvements in the development area until after the tax increment financing plan has been completed. The exceptions are if the other tax jurisdictions have signed agreements with the municipality to receive a portion of the tax increment revenues or if the tax jurisdictions increase their millage rates during the development period.

In a sense, the other tax jurisdictions and residents living outside of the development area are subsidizing development in the development area. While this may seem unfair, all tax jurisdictions will benefit greatly if the development is successful and they can collect tax revenues on the much higher assessed value after the development is completed. The other tax districts may also gain some immediate benefit if improvements in the development area encourage improvements in neighboring areas (outside the development area) which are taxed by the other tax jurisdictions. The possibility that the assessed value of the blighted area may deteriorate further without action by a DDA or a TIFA may also encourage the other tax jurisdictions to support a tax increment financing plan.

The concept of tax increment financing has been contested hotly by different tax jurisdictions in some of the municipalities in Michigan. One topic of debate has been the definition of initial assessed value. The controversy centers around whether the initial assessed value relates to the state equalized value of the taxable property in the development area that is shown on the municipality's assessment roll at the time the resolution establishing the tax increment financing plan is adopted; or, the assessed value of the taxable property in the development area made as of the tax day, December 31, immediately preceding the date of the approval of the tax increment financing plan, as adjusted, if necessary, by the final equalization process related back to that tax day. Since the final equalization process is usually not completed until the fourth Monday in May, under the first interpretation of initial assessed value, a tax increment financing plan approved on February 1, 1983 would establish the initial assessed value as the state equalized value relating to the tax day December 31, 1981, since that would be the most recent state equalized value on the assessment roll as of February 1, 1983. Under the second interpretation, the initial assessed value would be the state equalized value as of December 31, 1982 as finally determined by the equalization process in progress on February 1, 1983.

Since the Authority would like to get the lowest initial assessed value so as to be able to capture the largest tax increment, and since initial assessed value usually increases over time, the Authority would prefer the first interpretation of initial assessed value. The other tax jurisdictions would, of course, favor the second interpretation with the higher initial assessed value. The Authorities/municipalities used either definition when interpreting initial assessed value according to the original DDA/TIFA legislation. This confusion led Michigan's Attorney General to issue an opinion on February 16, 1983 which defines initial assessed value according to the second interpretation. Subsequently, on July 16, 1983, the TIFA legislation was amended to define initial assessed value according to the first interpretation. There has been no action in the state legislature to amend the DDA legislation so that the definition of initial assessed value is the same for DDAs and TIFAs.

Tax Increment Bonds

The above description of tax increment financing has been called the "pay-as-you-go" method. That is, an Authority uses only tax increment revenues for development, paying for development as the revenues become available. But when an Authority is planning extensive renewal activities such as buying property, demolition, clearance and contruction of new facilities, the "pay-as-you-go" method would not provide sufficient revenue. The DDA/TIFA legislation allows Authorities to issue tax increment bonds and municipalities to issue general obligation bonds to finance major redevelopment programs.

The amount of bonds which the Authority or the municipality may issue cannot exceed that amount which 80% of the estimated tax increment revenue will service as to annual principal and interest requirments. In the example cited above, the $120,000 tax increment revenue in the first year would provide $96,000 for annual debt retirement ($120,000 x 80%). Using the hypothetical bond terms of 8% for 30 years, $96,000 will finance a bond of approximately $1.1 million.

Under the DDA legislation, a municipality may by resolution of its governing body issue general obligation bonds. For purposes of determining bonding capacity, the estimated tax increment revenues are those determined by the governing body of the municipality in the resolution authorizing the bonds. Since the estimate of the tax increment revenues may prove inaccurate, the municipality must pledge its full faith and credit as additional security for the bonds. This means that, in the event the tax increments and any other funds pledged by the municpality are insufficient to meet debt service payments, the municipality will make up the difference from general funds or a limited or unlimited tax levy.

A DDA can issue tax increment bonds, but they are not backed by a full faith and credit pledge of the municipality. Thus, neither the DDA or the municipality is under legal obligation to make debt service payments if the tax increment revenues are insufficient. The disadvantage of this type of bond is that if the DDA is forced to default on the bond, the municipality will have to come up with the money to meet the debt service payments or face the possibility that its credit rating may be lowered. In addition, without the municipality's full faith and credit pledge, these bonds may carry substantially higher interest rates to attract investors, thus inflating project costs.

Under the TIFA legislation, only the TIFA can issue bonds backed by tax increment revenues. It can issue straight tax increment bonds which have no full faith and credit pledge from the municipality (same as for a DDA) or limited or unlimited tax increment bonds which are backed by a limited or unlimited tax levy of the municipality. The bonds backed by the municipality will be easier to market and have a lower interest rate than the straight tax increment bonds. The unlimited tax increment bonds must be approved by vote of the electorate, but they have the advantage that if the tax increment revenues are insufficient, taxes may be imposed in excess of charter or statutory limitations to cover the difference. A TIFA which issues limited tax increment bonds can count on the municipality to levy taxes in accordance with applicable statutory or charter limitations in case there are insufficient tax increment revenues. Thus, a municipality that backed tax increment bonds with a limited tax levy may be forced, in the event of insufficient tax increment revenues, to curtail public services if it must use some of its limited amount of tax revenues to support the TIFA.

No matter what bonds are chosen, a municipality can purchase insurance for the bonds through the Municipal Bond Insurance Association or the American Municipal Bond Assurance Corporation as additional security for investors. With insurance the bonds will carry a AAA rating from Standard & Poor's.

Tax Increment Financing Plan

The successful use of tax increment financing requires careful planning. By law, the Authorities must submit a tax increment financing plan for approval to the governing body of the municipality. The plan submitted by a DDA must include the development plan (described above), a detailed explanation of the tax increment procedure, the maximum amount of bonded indebtedness to be incurred, the duration of the program, and an assessment of the estimated impact of tax increment financing on the assessed value of all tax jurisdictions in which the development area is located. The specifications of the tax increment financing plan submitted by a TIFA were recently amended to include, in addition to the requirements for the DDA plan, a statement of the reasons that the plan will result in the development of captured assessed value which could not otherwise be expected, an estimate of the captured assessed value and tax increment revenue for each year of the plan, and the amount of operating and planning expenditures of the TIFA and municipality (including any advances or indebtedness made by others to be repaid from tax increment revenues). Both the DDA and TIFA tax increment financing plans are subject to public hearing and approval by the governing body of the municipality; the same procedure as for the development plan. In fact, the tax increment financing and development plans may be approved simultaneously.

Before the public hearing on the tax increment financing plan, the municipal governing body is required to discuss the fiscal and economic implications of the plan with the other tax jurisdictions in which the development is located. As a result of these discussions, the Authority may enter into agreements with the tax jurisdictions and the governing body of the municipality to share a portion of the captured assessed value of the district.*

Comment

From the above description of tax increment financing, it appears that a municipality and the Authority must have the manpower to conduct thorough studies of a development area's needs and potential uses. The Authority must be in constant dialogue with municipal officials, developers, landowners, residents, all tax jurisdictions and other potential users of the development area to guarantee an accurate and potentially successful development plan (especially as the tax implications of various development programs are estimated). If possible, the Authority should get firm commitments from private developers prior to the start of a project to ensure a steady stream of tax increment revenues.

Other words of advice come from comments from municipalities and Authorities submitted along with their responses to the Michigan ICMA survey:

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* The State School Aid Act of 1973 (Public Act No. 94) was recently amended so that, for the purpose of determining state aid, the valuation of a school district shall not include the captured assessed value included in a tax increment financing plan. But if a school district receives a portion of the captured assessed value, the state aid funds will be reduced by the amount of the added local money.

1. Adopt a flexible tax increment financing plan that will allow for changes in the development strategy as the flow of tax increment revenues becomes apparent.

2. Encourage utilization of all other available economic development tools to help guarantee sufficient revenues to fund development.

3. Select project areas where public improvements are likely to encourage additional private development and thus larger tax increment revenues (the "ripple effect").

4. Coordinate and stage land acquisition so that existing land use will remain for a maximum period of time before any redevelopment takes place. This minimizes depletion of existing tax revenues which can happen if a municipality buys land and is forced to "sit on" tax-exempt property while waiting for development to take place.

5. Minimize front-end costs. Where possible, reserve large expenditures until the latter part of the project when the Authority may be able to capture and leverage the maximum tax increment.

6. Since property tax abatements are not practical under tax increment financing, write down land costs as an inducement to business location.

7. Time development so that the tax base is frozen at the lowest possible level.

8. Review current strategy regularly and make necessary adjustments.

Tax increment financing can be used to provide significant capital to some types of development projects which are economically feasible (i.e., capable of attracting bond investors) and can eventually halt the deterioration of property values in a community. But the procedure has the potential for abuse. For example, Authorities can designate large sections of a municipality to capture tax increments which may not be attributable to the public investment financed by the tool. When too much of the local tax base is frozen, this may place unreasonable burdens on the delivery of city services. The Michigan ICMA survey revealed that all the DDAs that used tax increment financing limited the size of the downtown district to approximately 5% of the municipality's total area. TIFA districts were slightly larger, 6 of the 7 TIFA districts accounted for less than 10% of the municipality's area while 1 district was 19% of total area. The TIFA districts may be larger because they are not restricted to the downtown area.

Some abuses of tax increment financing have arisen in Michigan and other states. One common problem has been the indefinite extension of a tax increment financing plan so that the benefits of the program are never returned to the community as a whole. This may cause problems in maintaining current service levels or accommodating increased service needs in the development area. Another problem that has appeared concerns the social desirability of development. For example, an Authority in an effort to capture large tax increment revenues, may encourage development of commercial/industrial projects rather than more socially desirable projects such as housing or parklands which have lower tax values.

One problem in Michigan concerns the DDA in Pontiac Township. That DDA created a downtown development area of mostly rural land in order to bring 450 bank employees from Comerica's downtown Detroit computer operations center. This type of project clearly was not intended by the sponsors of the DDA legislation and House Bill No. 4547 is moving through the legislature now to halt this type of abuse.

Survey Results

With a wide variety of financial tools available to Michigan Authorities and municipalities, how have they chosen to finance development? Table 4 presents the results of the Michigan ICMA survey for the 49 DDAs and 12 TIFAs who collected funds at the time of the survey.

Table 4 reveals that Authorities used many different types of financing. This helps insure a steadier stream of revenue than if one type of financing had been used. Very few Authorities issued bonds. This may be due to the newness of the bonds, that is, the bond market has not been sufficiently tested for some of these bonds so that Authorities/municipalities were hesitant to issue them fearing inflated costs.

The Michigan ICMA survey also requested specific information about some of the financial tools. For example, 80% of the Authorities received donations from business persons, 40% from residents, 36% from foundations, 28% from downtown merchants associations, 12% from community service clubs, and 12% from the Chamber of Commerce.

As for the use of bonds, of the 10 Authorities/municipalities who chose to issue bonds, 5 purchased insurance. In addition, 6 of the bond issuers claimed to have sufficient tax increment revenues to service the annual principal and interest payments on the bonds, 3 were not sure yet, and the city of Buchanan had insufficient revenue to service its DDA's revenue bonds. None of the Authorities/municipalities have refunded or defaulted on any of their bond obligations.

TABLE 4

FINANCING DEVELOPMENT

Type of Financing	DDA's No.	DDA's %*	TIFA's No.	TIFA's %*
Ad valorem tax	23	47%	Not applicable	
Donations	22	45%	3	25%
Federal grants/loans	15	31%	4	33%
Tax increment revenues	14	29%	8	66%
Municipal funds/loans	9	18%	3	25%
Proceeds from a special assessment district	7	14%	1	8%
Private financing	4	8%	-	-
Bank loans	4	8%	1	8%
State grants/loans	3	6%	3	25%
Revenue from Authority's property	3	6%	-	-
Limited tax general obligation bonds	2	4%	1	8%
Limited tax increment bonds	1	2%	1	8%
Unlimited tax increment bonds	1	2%	-	-
Straight tax increment bonds	1	2%	-	-
Revenue bonds issued by Authority	1	2%	-	-
Tax anticipation notes	1	2%	-	-
Industrial revenue bonds issued by Authority	1	2%	-	-

* Percentages do not add to 100 as Authorities may have used more than one type of financing.

Finally, 7 of the 19 municipalities who collected tax increment revenues chose to share those revenues with other tax jurisdictions. This was done either by granting only the tax increments resulting from new construction in the development area to the Authorities, or granting only a certain percentage of the revenues to the Authority, or excluding the revenues of certain tax jurisdictions such as counties from the determination of captured assessed value.**

** Unfortunately, the majority of survey respondents answered the survey question requesting information on the growth of tax increment revenues with data for only 1 year of increase (often because the municipalities had only been collecting revenues for 1 year). Thus, no estimate can be made as to the trend of growth of tax increment revenues in Michigan and their potential as a revenue source.

DEVELOPMENT ACTIVITIES

After careful planning, the Authority should be ready to proceed with development. Of the 63 DDAs surveyed by the Michigan ICMA, 28 had started development activities while 35 had not at the time of the survey. Of the 35 DDAs that were not active, 27 had been created between 1980 and 1982 and of those 27, 21 were still drafting development plans at the time of the survey. Other reasons given for lack of development activity included the lack of a committed developer (10 DDAs), poor economic conditions which made development too expensive to finance (9), lack of sufficient funding (3) and opposition of businesses/residents to development (2). These latter reasons illustrate how important it is for Authorities to line up private developers, adequate funding and community support before proceeding with development.

As for the TIFAs, 11 of the 20 survey respondents had undertaken development activities at the time of the survey. Of the 9 inactive TIFAs, all had been recently established (1981-83) and 6 of them were still drafting development plans. Other reasons for inaction included no committed private developer (2 TIFAs), poor economic conditions (1) and awaiting tax increment revenues (2).

Public Development Projects

Table 5 shows the type of public improvements undertaken by the 28 DDAs and 11 TIFAs active at the time of the survey. The table shows the wide variety of public improvements undertaken by DDAs and TIFAs. One striking difference between the Authorities is that DDAs, as expected because of their downtown locations, tended to undertake development activities that upgrade an established area through beautification, construction or repair of streets, sidewalks, commercial/office space or parks whereas TIFAs concentrated on development of areas for industrial use. This illustrates that a municipality should be very clear about its development needs before establishing either Authority because the DDAs were intended to operate only in downtown areas whereas TIFAs can develop any land area in a municipality.

TABLE 5

PUBLIC IMPROVEMENTS

Activity	DDA's No.	DDA's %	TIFA's No.	TIFA's %
Beautification (lighting, landscaping, facade renovation)	20	71%*	2	18%*
Land assembly	15	54%	4	36%
Demolition	14	50%	2	18%
Site preparation	14	50%	5	45%
Construction of sidewalks, curbs or gutters	13	46%	1	9%
Construction of streets/bridges	13	46%	6	55%
Construction of parking facilities	13	46%	1	9%
Relocation of businesses/residents	11	39%	2	18%
Construction of plazas/pedestrian malls	7	25%	-	-
Construction of parks	6	21%	1	9%
Installation of utilities	4	14%	4	36%
Construction of housing	4	14%	1	9%
Construction of mass transit facilities	3	11%	-	-
Construction of recreational facilities	3	11%	-	-
Construction of waterfront facilities	3	11%	-	-
Construction of office(s)	3	11%	-	-
Land cost mark down	2	7%	1	9%
Construction of industrial park	2	7%	5	45%
Construction of manufacturing facilities	-	-	4	36%
Construction of store(s)	1	4%	-	-
Installation of water & sewer service	1	4%	5	45%
Construction of meeting facility	1	4%	-	-
Construction of fire station	1	4%	-	-
Construction of library	1	4%	-	-
Construction of health center	1	4%	-	-
Construction of theater	1	4%	-	-
Construction of senior citizens' center	1	4%	-	-
Construction of wilderness preserve	-	-	1	9%

* Percentages do not add to 100 because Authorities often performed more than one public improvement.

Private Development Projects

The Michigan ICMA survey also requested information on the activities undertaken by private developers who worked with an Authority. During the planning stages of development, 9 of the 26 active DDAs who worked with a private developer signed agreements with the developer to ensure the developer's commitment to the development program. Of the 11 active TIFAs, only 6 worked with private developers and of those 6, only 2 signed agreements with developers. And of the 32 Authorities who worked with private developers, the majority (19) saw the private development activites start within 6 months after the introduction of public improvements. Of the remaining Authorities, 6 saw private activity by the end of the first year, 4 within 2 years and 3 within 3 years.

Table 6 shows the type of activities undertaken by private developers. As expected, the private developers who worked with DDAs were responsible for the construction of stores, parking facilities, offices and beautification activities. Some private developers also got involved with public improvements normally associated with DDAs such as land assembly, site preparation, demolition and business/resident relocation. The most striking fact about the relationship between TIFAs and private developers is that only 6 of the 11 TIFAs chose to work with private developers. In fact, the TIFAs and private developers seemed to have performed essentially the same activites. This may be due to the fact that TIFAs are located primarily in larger municipalities and may be able to draw on the municipalities' industrial planning capabilities.

Relocation of Businesses/Residents

The Michigan ICMA survey also collected information with respect to the relocation of businesses/residents because of development activities. Eighteen of the 32 active Authorities relocated people, but except for Port Huron's DDA which relocated 25 businesses and its TIFA which relocated 5 businesses and 100 residents, the average number of businesses relocated was 2 and the average number of residents was 3. Sixteen of the 18 Authorities provided financial, non-financial or both types of assistance to relocated persons. As it turned out, the municipalities were equally likely to provide relocation assistance as the Authorities, although the municipalities were more likely to provide financial assistance while the Authorities were equally likely to provide financial, non-financial or both types of assistance. No distinction was made as to the types of assistance offered to businesses or residents by Authorities or municipalities.

TABLE 6

PRIVATE IMPROVEMENTS

Activity	Worked with DDA		Worked with TIFA	
	No.	%	No.	%
Construction of store(s)	18	69%*	-	-
Construction of parking facilities	10	38%	1	17%*
Beautification	9	35%	1	17%
Construction of office(s)	9	35%	1	17%
Land assembly	8	31%	1	17%
Site preparation	7	27%	3	50%
Relocation of businesses/residents	5	19%	1	17%
Demolition	5	19%	1	17%
Construction of sidewalks	4	15%	-	-
Construction of hotel	3	12%	-	-
Land cost mark down	2	8%	1	17%
Construction of industrial park	2	8%	1	17%
Construction of manufacturing facilities	-	-	2	33%
Construction of parks	2	8%	1	17%
Construction of streets/bridges	1	4%	-	-
Installation of utilities	1	4%	-	-
Installation of water & sewer service	1	4%	-	-
Construction of health care center	1	4%	-	-
Construction of restaurant/bank	1	4%	1	17%
Construction of theme park	1	4%	-	-
Construction of tourist information center	1	4%	-	-

* Percentages do not add to 100 because developers often performed more than one activity.

CONCLUSION

Although the first DDA was established in 1975 and the first TIFA in 1981, both types of Authorities have been slow to initiate development activities. While this may be good for municipalities, indicating careful planning and caution on the part of the Authorities, it has meant that the survey results of the Michigan ICMA study have been limited. Nevertheless, what has been revealed to date is that Michigan municipalities have successfully used DDAs and TIFAs to spur development activities to regenerate ailing downtown districts or other underutilized areas of a municipality. So far, only a small number of communities have been unable to start or complete development activities because of poor planning or lack of private sector involvement. It is hoped that as the national economic recovery takes hold in Michigan, more private developers will recognize the abundant resources in Michgian and take advantage of the incentives offered by DDAs and TIFAs to locate and expand in the state.

As for the use of tax increment financing in Michigan, the vast majority of municipalities have been able to use tax increment revenues successfully as one source of revenue to fund development activities. The important point is that municipalities should not rely solely on tax increment revenues to fund development since there is no guarantee on the amount of revenues or the speed with which they will accumulate. While the potential of tax increment financing as an economic development tool is enormous, the risk and abuses associated with its use demand careful planning and analysis prior to implementation. Municipalities are also advised to keep abreast of legislative changes relating to tax increment financing which will be considered by the state legislature as the use of tax increment financing increases. As other states with longer experience with tax increment financing such as California (1951), Oregon (1965), Utah (1965) and Minnesota (1969) worked out the "bugs" in their implementation of tax increment financing, so will Michigan.

In a sense, Michigan municipalities are being forced to rely on new financial tools to revitalize their communities as federal funds for local development disappear. Tax increment financing is one of these new tools, and it is hoped that this report will encourage municipalities to work together and share information in an effort to enhance the use of tax increment financing for the benefit of all municipalities.

Matanuska·Susitna Borough

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BOROUGH ATTORNEY'S OFFICE

October 13, 1987

Representative Curt Menard
Alaska House of Representatives
351 W. Swanson Avenue, Suite 1
Wasilla, Alaska 99687

Re: Draft bill relating to development of municipalities
(tax increment financing)

Dear Representative Menard:

Tuckerman Babcock provided me with a copy of the subject bill and asked for my comments. Thank you for giving me the opportunity.

As with the port authority bills, I believe this bill goes too far. The only thing we should put into the statutes is whatever language may be necessary to satisfy bond counsel that municipalities in Alaska have whatever authority is needed to issue tax increment bonds. Each municipality should retain the authority to set up and manage tax increment financing districts in any manner they find appropriate for their own municipality. Again, as with the port authority problem, I believe a one or two line bill would probably suffice. In fact, it may be that the substitute language which I have provided for the port authority bill could be modified slightly to accommodate this need. As I understand that the City of Palmer is the municipality asking for this kind of authority, perhaps their bond counsel, Wohlforth & Flint, could provide the language needed.

If you do proceed with the introduction of a bill in the form Tuckerman provided to me, you might want to have your drafter consider the following.

In section 29.57.010(a) municipalities are given the authority to establish a development authority which creates the same problems as with the port authority bill; that is, I believe municipalities already have the authority to create development authorities and the inclusion of the language of the bill in the statute would restrict municipalities to using this form of development authority only.

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Section 010(a). In this section, I believe that, as to boroughs, very careful thought needs to be given to what power is being exercised (probably economic development), whether the power is

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areawide or nonareawide or whether it may be exercised on a service area basis. If it is the latter, may be the borough establish an authority in each service area it establishes for that purpose, or may it establish only one such authority in the entire borough? If the borough does not have areawide economic development powers, may each city within the borough establish its own economic development district?

In section 010(g) the bill should probably also address merger and unification. Also, what happens if a development district is split by an annexation as, for example, if a city annexes territory where the borough has established an economic development district and takes only part of the district.

Section 030 and section 040(c) deal with appointments to the board in a manner which seems inconsistent with each other and with existing Title 29 procedures for other appointments. Section 030 provides that the board members are chosen by the governing body. Section 040(a) provides that they are appointed under A.S. 29.20.320. This section (320) provides that they are appointed by the mayor and confirmed by the governing body. Section 040(c) provides that vacancies are filled by appointment by the mayor. I suggest the language in section 030 and section 040(c) be made consistent with A.S. 29.20.320.

Section 080(c) provides that the governing body may pledge the full faith and credit of the municipality to support revenue bonds of the authority. Under our constitution, the governing body does not have this power unless authorized for capital improvements approved by the governing body and ratified by the voters.

In section 090(a) the "respective taxing bodies" could be spelled out a little more clearly.

Section 090(b) indicates that the tax increment revenue may not be used to circumvent existing property tax laws. What sort of circumvention is contemplated? Also, subsection (b) indicates that a local charter may provide a maximum rate of levy of property taxes. There is an argument that has been accepted by at least one superior court in Alaska that municipalities may not impose tax limitations upon themselves beyond those established by the statute. See Whitson v. Anchorage, 608 P.2d 759 (Alaska 1980).

Section 100(c) refers to "municipal funds." This term is not defined.

Section 210(b)(9) does not seem to make sense. Was it meant to state that the plan was to include an estimate of the impact of the financing by tax increment revenue on the revenue of the municipalities in which the development area is located. Why is the plural (municipalities) used? Is this in recognition of the fact that if a city within a borough forms an economic development district that the borough assessments will also be frozen? Does it refer to a situation where two municipalities, under their authority to jointly exercise a power, have jointly formed an economic development district? Or is such a joint exercise even contemplated by the proposed bill?

Section 210(c). As I understand section 210(c) and tax increment financing principles, the assessments within the development area would be "frozen" for purposes of computing the tax increment. The difference between the taxes levied on the actual value after the development of the area and the taxes on the "frozen" assessment would go to the authority. As the bill in the relevant sections refers to "municipalities" I can only presume that the areawide borough taxes levied by a borough inside a city for areawide purposes would be affected within the development area. For example, if a borough levies 5 mills for education and a city within the borough levies 1 mill for all its municipal operations, the tax increment would be based on a 6 mill levy. Was this intended? If it was not, the references to "municipalities" rather than "municipality" should be examined. In any event, it should be clarified whether only the tax of the municipality creating the authority is to be used or whether all taxes levied within the area are to be used for computing the tax increment captured. If it was intended that areawide taxes would be contributed to the city development area, how is the "frozen" assessment to be handled under the computations that must be made under the school foundation program.

Section 240(b) indicates that the tax increment bonds are subject to A.S. 29.47. That chapter, however, covers revenue anticipation notes, bond anticipation notes, general obligation bonds, revenue bonds, refunding bonds and "other municipal financing." I suggest this reference be refined to indicate which specific sections of A.S. 29.47 were intended.

Section 240(d) purports to allow the governing body to pledge the full faith and credit of the municipality to the debt service on the authority's bonds. This seems either incorrect or misleading as the full faith and credit of the municipality may not be pledged except for public improvements approved by the legislative body and ratified by the voters. As I understand it, some of the bond proceeds could be used for purposes that might not be considered "public improvements." Also, if this section is to be included, it could be expanded to make reference to the requirement for a voter referendum on the bonds if there is to be a pledge of full faith and credit.

Section 310. I strongly suggest this section either be deleted or be rewritten so that the portion of it that refers to taking of private property be made to track with the language in A.S. 29.35.030. Also, if a second class city forms an economic development district is it relieved of the special procedures set out in A.S. 29.35.030? If the condemnation language of the proposed section is to be retained, I strongly suggest that instead of the word "take" in line 27, the phrase "exercise the powers of eminent domain and declaration of taking to acquire" and that the statutory reference to the condemnation procedures begin with section 09.55.250 rather than section 240. Section 240 sets out specific purposes for which property may be taken and is unneeded in the proposed section as the purpose for which the property would be taken is set out in the proposed section 310. Reference to the other purposes may simply prove unnecessarily confusing or limiting.

I have only had time to give this a rather cursory review and hope that my comments will prove useful. Again, it is my strongest personal recommendation that the detailed approach taken in this bill be abandoned and the least amount of language necessary be added in Title 29 to ensure that bond counsel can comfortably give an opinion as to the statutory basis for issuing tax increment bonds and that municipalities will be able to structure their district to best meet their own local needs.

Sincerely,

Lee Sharp

Gerald L. Sharp
Borough Attorney

jr
cc: Eric E. Wohlforth, Esq.

Foran Act entitled: "An Act relating to the development of municipalities"

Be it enacted by the legislature of the State of Alaska:

*Section 1. AS 29.35.150 is amended by adding a new subsection reading:

(c) the governing body may grant to an entity the authority ~~to~~ issue bonds guaranteed by no more than 80% of the tax increment on real property within the boundaries of the entity. The initial tax assessment shall be that assessment in effect at the time the bonds are offerred for sale.

Pla
TIF

CITY OF HOMER

CITY HALL

491 EAST PIONEER AVENUE HOMER, AK., 99603-7624 (907)235-8121

June 2, 1987

RECEIVED
JUN 3 1987
CITY OF PALMER

David L. Soulak, City Manager
City of Palmer
231 West Evergreen Avenue
Palmer, AK 99645

Re: Tax Increment Financing

Dear Dave:

I have reviewed the draft copy of the proposed tax increment financing legislation and find it an excellent document with a possible exception on page 15, Sec. 29.57.300 HANDLING OF TAX INCREMENT REVENUE. I believe the role of the borough and/or municipal treasurer is not crystal clear and perhaps could be elaborated upon in some manner such as follows:

"(a) Upon or after adoption of a tax increment financing plan, the treasurer of any municipality in which the development area is situated shall, upon request of the authority, certify the initial assessed value of the tax increment financing development area as described in the Tax Increment Financing Plan and shall certify in each year thereafter the value of all taxable property in the development area at the time the ordinance establishing a Tax Increment Financing Plan was adopted."

"(b) The municipal treasurer shall certify the amount of the captured assessed value to the authority each year of the development area exceeding the initial assessed value."

"(c) The municipal treasurer shall transmit to the authority the tax increment revenues for each development area in the municipality for that year that is attributable to the captured assessed value of the property."

Mike Campbell

Thanks for the opportunity to comment on the proposed draft which looks excellent in all other regards.

Sincerely,

CITY OF HOMER

Phil Shealy

Philip C. Shealy
City Manager

Fiscal Not

PCS/rah

11,12,13 November: Municipal League

City of Soldotna

P.O. Box 409 ● 177 North Birch ● Soldotna, Alaska 99669 ● Phone: 262-9107

Soldotna

Tie TIF

RECEIVED
JUN 12 1987
CITY OF PALMER

June 10, 1987

Dave Soulak
City Manager
City of Palmer
231 West Evergreen Avenue
Palmer, Alaska 99645

Re: Legislative Proposal to Establish Authority for Tax Increment Financing

Dear Dave:

Thanks for the chance to review your draft copy of the proposed tax increment financing legislation. Here are my review comments:

1. **Title.** Please consider changing the title from "Municipal Redevelopment Authorities" to "Municipal Economic Development Districts". We need the flexibility to apply these tools to the initial development of property, in addition to the redevelopment of areas which may be in decline. As an example, the Kenai Peninsula Borough has plans to develop coal fields on the west side of Cook Inlet. Tax increment financing could be used to sell revenue bonds to finance construction of docks, harbors, airports, roads and other infrastructure which may be needed to facilitate initial development of the site.

The Kenai Peninsula Borough is also considering the organization of an "Economic Development District", as a nonprofit corporation, pursuant to guides promulgated by the U.S. Department of Commerce, Economic Development Administration (EDA). The economic development district would assume responsibility for preparing the overall economic development plan for the Borough. It would also be involved in the actual construction, management and operation of projects. A "Municipal Economic Development District" would be more consistent with these plans of the Kenai Peninsula Borough.

2. **Article 1.** Revise to: "Creation, General Operation, and Dissolution of Districts". Where reference is made to an "authority" elsewhere in this article, change to "districts".

3. **Section 29.57.010.** Revise as follows:

Section 29.57.010. CREATION AND ALTERATION OF DISTRICTS.

4. **Section 29.57.010(a).** The statute should provide more general purposes for establishing a district, enable more than one district to be established within a municipality and enable the district to be organized as a nonprofit corporation. In the Kenai Peninsula Borough, for example, the first class cities as well as the Borough may want to establish separate districts. Likewise, we need authority to establish more than one tax increment financing district within different geographic areas of one municipality. Revise as follows:

(a) A municipality may by ordinance establish Economic Development Districts for areas of the municipality upon a determination by the municipality that it would be in the public interest in order to facilitate resource development, halt a decline in property values, increase property or sales tax receipts or promote economic development. The District may be organized as a corporate public body or as a nonprofit corporation. One or more Economic Development Districts may be established within a municipality as may be determined by the municipality.

5. **Section 29.57.010(c).** The amount of the bond that officials of the district shall be required to have seems inappropriate in this section. Revise as follows:

(c) The ordinance must designate the boundaries of the district. The municipality may not include land in the district that was not described in the public hearing notice, but, when making the final determination of the boundaries of the district, the municipality may eliminate land from the district that was described in the notice.

6. **Section 29.57.010(d).** What interest could the lieutenant governor have in these affairs? Revise as follows:

(d) The ordinance shall be filed with the municipal clerk and published at least one time in a newspaper of general circulation in the municipality.

7. **Section 29.57.080(c).** A governing body may <u>not</u> pledge the full faith and credit of municipality to support revenue bonds, except upon the approval of a majority of the municipality's voters. This paragraph should be deleted or provision should be made to require the approval of a majority of the municipal voters on the bonding proposition.

8. Section 29.57.240(c). An 80% pledge of tax increment revenue seems too high to me, especially if the development is likely to generate requirements for service supported by general governmental revenues. For example, if the development is likely to stimulate requirements for additional school spending, all taxpayers within the municipality would end up paying more for the schools. Likewise, there is a chance that the estimates of increased assessed value will be too optimistic. Consider the following revision:

> (c) A District may not pledge for the annual debt service requirements on the bonds in a year more than 50 percent of the estimated tax increment revenue to be received from the development area for the year. The total aggregate amount of the bonds may not exceed an amount of annual principal and interest that 50 percent of the estimated tax increment revenue will receive.

9. Section 29.57.240(d) A governing body may not pledge the full faith and credit of municipality to support revenue bonds, except upon the approval of a majority of the municipality's voters. This paragraph should be deleted or provision should be made to require the approval of a majority of the voters on the bonding proposition.

10. Section 29.57.320. I think a statutory requirement for a development area citizen's council could grow into a real monster. It reminds by of the old HUD requirements for a citizens participation advisory council. These citizen's council generally end up with representatives who have so much self interest, the overall purposes of the program get substantially diluted. The councils also would consume a great deal of staff time and money. Citizen's have sufficient opportunities to influence decision making through the environmental permitting process and through their elected representatives. Suggest deletion of these requirements. Leave such organizational requirements for citizen participation up to the locally elected officials. optional

I hope these comments are useful to your consideration of this draft bill. Please express my thanks to Representative Menard for his interest in helping to sponsor this legislation.

Sincerely,

Rich

Richard Underkofler
Soldotna City Manager

cc: Bill Brighton, Kenai City Manager
Phil Shealy, Homer City Manager
Ron Garzini, Seward City Manager
Sam Best, Administrative Officer, Kenai Peninsula Borough

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OF COUNSEL
ROGER G. CONNOR
RICHARD W. GARNETT, III

TVC

September 10, 1987

Representative Curt Menard
351 W. Swanson Ave.
Wasilla, Alaska 99687

Re: Draft Legislation Regarding Tax Increment Financing

Dear Mr. Menard:

I have received a copy of the draft legislation regarding tax increment financing which you have provided to me for comment. I will review the materials furnished and examine any similar programs established by other states which may present helpful comparisons. It will take several weeks to gather this information and complete my review and I will forward to you my comments at that time.

Very truly yours,

Eric E. Wohlforth

EEW/bg

A66003

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OF COUNSEL
ROGER G. CONNOR
RICHARD W. GARNETT, III

RECEIVED JAN 27 1988

January 25, 1988

Representative Curt Menard
Pouch V
Juneau, Alaska 99811

Re: Legislation Relating to Municipal Redevelopment

Dear Representative Menard:

I was consulted by the Legislative Affairs Agency regarding the drafting of the legislation referred to above. In particular, I was asked for advice regarding the coordination of the terms of this legislation with tax-exempt financing requirements included in the Federal Tax Reform Act of 1986.

The 1986 federal tax legislation imposed many restrictions on tax-exempt redevelopment financing. Most of these restrictions can, and should, be addressed in local planning for a redevelopment project and in the implementing municipal ordinances. However, Section 144(c)(2), provides that a bond shall not be treated as a qualified (i.e., tax-exempt) redevelopment bond unless the bond, among other things, is issued pursuant to "a state law which authorizes the issuance of such bonds for redevelopment purposes in blighted areas." Obviously, state legislation is necessary to fulfill this requirement. In the bill that is the subject of this letter, this purpose is served by proposed Section 29.35.035(a).

Please contact me if I can provide further information or assistance regarding this legislation.

Yours truly,

Thomas F. Klinkner

Thomas F. Klinkner

TFK/mlo

A180628

(3) HB 434

Alaska State Legislature

House of Representatives

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-483

Committee on
Community & Regional Affairs

To: Representative Henry Springer, Chairman HCRA

From: David C. Harrison, P. A., HCRA DCH

Re: Bill Review
HB 434 "An Act relating to municipal development and redevelopment." [Menard, Larson and Zawacki]

****

Reference Lines 9-28.

COMMENTS: It is evident that municipalities can go the Revenue Bond or General Bond route to do the things associated with development and redevelopment of blighted areas or for other reasons, i.e., parking garage or docks to issue bonds to do things for public purposes.

The need for this particular piece of legislation relates to tax increment bonds as another way to find creative ways to finance bonds for public purposes.

Federal Tax Reform Act of 1986, Section 144(c)(2), provides that a bond shall not be treated as a qualified (i.e., tax-exempt) redevelopment bond unless the bond, among other things, is issued pursuant to "a state law which authorizes the issuance of such bonds for redevelopment purposes in blighted areas."

It seems that people who deal in issues of bonds are hesitant to provide bond services in the absence of state law authorizing tax increment bonds.

Please see attached Internal Revenue Code page 303, § 144 Qualified small issue bond; ...qualified redevelopment bond. Page 307
26§ 144 (c) Qualified redevelopment bond
means any bond issued as part of an issue 95 percent or more of the net proceeds of which are to be used for 1 or more redevelopment purposes in any designated blighted area.

(2) Additional requirements... on redevelopment bond given under this section. Please refer to page 307 (c) (2) 26§ 144.

Attachments

Alaska MUNICIPAL League

TELEPHONE
(907) 586-1325

105 MUNICIPAL WAY, SUITE 301
JUNEAU, ALASKA 99801

(4) HB 434

TO: Representative Henry Springer, Chair
Members of the House Community and Regional Affairs Committee

FROM: Scott A. Burgess, Executive Director

DATE: February 29, 1988

SUBJECT: HB 434 - Municipal development and redevelopment

The Alaska Municipal League supports HB 434 allowing tax-increment financing to encourage municipal development and strongly urges the Legislature to pass the legislation as a tool for economic development. The AML also proposes two minor suggestions for improving and clarifying the proposed legislation.

The 1988 AML Policy Statement on Page 28 under "Economic Development" states:

> The League urges that legislation be enacted to encourage municipalities to adopt and implement incentives for economic development, such as joint public/private sector economic development corporations and tax increment financing authorities.

HB 434 would allow municipalities to undertake development or redevelopment projects by setting up public corporations to sell bonds for improvements which would be paid for by the increment increase in property taxes on the improved property. While such a program may not be appropriate in all development situations or in all municipalities, it would provide another option or tool for municipalities where it is appropriate to encourage economic development.

Two suggestions for amendments to the bill, as introduced:

1. On Page 1 of the original bill, line 12, adding a new Section 2 and renumber as appropriate. The new Section 2 would read:

* Section 2. AS 29.35.210(b) is amended to read:

(6) provide for economic development in accordance with AS 29.35.035.

The new Section 2 would clarify that second class boroughs may by ordinance provide for economic development powers on an areawide basis specifically for the purposes of proposed Section 29.35.035. Currently, second class boroughs can only exercise economic development powers on a non-areawide basis. This causes potential problems if the development or redevelopment project using tax increment financing is within a city within a second class borough. Under existing statute, the second class borough can only exercise economic development powers outside the city. The project may have borough-wide benefits but what portion of the borough taxes could be used on the project? The amendment would clarify such optional uses of tax increment financing for the Ketchikan Gateway, Matanuska-Susitna, Kenai Peninsula and the Fairbanks North Star, Kodiak Island and Aleutians East Boroughs.

2. On Page 1, line 16, delete "in blighted areas". The word "blighted" is inappropriate, unnecessary and undefined. It conjures up visions of the old Model Cities and Urban Renewal programs of the past which is inappropriate for today in Alaska.

Again, the AML supports HB 434 with the suggested changes.

cc: Representative Curt Menard

(5) HB 434

ALASKA STATE LEGISLATURE

Curt Menard
351 W. Swanson Ave.
Wasilla, Alaska 99687
Or
P.O. Box V
Juneau, Alaska 99811
373-CURT
376-5315 Work
376-5855 Home
465-2679 Juneau

MEMORANDUM

TO: All Committee Members
House Community and Regional Affairs

FROM: Curt Menard
Representative CDM

DATE: March 2, 1988

RE: HB434, An Act relating to municipal development and redevelopment.

HB434 would give local government across Alaska the ability to use tax increment financing (TIF) to develop their communities.

Tax increment financing allows local governments to create public corporations that in turn could offer bonds to finance redevelopment. The bonds would be repaid by some portion of the incremental difference on taxes owed.

TIF has been endorsed by the city of Palmer, the Mat-Su Joint Chambers of Commerce, the City of Seward, the Alaska Municipal League, the City of Homer, the City of Kenai, and by Ron Garzini, the Municipal Manager of the City of Anchorage.

If for no other reason, HB434 is necessary to allow municipalities to take advantage of tax-exempt bonds for redevelopment in blighted areas.

The 1986 federal tax legislation, in Section 144 (c) (2), provides that a bond shall not be treated as a qualified (i.e., tax-exempt) redevelopment bond unless the bond, among other things, is issued pursuant to "a state law which authorizes the issuance of such bonds for redevelopment purposes in blighted areas."

HB434 includes the language mandated by federal law for tax-exempt redevelopment bonds.

HB434 is designed to enhance local governments' ability to support and maintain innovative financial alternatives necessary to meet their individual needs.

ALASKA STATE LEGISLATURE

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376-5855 Home
465-2679 Juneau

THE MAT-SU BOROUGH

M E M O R A N D U M

TO: Committee Members
House Community and Regional Affairs

FROM: Curt Menard CDM
Representative

Date: March 2, 1988

RE: CSHB434, Municipal Development and Redevelopment

Amendment #1: Page 2, line 4, after "means the", through line 9:
Delete all material
Insert "difference between the tax due in the calendar year when the taxes are levied and the tax due in the calendar year before the project was authorized."

Amendment #2: Page 1, line 16, after "blighted areas" add:
"or in other areas"

ALASKA STATE LEGISLATURE

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Juneau, Alaska 99811
373-CURT
376-5315 Work
376-5855 Home
465-2679 Juneau

MEMORANDUM

TO: Committee Members
Community and Regional Affairs

FROM: Curt Menard
Representative C.M.

DATE: March 2, 1988

RE: Description of the Changes in CSHB434

Amendment #1: The language of the amendment would alter the way in which the incremental portion of the tax would be calculated.

In the original bill, the taxes due were based on the incremental change in the assessed value of the property:

MIL RATE		ASSESSED PROPERTY VALUE		TAXES DUE
1 mil	on	$100.00	=	$0.10
3 mils	on	$500.00	=	$1.50

Incremental change in assessed value:
$500.00 - $100.00 = $400.00
Taxes due based on incremental change:
3 mils on $400.00 = $1.20

ALASKA STATE LEGISLATURE

Curt Menard

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Wasilla, Alaska 99687
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Juneau, Alaska 99811

373-CURT
376-5315 Work
376-5855 Home
465-2679 Juneau

THE MAT-SU BOROUGH

With this amendment, the taxes due are figured on the incremental change between the taxes due before the project was authorized and the taxes due at any time afterward:

MIL RATE		ASSESSED PROPERTY VALUE		TAXES DUE
1 mil	on	$100.00	=	$0.10
3 mils	on	$500.00	=	$1.50

Incremental change in taxes due:
$1.50 - $0.10 = $1.40
Taxes due based on incremental change = <u>$1.40</u>

****Advantage to the amendment is that, if the mil rate changes, it enables larger sums to be dedicated toward the tax increment financing project; which in turn allows more to be put towards paying off the tax increment bonds and improves the attractiveness of the bonds.

(6) HB 434

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

MEMORANDUM March 1, 1988

SUBJECT: Municipal powers and HB 434

TO: Representative Curt Menard

FROM: Theresa L. Bannister TB
Legislative Counsel

You have asked whether municipalities already have the powers that would be authorized for them by HB 434. In general, these powers include undertaking development and redevelopment projects, creating public corporations to undertake the projects, and repaying project indebtedness by a tax increment arrangement.

1. CITIES. The specific HB 434 powers are not specifically given or prohibited to cities. Since, in addition to its specified powers, a city may exercise any power not prohibited by law, cities already can exercise the powers delineated in HB 434. AS 29.35.250 - 29.35.260. The only exception is that a city in a borough may not exercise a power that is being exercised in the city by the borough. AS 29.35.250. HB 434 would not eliminate this restriction. Therefore, except to the extent that a city is located in a borough that is exercising the power in the city, under current law a city may exercise the powers authorized by HB 434.

2. HOME RULE BOROUGHS. The specific powers in HB 434 have not been given or prohibited to home rule boroughs. Since a home rule borough can exercise any power unless the power is specifically prohibited to them by AS 29.10.200, under current law a home rule borough can exercise the powers that would be provided by HB 434.

3. FIRST CLASS BOROUGHS. The HB 434 powers are not specifically given or prohibited to first class boroughs. If the borough wants to exercise an HB 434 power nonareawide (in

the areas of the borough not within a city), it may do so since such powers are not prohibited to it by law. AS 29.35.200(a). However, to exercise the power on an areawide basis (throughout the borough, including the areas within cities), the borough must first acquire the power. AS 29.35.200(c). A borough can acquire the power by transfer from a city or by holding an areawide election on the question. HB 434 would eliminate the need for the borough to acquire a power given by the bill before exercising it on an areawide basis.

4. SECOND CLASS BOROUGHS. A second class borough is specifically allowed to provide for economic development on a nonareawide basis, but not on an areawide basis, unless the borough formally acquires the power. AS 29.35.210. None of the other HB 434 powers have been specifically prohibited to a second class borough, so a second class borough could exercise them if it acquires them pursuant to statute. AS 29.35.210(c)-(d). HB 434 would eliminate the need for the borough to acquire the powers allowed under the bill.

5. THIRD CLASS BOROUGHS. HB 434 powers are not specifically given to third class boroughs, and the borough would be obliged to acquire these powers. In addition, the acquired powers would be restricted to service areas. (AS 29.35.220(d) HB 434 would enable third class boroughs to exercise HB 434 powers without being obliged to establish a service area, and to exercise them throughout a borough, rather than only in a service area.

6. CLARIFICATION OF BOROUGH POWERS. For the powers in the bill to apply without the limitations that I have discussed on borough powers, I would suggest adding a sentence to sec. 29.35.035(d) of the bill to clarify this intent. This sentence should read as follows: "Limitations on the exercise of borough powers under AS 29.55.200 - 29.55.220 do not apply to the exercise of powers under this section."

In general, however, it is true that municipalities can exercise the powers provided for under this bill. That is also true of the section authorizing a municipality to provide emergency services communications centers. (AS 29.35.130) It is also, largely, true of the sections dealing with hazardous materials and wastes. (AS 29.35.500-.590)

If I may be of further assistance, please advise.

TLB:gc
WKG2:14

Creating and Financing Public Enterprises

Arthur Gitajn

Government Finance Research Center of the
Government Finance Officers Association
(formerly the Municipal Finance Officers Association)

Government Finance Research Center
Government Finance Officers Association

This technical assistance study was prepared by the Government Finance Research Center of the Government Finance Officers Association under contract with the Economic Development Administration. The findings, conclusions, recommendations, and other statements in this report are solely those of the contractor and do not necessarily reflect the views of the Government Finance Officers Association or the Economic Development Administration.

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May 1984

Government Finance Research Center
Government Finance Officers Association
1750 K Street, N.W., Suite 200
Washington, D.C. 20006
202/466-2014

are those unpaid thirty days after their due date; liens are delinquent assessments for which liens have been filed against the property; and deferred assessments are those assessment installments that are due to be paid in the future beyond one year. Note that bonds payable appear in the liabilities section of the special assessment fund.

The Future of Special Assessments

If California's application of special assessments is as portentous as the enactment of Proposition 13, the future is likely to see the increasingly aggressive application of special assessments, not only for streets, sidewalks, sewers, and parking garages, but for fire stations, schools, and public transit systems as well. The San Francisco City Council, for example, recently considered the establishment of a downtown assessment district to partially finance the Muni railway system, and three California governments, including the City of San Diego, have already enacted ordinances allowing assessments for fire protection.[15]

Tax Increment Financing

Tax increment financing (TIF) uses increases in property values attributed to a capital project to recover the project's costs. Under this approach, a special tax increment district is created by the adoption of a plan for development or redevelopment of a particular geographical area. Although the use of tax increment financing in rural areas is not uncommon, this method is usually used to finance redevelopment in deteriorated urban areas characterized by declining property values. An "original assessment base" for properties within the district is established by the most recent assessment valuation prior to redevelopment, and capital projects or improvements are then financed by a special tax on the incremental increase in the assessed value of benefitting properties.

In a typical case, a redevelopment agency or other governmental authority may solicit commitments from developers for construction of a new downtown shopping mall contingent on the government's financing of certain infrastructure improvements, such as water, drainage, and sewer facilities. The last assessment of the shopping mall site prior to the development plan becomes the original assessment base for the TIF. As the site is prepared and construction proceeds, the property is periodically reassessed and the cost of infrastructure improvements is recovered by a tax levy for a specified number of years on the difference between the original assessment base and the property's new assessment.

An Example of Tax Increment Financing

Exhibit 5-3 illustrates the way such a tax increment financing plan might work under the following assumptions: (1) that a tax increment bond issue can be marketed at an effective interest rate of 10 percent per annum with debt service matched to tax increment revenues, and (2) that infrastructure improvements

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t financing plan might work
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per annum with debt service
infrastructure improvements

EXHIBIT 5-3

Example of Tax Increment Financing

Amount Borrowed:	826234
Annual Interest Rate:	0.10
Term (Years):	30
Annual Increase in Property Values:	.06

Year	Base Value	Actual Value	Value Increment	City Tax .007	County Tax .003	School Tax .025	Sewer Tax .0025	Annual Increment	PV Annual Increment
1	3000000	3000000	0	0	0	0	0	0	0
2	3000000	3180000	180000	1260	540	4500	450	6750	5579
3	3000000	3370800	370800	2596	1112	0270	027	13905	10447
4	3000000	3573048	573048	4011	1719	14326	1433	21489	14677
5	3000000	3787431	787431	5512	2362	19686	1969	29529	18335
6	3000000	4014677	1014677	7103	3044	25367	2537	28050	21478
7	3000000	4255557	1255557	8789	3767	31389	3139	47083	24161
8	3000000	4510891	1510891	10576	4533	37772	3777	56658	26432
9	3000000	4781544	1781544	12471	5345	44539	4454	66808	28333
10	3000000	5068437	2068437	14479	6205	51711	5171	77566	29905
11	3000000	5372543	2372543	16608	7118	59314	5931	88970	31184
12	3000000	5694896	2694896	18864	8085	67372	6737	101059	32200
13	3000000	6036589	3036589	21256	9110	75915	7591	113872	32985
14	3000000	6398785	3398785	23791	10196	84970	8497	127454	33563

EXHIBIT 5-3 (cont'd)

Example of Tax Increment Financing

Amount Borrowed:	**826234**
Annual Interest Rate:	**0.10**
Term (Years):	**30**
Annual Increase in Property Values:	**.06**

Year	Base Value	Actual Value	Value Increment	City Tax .007	County Tax .003	School Tax .025	Sewer Tax .0025	Annual Increment	PV Annual Increment
15	3000000	6782712	3782712	26479	11348	94568	9457	141852	33958
16	3000000	7189675	4189675	29328	12569	104742	10474	157113	34192
17	3000000	7621055	4621055	32347	13863	115526	11553	173290	34284
18	3000000	8078318	5078318	35548	15235	126958	12696	190437	34252
19	3000000	8563017	5563017	38941	16689	139075	13908	208613	34110
20	3000000	9076799	6076799	42538	18230	151920	15192	227880	33873
21	3000000	9621406	6621406	46350	19864	165535	16554	244803	33553
22	3000000	1019869	718691	50391	21596	179967	17997	269951	33162
23	3000000	10810612	7810612	54674	23432	195265	19527	292898	32710
24	3000000	11459249	8459249	59215	25378	211481	21148	31722	32206
25	3000000	12146804	9146804	64028	27440	228670	22867	343005	31658
26	3000000	12875612	9875612	69129	29627	246890	24689	370335	31073
27	3000000	13648149	10648149	74537	31944	286204	26620	399306	30458
28	3000000	14467038	11467038	80269	34401	286676	28668	430014	29819
29	3000000	15335060	12335060	86345	37005	308377	30836	462565	29160
30	3000000	16255164	13255164	92786	39765	331379	33138	497069	28486
									826234

23	3000000	10810612	7810612	54674	23432	195265	19527	292898	32710
24	3000000	11459249	8459249	59215	25378	211481	21148	317222	32206
25	3000000	12146804	9146804	64028	27440	228670	22867	343005	31658
26	3000000	12875612	9875612	69129	29627	246890	24689	370335	31073
27	3000000	13648149	10648149	74537	31944	286204	26620	399306	30458
28	3000000	14467038	11467038	80269	34401	286676	28668	430014	29819
29	3000000	15335060	12335060	86345	37005	308377	30836	462565	29160
30	3000000	16255164	13255164	92786	39765	331379	33138	497069	28436
									826234

costing $826,234 and subsequent commercial development increase the actual value of real property, originally assessed at $3 million, by 6 percent per annum. Under this plan, tax increments from four taxing entities—a city, county, school district, and sewer enterprise—would be used to service the TIF bond issue for 30 years. At the end of the 30 year term, the original $3 million assessment base would be "unfrozen," and the four taxing entities would realize subsequent increases in tax revenues.

Plans

Many governments require the preparation of a development plan and/or a tax increment financing plan before creating a special tax increment district. The plans typically include the following:

- the government's legal authority to establish a special tax increment district or redevelopment district;
- the social and economic objectives which provide the basis for the government's intervention in the development process;
- a legal and geographical description of the special district, including present and projected land use;
- a complete description of the facilities or improvements planned, including estimated project costs and completion dates;
- the department, agency, or authority responsible for development administration;
- the original assessment base and estimated assessed values on completion of the project;
- the estimated fiscal impact of the project and tax increment financing on other taxing entities; and
- where required by enabling legislation, statements stipulating that the special district qualifies as a "blighted"[16] area and that the development plan could not be realized without tax increment financing.

Tax Increment Bonds

Tax increment bonds can be issued either as revenue bonds or general obligation bonds. Tax increment revenue bonds, like other revenue bonds, are nearly always exempt from voter approval and debt ceiling limitations. However, unless investors perceive estimated assessment benefits to be relatively certain, tax increment bonds pledged solely against tax increment revenues may not be marketable. To enhance their marketability, tax increment bond provisions often stipulate a minimum assessed value for properties on completion of the project.

Most tax increment bonds are issued as tax increment GO bonds backed by the full faith and credit of the issuing government. Although they are essentially GO bonds, some states, notably Minnesota and California, also exempt tax increment GO bonds from voter approval and debt ceiling limitations on the grounds that they are repayable from revenue sources other than general tax revenues of the government.

Accounting for Tax Increment Financing

TIF projects are typically administered by an independent redevelopment commission or a redevelopment agency of the general government. In the former case, TIF activities are subject to the reporting requirements discussed in the last section of Chapter Four, "Accounting for Independent Public Enterprises." In the latter case, TIF activities may be reported in three governmental funds and two account groups. Bond proceeds or revenues to be used for construction of capital facilities or improvements are accounted for in the Capital Projects Fund, and construction in progress is reflected in a General Fixed Asset account. TIF revenues pledged as security for a TIF bond are accounted for in a special revenue fund; unrestricted revenues are accounted for in the General Fund. The liability for a TIF bond appears in a General Long-Term Debt account, and money accumulated for bond repayment is accounted for in the Debt Reserve Fund.

Like most government operations, TIF activities administered by an agency of the general government are accounted for on the modified accrual basis described earlier in this chapter. The most significant difference between the modified accrual basis used for TIF activities and the accrual basis used for public enterprises relates to the treatment of long-term debt. Under the accrual basis, a portion of the interest due on a bond maturing in twenty years, would be recognized each year as annual interest expense. Under the modified accrual basis, however, no interest expense is recognized until interest is actually due in the twentieth year. The obvious effect of this treatment is that interest expense is understated for the first nineteen years and overstated in the twentieth year; but the effect is somewhat mitigated by the fact that TIF bonds are generally issued in serial form, with different series bonds maturing in different years.

The Future of Tax Increment Financing

Tax increment financing was first used in Minnesota in 1947 and again in California in 1952. By 1984, at least 38 states had enacted legislation permitting tax increment financing, most within the last decade.[17] Initially, tax increment financing was used to provide the local matching share for federally funded urban renewal and redevelopment projects. Local taxing agencies within a tax increment district accepted a temporarily frozen tax base under the assumption that they would ultimately benefit from a higher tax base when TIF bonds were repaid and the original assessment base was unfrozen.

In recent years, however, with the curtailment of many categorical federal programs, tax increment financing has become the principal means of financing redevelopment. In addition, the advent of Proposition 13 and its successors has led to the increasingly aggressive use of tax increment financing, not only for redevelopment, but, insofar as legally permissible, for general purpose government operations as well. Thus, the future is likely to see TIF projects of longer, even indefinite, duration, levying taxes on geographically larger and more developed tax increment districts. Offsetting this trend, however, will be the efforts of cash-strapped taxing entities to gain early access to some or all of the incremental increase.

Other User Pay Approaches

Finance directors and other government officials and administrators are understandably reluctant to charge old residents for the construction, operation, and maintenance of facilities designed to serve new development. Consequently, a number of user-pay approaches have been devised to recover the costs of extended service to new developments.

Connection Fees

When the revenues anticipated from an extension of water and sewer service are not sufficient to recover the government's investment, many local ordinances require that new users be assessed a connection or tap fee. Because local ordinances typically limit the connection fee to an amount necessary to recover only the capital costs of extended service, the costs of annual depreciation of the new facility must be borne by all users. This is reflected in the accounting treatment for connection fees, which requires that the new extension be accounted for with other assets on the left side of the Enterprise Fund Balance Sheet and that the connection fee be accounted for as a contribution of capital in the "equity" section on the right side of the Enterprise Fund Balance Sheet. If charges are not raised to cover the annual depreciation of the asset, the shortfall manifests itself as a growing deficit in the retained earnings account. This increase in the charge to prior residents may be justified, in the case of sewer and water facilities, for example, because the new facility benefits the entire community to the extent that it improves general health and sanitation and enlarges the revenue base for major common facilities and replacement programs. The determination of equitable connection charges is particularly difficult in the case of water service, where the extension of water main capacity benefits the entire community in terms of increased fire protection.

Exactions

The practice of requiring developers to provide certain physical facilities is one of the most important and well established means of financing infrastructure. In California subdivision exactions are worth over five times as much as all development-related fees and assessments and, in the wake of Proposition 13, now account for nearly half of the annual public capital formation in that state.[18] Developers usually provide streets, curbs, sidewalks, street lights, sewer and

(8) HB 434

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

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March 2, 1988

POSITION PAPER

RE: House Bill 434

SPONSOR: Menard, Larson & Zawacki

Program Effects of the Bill

House Bill 434 allows municipal bonds to qualify for tax exempt status under federal law. The bill also provides guidelines for municipalities to follow if they wish to practice tap increment financing as a method of satisfying bonded indebtedness.

Comments

The Department has no general objection to the granting of municipal property tax options. When granted, however, we believe those options should be consistent with existing statutes, should serve a positive public purpose, and should provide adequate guidance and direction to municipalities. It is our position that Section 2 of House Bill 434 falls considerably short of fulfilling those criteria.

Legislative counsel and the Department of Law have informed us that municipalities already have the jurisdiction to persue at least all the activities contained in the bill. That being so, it appears the sole reason for the adoption of any statute dealing with this matter is to insure the availability of tax free municipal bonds under federal guidelines. It appears to us that by deleting the language in Section 2 under AS 29.35.035 (a) through (c), the federal requirements are met without limiting municipalities to the guidelines provided under that section.

Section 2 of HB 434 provides the following guidelines to local governments:

1. The section gives municipalities the jurisdiction to create a public authority with the plenary power to issue revenue bonds, G.O. bonds and double-barrel bonds (pledged by the taxpayers), without any requirement of public input.

2. It provides guidance for municipalities to construct and convey title to a building at no cost to the applicant and paid for by other taxpayers.

21-P1LH

3. It also provides guidelines which if followed, would create a tremendous competitive business advantage for the applicant.

When adopting statutory legislation into local law, municipalities usually duplicate the enabling language as closely as possible. The Department is concerned that municipalities would focus almost entirely on the guidelines provided in section 2, thereby creating the problems noted above.

In summary, the Department opposes the public policy message created by Section 2 of the bill, and recommend the Committee delete AS 29.35.035 (a) through (c) from that section. If that language were to become law, we believe it would provide substantial temptation and opportunity for the abuse of local powers and the misuse of municipal property taxes.

for David G. Hoffman, Commissioner

(9) HB 434

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OF COUNSEL
ROGER G. CONNOR
RICHARD W. GARNETT, III

March 7, 1988

Representative Curt Menard
Pouch V
Juneau, Alaska 99811

Re: House Bill 434

Dear Representative Menard:

I have been asked by Dave Soulak, Palmer City Manager, to comment on the purpose of subsections (b) and (c) of AS 29.35.035 in House Bill 434. According to Mr. Soulak, it has been argued that municipalities' implied powers under existing law authorize the matters provided for in these subsections, making these subsections superfluous.

The purpose of subsection (b) is to expressly authorize municipalities to establish public corporations to exercise powers related to development and redevelopment projects. Article X, Section 11 of the Alaska constitution authorizes home rule municipalities to exercise all legislative powers not prohibited by law or by charter. This grant suffices to authorize a home rule municipality to form a public corporation. However, this broad grant of power does not extend to general law municipalities. To form a public corporation, a general law municipality presently must rely upon AS 29.35.410, which provides that "unless otherwise limited by law, a municipality has and may exercise all powers and functions necessarily or fairly implied in or incident to the purpose of all powers and functions conferred by this title." The formation of corporations traditionally is a state, not a local, function, and Alaska has a comprehensive statutory scheme for the formation of corporations under the authority of the state government. One cannot be assured that a general law municipality has the implied power to form a public corporation to carry out municipal functions. Express statutory authorization provides the assurance necessary to bond counsel approval and market acceptance of bonds issued by such a public corporation.

Subsection (c) authorizes the use of a tax increment as a source of repayment for development and redevelopment bonds. This provision assures that bonds to finance redevelopment projects may be structured to meet federal tax law standards for tax exemption of bonds as "qualified redevelopment bonds." Section 144(c) of the Internal Revenue Code of 1986 sets forth the standards that must be met for a bond to be a "qualified redevelopment bond." Among these is the requirement in Section 144(c)(2)(B) that the bonds be secured either by general tax revenues, or by a tax increment. Subsection (c) of AS 29.35.035 expressly authorizes the use of a tax increment to repay development and redevelopment bonds in language consistent with that used in the Internal Revenue Code. It assures that there is adequate authority in state law for a financing that meets the Internal Revenue Code criteria. This assurance is important to market acceptance of Alaskan tax increment financings.

Please let me know if I may be of further assistance in this matter.

Yours truly,

Thomas F. Klinkner

Thomas F. Klinkner

TFK/mlo
cc: David L. Soulak

(10) HB 434

MEMORANDUM

RECEIVED MAR - 8 1988

State of Alaska
Department of Law

TO: Mike Worley, State Assessor
Department of Community & Regional Affairs

DATE: March 2, 1988

FILE NO:

TEL NO: 465-3600

SUBJECT: Position paper on HB 434

FROM: Marjorie L. Odland
Assistant Attorney General
Governmental Affairs-Juneau

You have asked us whether municipalities currently may exercise the powers that would be granted to home rule and general law municipalitiis in HB 434 (a bill relating to municipal development and redevelopment). We have reviewed the position paper of counsel for Legislative Affairs, Theresa Bannister, as was provided to me by a staff member of Representative Kurt Menard's office, and generally agree with her analysis. A copy of Ms. Bannister's March 1, 1988 memo is attached.

As stated in the attached memo, the municipal powers being authorized by this bill are: (1) power to issue bonds for development and redevelopment projects; (2) power to create a public corporation to exercise the power to issue bonds for this purpose; and (3) the power to repay the bonded indebtedness by tax increment financing. We concur with Ms. Bannister's analysis of the existing powers granted by statute to each classification of municipality as set out in her memo.

As to the specific powers authorized under HB 434, this office agrees that municipalities currently have the power, or may acquire the power by statutory procedure, to issue bonds for development and redevelopment projects and that municipalities currently have the power to create public corporations. These two powers essentially exist because they have not been prohibited by law. However, we are doubtful that any classification of municipality currently has the power to provide for payment of the debt service on the bonds, notes, or other indebtedness by means of "tax increment financing" as provided in this bill. We have been advised by staff at Representative Menard's office that the bonds intended to be issued under authority of this bill are truly "hybrids" in the arena of municipal bonding law. The short of it is, by including in the bill that municipalities may provide for payment of the debt service on these bonds through tax increment financing, will lay to rest the issue of whether or not municipalities have this power.

Please do not hesitate to contact us if further assistance is needed on this bill.

MLO/pjg
Enc.

CITY OF SEWARD

P.O. BOX 167
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lex24 (11) HB 434 fr /CRA

MAR - 8 1988

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TESTIMONY ON HB 434 BEFORE THE HOUSE COMMITTEE ON COMMUNITY AND REGIONAL AFFAIRS MARCH 2, 1988.

Mr. Chairman and Members of the Committee:

My name is Darryl Schaefermeyer, and I speak today on behalf of the city of Seward in my capacity as interim city manager.

The city of Seward would like to go on record in support of HB 434, which would permit local goverments to create public corporations with the ability to use tax increment financing for development and redevelopment projects. Seward has long recognized the need for Alaskan cities to have the flexibility to use innovative financing tools to attract new economic development. Several years ago Seward amended its charter and code to permit the city to issue economic development bonds and port revenue bonds, more commonly referred to as private activity bonds. This has enabled Seward to help finance the Suneel Alaska coal transfer facility, the SeaWay Express barges and barge ramp and, more recently, the $48 million Spring Creek Correctional Center. All of these projects have improved Seward's economic future.

Additional developmental tools are needed now more than ever. The recent federal tax code changes have placed additional restrictions on private activity bonds. We all recognize that it is no longer possible to count on the money from Juneau to meet our needs. Yet, we all are experiencing a crumbling or insufficient public physical infrastructure, poor or inadequate housing, and a loss of a strong tax base due to disappearing property values and unprecedented business failures. The state is not financially well enough off to attack these problems with cash, and the present political climate appears unreceptive to incurring additional state general obligation indebtedness to deal with the needs. The tax increment financing option, therefore, would add to Alaskan cities the additional ability to tackle the problems without dependence on other financial aid. While tax increment financing is not the only solution, it would help by providing a device that can be used to attract new business or encourage existing business to expand and modify.

It is our understanding that most tax increment financing enabling legislation says that tax increment financing must be used in "slum" or "blighted" areas, or in a "redevelopment" or "enterprise" district. Section 2 of HB 434 provides that "a municipality may undertake development or redevelopment projects in the municipality and assure bonds for development or redevelopment in blighted areas." We would like to suggest that, instead of the use of the term "blighted areas," consideration be given to substituting the term "enterprise district." We believe this would attach a more positive stigma, particularly since the bill, as it now reads, would grant the ability to a city to use tax increment financing for a very broad range of development and redevelopment projects that would not be limited to such things as alleviation of deteriorated, dangerous or unhealthy conditions. In this regard we applaud the sponsors of this bill in rejecting language which would restrict tax increment financing to only commercial redevelopment projects to the exclusion of industrial renewal, and vice versa. In short, we urge that tax increment financing designation not be limited to blighted areas and that, instead, we broaden the definition to "enterprise districts."

I have, in my possession, several publications dealing with tax increment financing. One is Bulletin 84-2 of the Advisory Commission on Intergovernmental Relations, dated May, 1984. Another is a January, 1983 memo from the American Planning Association. I am happy to share these publications with the committee. Thank you for this opportunity to comment. This concludes my remarks.

DARRYL SCHAEFERMEYER
INTERIM CITY MANAGER

Enclosures: 5/84 bulletin from ACIR
1/83 memo from American Planning Association

cy: Heinrich Springer
Bette Cato
Jay Kerttula
Mike Szymanski
David Hoffman
Scott Burgess

pas memo

A publication for subscribers to the APA Planning Advisory Service

January 1983 83-1

Tax Increment Financing

By Sam Casella

There is a striking similarity between the questions cities are asking about tax increment financing (TIF) and the questions that syndicated advice columnist Ann Landers regularly receives about adolescent sex. To wit: Should I do it? Where do I do it? How do I do it? And, what are the consequences if I do it?

Before answering these questions, as they pertain to TIF, let's first review with a three-part definition of TIF. It is:

- A method of capturing the tax revenue that results from private redevelopment projects;
- A trust fund that collects those increased revenues and allocates them to such public purposes as land acquisition and parking facilities; and
- A spur to private investment to start the cycle and keep it going.

Diagrammatically, a simplified flow of TIF cash can be found in Figure 1.

In effect, TIF is a bootstrap method of using private redevelopment to support public redevelopment, thereby making more private investment possible. The beauty, to the taxpayer, is that there are no increased property taxes. This particularly appeals to homeowners and suburbanites who often don't care to have their taxes flowing into downtown redevelopment projects.

Sam Casella, AICP, is the executive director of the Clearwater Downtown Development Board, Clearwater, Florida. A similar version of this article appeared in the January 1983 issue of *Center City Report*, which is published monthly by the International Downtown Executives Association.

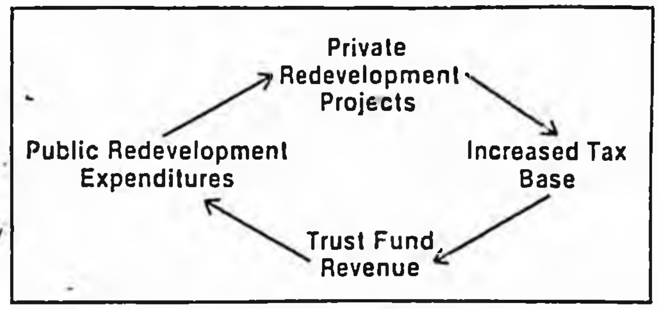

Figure 1. The TIF Cycle

Should I Do It?

A chicken and a pig were strolling by a diner one morning. The chicken smiled and said, "Doesn't that make you feel proud that we are responsible for enabling those humans to enjoy their breakfast?" The pig replied, "That's easy for you to say. For you it's merely a contribution, for me it's a total commitment."

Cities that expect to use tax increment financing successfully will have to be like the pig and make a total commitment. It would be a mistake to think that TIF is a new panacea that relieves everyone of responsibility while it produces cash windfalls.

Underscoring the need for a local commitment is the fact that, typically, TIF yields very meager returns in the early years. A public redevelopment agency will need to in-

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vest large amounts of money for such things as: up-front cash to start the project, a realistic plan, contracts with reputable developers, the sale of municipal bonds, and a dedicated follow through—all before any real results are seen.

It is also a mistake to assume that TIF is the only source of subsidies that your city will need. As interest rates have shot into double digits, the capitalized value of TIF revenues has fallen. For instance, when interest rates were about seven percent, a projected $200,000 in annual revenues for the trust fund could be capitalized by a bond sale of about $2.5 million. With interest rates now at 14 percent, a bond sale may yield only $1.3 million. If a city was hoping to use that $2.5 million to finance a 400-car parking garage, it will now need to find $1.2 million from some other source.

What to do? Start looking at such federal programs as UDAG, Community Development Block Grants, or industrial development bonds; state programs if you have them; and more money from users or developers. Be prepared for the long haul, or your infatuation with tax increment financing will turn out to be just puppy love.

Where Do I Do It?

Those states that permit tax increment financing do so through enabling legislation. If your state does not have enabling legislation for TIF, by all means get some introduced and enacted.

Enabling legislation will establish the ground rules for the location of TIFs. Most state legislation says that a TIF must be in a "slum" or "blighted" area, or in a "redevelopment" or "enterprise" district. The need to correct the conditions in these areas supplies the public purpose for tax increment financing. However, if you have anything to do with drafting this legislation, make sure that terms like redevelopment or enterprise district are used instead of slum or blighted area. Why give a redevelopment project an additional stigma by officially calling it a "blighted area," when it's possible to get the legislature to call it an "enterprise district"?

Most state legislation will require that the districts where TIF is used are marked by deteriorated, dangerous, or unhealthy conditions. Besides the more obvious physical or social manifestations of these conditions, the enabling legislation may find it necessary to provide for the alleviation of: defective street layouts; faulty lot layouts (in relation to size, adequacy, accessibility, or usefulness); tax delinquency; and a diversity of ownership (or any defective or unusual title conditions that prohibit an easy assemblage of land).

It will be up to individual cities to make a finding of these conditions, based on sound evidence. Although such a finding is legislative in nature, it must be reasonable and not arbitrary. Evidence must be carefully marshalled and entered into the official record. This careful and professional approach begins during the determination of where to locate the TIF district. A well-supported and well-reasoned finding will determine the tone and direction for everything that follows.

The boundaries for the district do not have to be drawn like a piece of swiss cheese, with a parcel excluded here and there because it doesn't happen to be deteriorated. A sound building or parcel may be included within a TIF area, and perhaps even condemned, if it is necessary to the overall redevelopment of the area. On the other hand, a TIF district may not arbitrarily reach out to include sound areas just to enlarge the tax base.

An implicit condition of TIF—one that is sometimes overlooked—is the market potential of the district. If there isn't a market for development, then there won't be enough potential private investment to get the TIF cycle started. Therefore, it's a good idea to have some market analysis made early in the process. Parcels that have market potential must be included in the district. Otherwise, your city will find itself giving a party to which nobody comes.

How Do I Do It?

Let's start with the assumption that your state already has TIF enabling legislation. With some variation among states, the following steps should be taken:

1. Creation or appointment of a redevelopment agency. The city council, in some cases, actually may be the redevelopment agency. The question of whether to create a new agency or appoint the city council is one that should be weighed carefully and dispassionately, and should reflect the individual conditions of each city.

2. An official finding of the need for redevelopment, and a delineation of the project area. As we indicated in the section "Where to Do It", these findings must be well supported, including both the conditions that require redevelopment and a reasonable potential to actually do so.

3. Start-up and staffing of the redevelopment agency. The first question is whether to use existing staff or to hire new staff. In order to make this decision, the agency must first define its objectives so that it can find the staff most competent to achieve those objectives.

4. Creation of the redevelopment trust fund that will receive all future tax increments. In order to avoid possible litigation, this step needs to be coordinated and approved by all the taxing authorities that will contribute to the trust fund.

5. Adoption of an official redevelopment plan. This

The *PAS Memo* is a monthly publication for subscribers to the Planning Advisory Service, a subscription research service of the American Planning Association: Israel Stollman, Executive Director; Frank S. So, Deputy Executive Director; David R. Mosena, Director of Research.

The *PAS Memo* is produced at APA: Sylvia Lewis, Publications Director; Gregory Longhini, Thomas P. Smith, Editors; James Peters, Adele Rothblatt, Assistant Editors.

Different States, Different Strokes

Like nearly all redevelopment or planning programs, tax increment financing is a creature of state enabling legislation. At last count, 28 states permitted TIF in their local communities. Some laws, such as California's, required a state constitutional amendment. Other states either amended their urban renewal laws or enacted original TIF statutes.

There are several key differences among states in regard to TIF procedures, financing, and planning limitations. Following are a few of those approaches.

California. Blight alone is an insufficient reason to justify TIF designation in California. According to state legislation, the "blight" in a proposed district must create a burden on the community that could not and would not be remedied by the private sector.

Illinois. Unlike many state TIF laws, the Illinois statutes require a city to prepare a plan for the area that is being redeveloped. Also, the TIF designation is not limited to blighted areas. "Conservation areas"—those which may become blighted in the future—also qualify.

Kansas. TIF designation in Kansas only can be used for commercial redevelopment projects, and not for industrial renewal.

Maine. The state's TIF law requires an advisory board for each separate development district, and requires that at least half of the board members be residents or property owners from either the district or an adjacent neighborhood.

Minnesota. Extensive guidelines are required for a TIF plan, including: a needs statement; relevant real estate data; procedures for clearing, improving, and marketing a site; and a disclosure of the project costs. Planning commission review is also mandated, prior to the plan's submission to the city council.

South Dakota. The state's enabling legislation exempts school districts from the tax increment process by requiring that all calculated tax increments be returned to the school districts.

Texas. One-quarter of each TIF district in Texas must meet a special definition for blight, and the TIF fund must expire no later than 15 years after its inception.

Wisconsin. Because the state of Wisconsin compensates the school districts affected by TIF designation, it is heavily involved in the TIF process. The state's department of revenue, rather than local government, calculates the tax incremental base. The purpose of the state's calculation is to remove any temptation from the local authorities to adjust TIF districts and properties in order to increase project revenues.

Greg Longhini

plan will probably be the most detailed, site-specific plan ever made for your district. It should be prepared by competent professionals and be laced with a heavy dose of realistic project proposals.

6. Establishment of a "tax-base year." Revenues resulting from any future increases above this base will flow into the redevelopment trust fund. Careful attention to statutory deadlines can sometimes advance your base year by one year, which can be an important running start.

7. Solicitation of developers, and a conclusion to all disposition and development agreements. A disposition and development agreement obligates the developer to construct specified improvements in a given time period. In return, the agency assembles and prepares the site, conveying it to the developer for a set price. The agency also may agree to other improvements, such as nearby parking facilities. If the owner of the property is to make the improvements in return for agency-sponsored improvements in the area, then it would be known as an owner-participation agreement.

8. Issuance of bonds by the redevelopment agency, in order to fund assembly of the site or specified public improvements. TIF bonds, which are tax exempt, are secured by the future proceeds of the trust fund. However, they generally do not involve a full faith and credit obligation by the city, nor do they constitute an indebtedness within the meaning of statutory debt limitations. There is some variation among states; for instance, in Florida, TIF bonds do not require a referendum.

9. Implementation of all improvements agreed to in the disposition and development agreement. By carefully selecting both the developers and the leadership of the agency in the first place, this step can be carried out in a timely fashion.

10. An increase in the assessed value of property will result from the various site improvements which are made, thus producing tax revenue for the trust fund. Because all the increases after the base year are allocated to the trust fund, the fund will also capture the increased revenues which are attributable to any general improvements or inflation. This windfall may permit an accelerated retirement of the debt or, in some cases, may be returned to the local government's general treasury.

11. Trust fund revenues are used to retire bonds. Once all the outstanding debt is eliminated, the trust fund also may be retired—usually about 20 years after the program begins. Local government then becomes the sole beneficiary of the annual tax increment.

What Are the Consequences If I Do It?

One of the biggest misconceptions about tax increment financing is that it really means tax abatement, and that certain businesses and individuals will have their taxes reduced. It's too bad we can't just turn back the clock and call tax increment financing something else—perhaps

Request for Information

APA is interested in learning about the software for planners that has been written for microcomputers (e.g., Apple II or III, IBM Personal Computer, Northstar, TRS-80 Model III, or any others). Specifically, we would like to know:

- What the programs do;
- What types of systems they require (memory, disk drive requirements, printers, manufacturers, etc.);
- Whether the programs are available to others; and
- Cost.

We also are interested in hearing from planners who have been using *commercially available programs* (e.g., spreadsheets, database, graphics, etc.) in their work. Which programs are you using, and what are you using these programs for? Are you satisfied or dissatisfied with their performance?

Please send any information to Duncan Erley, APA, 1313 E. 60th St., Chicago, IL 60637, or phone 312-955-9100, ext. 203.

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revenue increment financing. Eliminating this confusion with tax abatement would help make TIF believers out of many doubting elected officials and the public.

Another frequent concern expressed about TIF is that it will adversely affect the ability of local government to provide services. This concern stems from the fact that all tax increases from the higher assessed value of properties in the TIF district are allocated to the trust fund, rather than to general municipal services. Actually, the experience of most cities in California, according to a 1976 report by Ralph Andersen and Associates of Sacramento, is that "tax increment financing has not created serious fiscal problems for local tax agencies, and has not contributed in any significant way to property tax rate increases." Moreover, the cost of servicing a deteriorating area is frequently more than that for servicing a redeveloping area.

An additional tax consequence of TIF is that tax increment legislation sometimes exempts school district millage from making contributions to the trust fund. And, as redevelopment occurs, all of the increased tax revenues owed the school district will continue to flow into school budgets in those states.

The bond consequences of TIF generally do not extend to affecting the city's statutory debt limit. However, you can expect the scrutiny of area bankers to be especially thorough when TIF is not considered a general obligation of the city. Although bond ratings for TIF bonds are typically class "A" or less, the bonds still can be insured by municipal bond insurance services.

Start-up costs for the redevelopment agency frequently can be recaptured, once the increment begins flowing. However, legislation may limit the allowable planning and administrative costs to those directly attributable to the redevelopment project. And it should be remembered that recapture will be risky until revenue actually enters the trust fund.

Experience in states having an extensive history with TIF, such as California (where some $700 million worth of redevelopment bonds has been issued), suggests that TIF can be a powerful tool. In these times of budgetary cutbacks and tight money, TIF can be a dealmaker.

Getting the most out of TIF, however, will involve combining it with other available tools in order to produce the maximum in private investments and public improvements. TIF should be only one element in an overall package of development incentives. Used in that way, it can become an almost indispensable part of your redevelopment investment strategy.

How to Estimate the Usable Proceeds

A frequent question that arises after a tax increment financing system is underway concerns how much money will be available for public improvements as a consequence of a given development project. The fastest way to make this preliminary estimate is by using a programmable calculator or computer. The author has programmed a Hewlett-Packard HP-12C calculator to take into account such factors as current tax rate, current interest rates, bond years to maturity, bond coverage ratio, bond issuance costs, and bond reserve requirements. This program estimates the net proceeds of a TIF bond issue for any given increase to the tax base.

However, if you do not have a programmable calculator, you can achieve somewhat slower and more laborious results by following these steps:

1. Estimate the cost of the project and the increased tax base that would result. Your local tax appraiser can help figure out the prospective increases.
2. Estimate the annual tax yield by applying the current tax rate to the additional tax base.
3. Estimate the annual debt service by dividing the annual tax yield by the bond coverage ratio. Your city's financial advisors can help you determine a reasonable coverage ratio.
4. Using current interest rates and the number of years it takes long-term revenue bonds to mature, estimate the principal amount of the bonds. Either a financial calculator or a standard table of loan constants will help you complete this step.
5. Subtract an estimated factor for bond issuance costs. Your city's financial advisor may be able to suggest a reasonable percentage of the principal amount, say four percent.
6. Subtract an estimated reserve fund amount. Again, financial advisors may be of help, or use the amount of one year's debt service as an estimate.
7. After performing steps 1 through 6, you have a preliminary estimate of the net proceeds of the tax increment bond issue. This amount is what you can reasonably expect your redevelopment agency to have available for public purpose improvements.

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TAX INCREMENT FINANCING: A LOCAL OPTION FOR FINANCING REDEVELOPMENT

IN BRIEF

Economic development is perhaps the top domestic policy issue of the early 1980s. There is great interest in decreasing unemployment, in increasing private sector productivity, and in enhancing state and local abilities to deal with faltering economies and their accompanying problems. Sound economic development can make a positive contribution in all these areas.

A crumbling or insufficient public physical infrastructure, poor or inadequate housing, and the loss of a strong tax base because of business failure or wasteful land management all exacerbate urban and rural blight and increase costs to the public purse. In the face of such problems, public entities are increasingly seeking out private "partners."

Genuine local control is crucial to alleviating local problems. Local officials need and want to have greater control over their community's destiny, yet many lack the authority to act effectively. Only through powers granted by the states can communities make decisions and take actions best suited to their special needs. Constitutionally, a state may choose, through enabling or permissive legislation, to grant a wide array of local self-governing powers, including the ability to plan, develop, and carry out local approaches to economic revitalization.

180 - Tax Increment Financing

One tool, tax increment financing, has engendered strong interest in many communities pondering economic redevelopment. Tax increment financing (TIF) allows a local government to finance redevelopment by "freezing" at the predevelopment level the general purpose taxes levied in a designated area, using any increment in property tax value that occurs because of proposed or actual redevelopment to generate the revenues needed to finance the redevelopment activity.

The tax increment revenues may be used to leverage more funds through bonds or on a pay-as-you-go basis. Twenty-nine states currently authorize their local governments to use tax increment financing, and it was actively considered in five additional state legislatures during their 1983 sessions.

This paper is part of a chapter of a larger ACIR study, The States and Distressed Communities, due for publication later in the year. Because TIF generated so much interest during the interviews done as part of that larger study, this portion is presented early so that the information can be shared more quickly.

TABLE OF CONTENTS

BACKGROUND

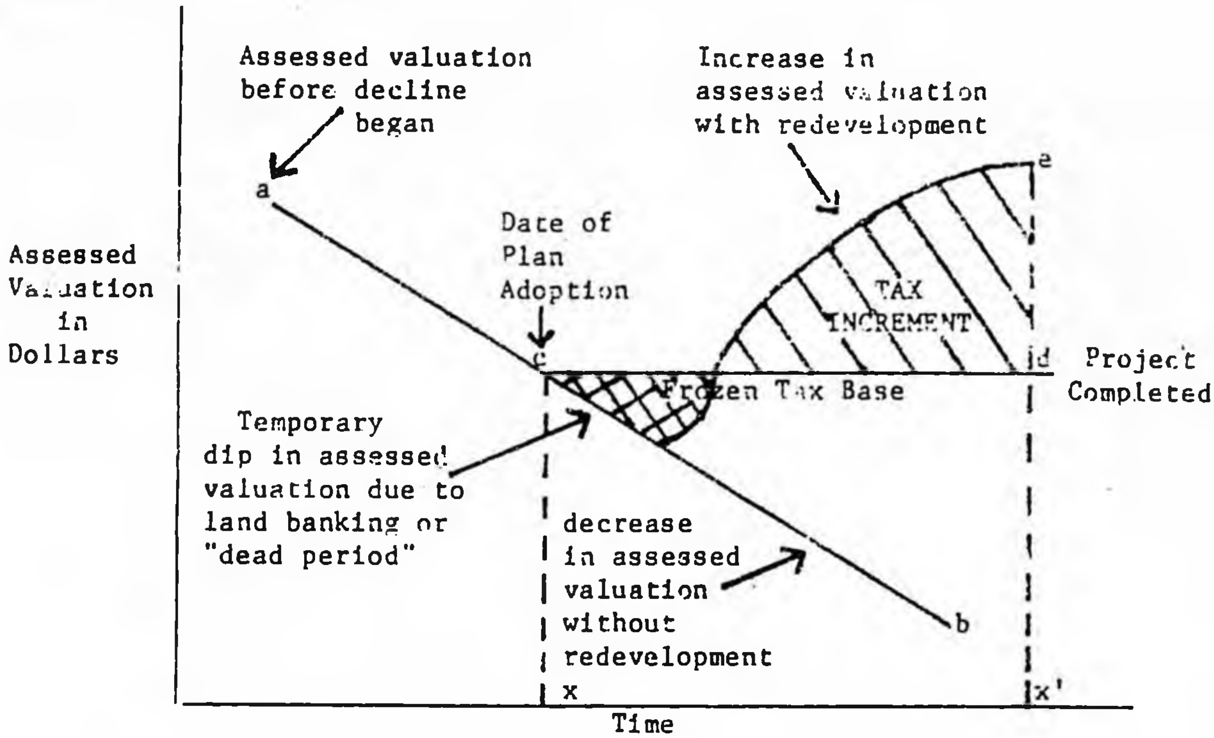
Tax increment financing (TIF) is a tool used by local governments to finance redevelopment while increasing future fiscal capacity through a stronger tax base. A district that is designated for TIF [illegible] to have its tax base frozen at the rate in effect immediately before development. Any amount over the base [illegible] of development, or anticipated development, goes into a special fund which is used to retire any debt incurred in financing redevelopment. [illegible] time limit is put on the debt repayments, after which the full tax due is paid to jurisdictions having taxing authority within the redeveloped area. In some states the TIF receipts are used for redevelopment on a pay-as-you-go basis rather than to float bonds.

In either case, it is assumed that, once an area is redeveloped, it will be more valuable and, therefore, that property taxes will increase. Tax increment financing is viewed as a "self-help" tool for localities because it relies on local property tax revenues and is administered and monitored almost entirely by local government officials.

Figure 1 represents graphically how tax increment financing works. Line ab demonstrates how the assessed valuation of a slum or blighted area deteriorates over time. Such deterioration is a common and serious problem in many older downtown areas, and often is exacerbated by owners who simply abandon their property when the taxes they owe neutralize any profits they might make. Under tax increment financing, a redevelopment plan for a designated slum or blighted area is adopted at, say, time x. The assessed valuation of the project area is determined by the most recent assessment made prior to the effective date of the ordinance adopting the plan. From that point on, that assessed value (represented on the graph as line cd) serves as a reference point from which to determine the tax increment. As redevelopment proceeds, the actual assessed valuation within the project area will begin to rise as indicated by line ce. The ad valorem taxes generated by this increase in assessed valuation over the reference valuation (that is, the difference at any given time between line ce and cd) are known as the tax increments. These tax increments are set aside in a special redevelopment trust fund that is used either to repay bond holders or on a pay-as-you-go basis as the project develops.

The dip in line ce before it begins to rise reflects the initial decrease in tax revenues that occurs between designating a TIF district and actually starting development. Once an area is designated as

Figure 1. Tax Increment Financing



Source: ACIR staff composite adapted from Florida Department of Veteran and Community Affairs, and Richard G. Mitchell. 1/

a TIF district, it is often cleared of any buildings (or tenants) in preparation for redevelopment -- thus, tax revenue decreases. The land often sits idle for up to several years until enough capital is accumulated to float bonds. This wasteful or "dead" period (also known as land banking) should be kept as short as possible.

1

Florida Department of Veteran and Community Affairs, Division of Local Resource Management, Using Tax Increment Financing for Community Revitalization, Community Program Development Management Series, No. 22, February 1982, pp. 4-5.

Richard G. Mitchell, "Tax Increment Financing for Redevelopment: is it as bad as its critics say? is it as good as its proponents claim?," Journal of Housing vol. 5, no. 77 (May 1977), pp. 226-229.

PROS AND CONS

Information gathered through interviews and from the literature indicates mixed attitudes toward tax increment financing, with the scales tipped toward acceptance. Most state and local officials believe the need for economic revitalization outweighs the controversies that surround TIF. Rather than avoid this method of financing, states have developed or revised statutes that address and control the concerns.

States recently active in encouraging the use of TIF have compiled some of the most convincing arguments for using it, such as:

- Under TIF, the bond proceeds are totally controlled by the locality;
- TIF is more efficient than tax abatements, requiring the developer to pay full taxation; and
- TIF represents no commitment of state dollars. 2/

Further, no cases of loan default under TIF were reported in the course of this research. To the best of our knowledge there have been none.

This redevelopment financing tool has not been without controversy, however. Three major criticisms have been directed toward it:

- TIF is geared toward large-scale development and is of little use to small firms in distressed communities;
- it is a loan of public credit to aid private entities; and

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2 Massachusetts Executive Office of Communities and Development, Division of Community Services, "Executive Summary of Tax Increment Financing," Massachusetts House Bills 3392 and 5649, April 1983 (Boston, MA).

- it is used for areas that would have been developed with private funds anyway.

Other criticisms include:

- TIF has been abused by funding projects which are only indirectly related to promoting development;

- there has not always been a definite time-frame for payoff, the debt being financed indefinitely; and

- tax increment financing may allow the redevelopment area to capture property tax revenues, but it steals them from other taxing jurisdictions within the municipality for as long as the debt is incurred (school districts, for example).

It appears that most of these criticisms have been met and overcome. Small and medium-sized cities have shown an interest in using TIF to upgrade blighted areas; it is no longer seen as only a "big city" program. In Wisconsin, villages as small as 300 in population have used it; in Montana, city-county consortia are formed to increase redevelopment areas.

States' controls over TIF practices have become fairly well developed and, in some cases, are stringent, including controls over what kind of area can qualify, how the money can be used, and how long the debt can be carried.

The tax "stealing" issue can be overcome and an understanding can usually be reached if two conditions are met. First, proper care should be taken to inform fully the various entities affected by a proposed tax increment district to show them how they will ultimately benefit from the increased tax base that would probably not have been there without redevelopment. Second, compromises can often be reached so that certain taxing districts do gain some of the increment even during development.

In recent Florida litigation, TIF was alleged to be an unconstitutional pledge of ad valorem taxes because its use does not require voter approval of the bonds. Arizona, Kentucky and Texas were also involved in court cases over constitutionality. The Florida Supreme

Court upheld the constitutionality of tax increment financing, 3/ and the Texas issue of unconstitutionality was resolved when the voters approved a constitutional amendment. 4/

The most recent problems confronting tax increment financing do not involve any of these controversies. Its biggest enemies have been the slowing down of inflation nationwide, and the adoption in many states of property tax lids. Projects funded through tax increment financing are helped if inflation increases property values by leaps and bounds between project inception and completion because that change in value supports the financing. Ceilings on property tax rates limit a project's expected revenue-generating capacity.

CONDITIONS AND ACTIONS IMPORTANT TO TIF'S SUCCESS

Education of Voters and Elected Officials

The Concept

Taxpayer opposition can hinder implementing TIF even in states where it has become law. Dealing with misunderstandings among local officials and taxpayers is crucial to successfully legislating and implementing tax increment financing. Many of the fears over tax losses or concerns over the purposes of a TIF district can be allayed if TIF, its uses, its advantages and disadvantages, and the ultimate gain for the community are clearly outlined in the beginning. Nebraska and Missouri have prepared publications on the uses and benefits of TIF, and other states express interest in helping communities implement it. Publications, along with the availability of state technical assistance, may enable local governments to help themselves more quickly and more knowledgeably.

3

The constitutionality of the statute itself could be challenged, but where the legislature has declared a program to be a valid public purpose, the Court will not disturb that determination unless clearly unwarranted. Grubstein v. Urban Renewal Agency of the City of Tampa, 115 So. 2d 745 (Fla., 1959). From: Florida Department of Veteran and Community Affairs, Using Tax Increment Financing for Community Revitalization, p. 39.

4

Approved November 1981. Texas Revised Civil Statutes Annotated, Article 1066e.

The Bonding Mechanism

Part of the taxpayers' aversion to TIF stems from misunderstanding the bonding process. Tax increment financing typically entails issuing revenue bonds to raise sufficient funds for the redevelopment [illegible]. Revenue bonds are often used for long-term governmental projects, and are not necessarily connected with a tax increment district. [illegible] general obligation bonds, revenue bonds do not pledge the full faith and credit of a government, and they rarely require voter approval. [illegible] bonds, whether used for tax increment districts or for other purposes, use revenues generated by a project to pay the bonds' principal and interest; they include an element of self-help.

In most cases, tax increment funds are used to leverage other resources into a larger pool of money. The bond market experience in California, for instance, has been that each $1 of tax increment will support from $7 to $10 in bonds. Thus, a $100,000 increment will leverage from $700,000 to $1 million in bonds. 5/ Most communities use [illegible] in conjunction with other money, usually Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) funds, so [illegible] the total amount of money made available for community improvement is a considerable sum. 6/

5

Mitchell (see footnote 1 above).

6

The Ohio law is an exception in its requirement that the land to be improved under its legislation must be acquired by a municipality with its own funds and held in fee title by the municipality. It is also unique in requiring public ownership of the land even after redevelopment, but the arrangement seems to work quite well there. The benefit to the developer is that no land need be purchased or prepared; the eventual benefit to the municipality, besides the redevelopment itself, is the rental of air space and increase in property tax base. An Ohio municipality interested in encouraging urban redevelopment can lease its land to developers for any purpose. The land is then exempt from real property taxation for up to 30 years. This is not tax abatement, however, as owners of redevelopment structures located on the land must make annual service payments equal to the tax that would be charged if the improvements were not exempt. These monies are then redistributed back to the municipality in which the improvements were made. Xenia, for instance, used later in the paper as an example of rebuilding after a disaster, recouped the entire costs of improvements to the property in the Towne Square area through increased real property taxes those improvements generated.

Most states limit the length of bond indebtedness from 10 to 20 years, although a few allow as long as 30 years. A New Hampshire official warned against such a long commitment, saying, "Politically there has to be a fast pay-off in order to handle other taxing districts' pressure." 7/ A Tennessee official, recommending no more than a ten-year debt, but preferring a three- to five-year one, said, "If you float long-term debt, you limit the ability of taxing districts to feel the full benefit of redevelopment." 8/

Other Options

Some states also allow TIF to be used on a pay-as-you-go basis, spending only the amount of money that is in the fund at a given time. New Mexico allows only this method; communities in that state are unable to bond because all taxing jurisdictions have to approve expenditures annually.

Planning and Tracking

In considering using TIF, it is crucial to know the market potential of the proposed district. The January 1983 Center City Report emphasized the importance of a market analysis early in considering TIF:

> If you don't have a market for development, then you won't have sufficient potential private investment to get the TIF cycle started. In practical terms, the whole TIF experience is predicated on market potential. When market conditions are so poor that investors won't invest and developers won't develop, then there simply will be no tax increment. 9/

Equally important is knowing the costs and assets as a district

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7 Staff interview, New Hampshire Office of State Planning, July 1983.

8 Staff interview, Office of Intergovernmental Affairs, Mayor's Office, Nashville, July 1983.

9 International Downtown Executives Association, Center City Report, January 1983, p. 5.

develops. Butte-Silver Bow, Montana, has set up a mechanism for tax increment management. Once the tax records of that locality are placed on the local government's computer system, the tax increment program will be incorporated. This will eliminate revenue unknowns -- an important factor for taxing districts.

Peat, Marwick, Mitchell & Co., in evaluating the Albuquerque Center, noted that economic analyses of tax increment financing are hard to do. The report went on to say, however,

> If one believes that redevelopment of any area of the City is in the long range best interest of all governmental units, then the Tax Increment Program is a vehicle through which all governmental units can participate. 10/

Intergovernmental Cooperation: A Mutual "Buying In" to the Concept

Agreement among all affected taxing jurisdictions is crucial for the success of TIF, not only financially, but in terms of taxpayer support and understanding. If it is absolutely impossible for all taxing districts to give up their full increment, some states have written into their legislation that a one-time payment, or a percentage of each year's increment, be paid each taxing authority affected by the TIF district. In this way, cooperation has been more easily gained.

In addition to the obvious increases in assessed property valuations, redevelopment projects should also increase revenues from sales taxes, business licenses, and other revenue sources that reflect restored economic vitality in an area. 11/ Although in some states these additional sources of revenue also revert to the TIF pool, in most they do not. They are usually considered immediate gains for the local government jurisdictions within whose boundaries the TIF districts lie.

10
Peat, Marwick, Mitchell & Co., report to Albuquerque Center, Inc., December 1980.

11
Huddleston, Jack R., "A Comparison of State Tax Increment Financing Laws," State Government, vol. 55, no. 1, 1982.

Aside from gains in revenue, a community stands to benefit from decreasing the crime and health risks commonly associated with blighted areas.

Richard Mitchell, in the Journal of Housing, states,

> Another...way to look at the use of tax increment and the possible inference that it represents a form of subsidy is to recognize that if government does not utilize the powers and skills it has at its disposal to arrest and reverse the spread of blight and deterioration, it is, by lack of act, adding onto every tax bill a charge for this neglect, which is the product of decreased valuation and demand for increased governmental fire, police, health, and welfare services. 12/

Evaluation

Unfortunately, thorough evaluations of TIF programs have been rare. A North Dakota official said that TIF is "very permissive legislation and perhaps, therefore, very permissively administered without evaluation or definition of impact." 13/ The evaluation process is one where the states can be helpful to local governments, either directly through technical assistance, or as a resource guide through publications or by sponsoring third-party evaluations. Impact is measured through cost-benefit analysis in Ohio if a community goes to the state for technical assistance. The Arkansas legislature requires that the Arkansas Public Service Commission present an impact report at the beginning of each biennium. Private third-party evaluations have been completed in California, Colorado, Iowa, New Mexico, and Montana.

The State Role

In addition to granting authority to use tax increment financing states can play some other basic support roles in promoting successful tax increment financing by local governments.

12
Mitchell, p. 126

13
Staff interview, North Dakota Department of Business and Economic Development, June 1983.

Some states loan or grant up-front money to initiate financing and redevelopment and to avoid the loss from land banking, or the "dead period," discussed earlier. Communities repay the state as a part of their overall plan. For instance, the State of Utah may loan a Redevelopment Agency funds until the increment begins to come in. Utah also may participate in a tax increment district through legislative appropriations if the state wants a building in the redevelopment area. According to an interviewee, this state participation has been crucial in one or two cases.

Colorado allows severence tax money to be added to the increment reserve fund (set by law at 15% of the annual total of reserves) to enable eligible cities to get better bond ratings. Colorado also will capitalize the fund at the start through grants to its cities. Unlike loans, the state does not require repayment of the grants as long as any balance of funds from the reserve is used for other economic development projects after the tax increment district development is complete.

In some states, evaluations are done by state personnel or are state financed. Finally, some states, like Illinois, compile and share comparative information about programs.

1983 DATA

Analysis of 1983 tax increment data reveals a continuing interest in this redevelopment financing tool. Twenty-nine states currently authorize its use and was actively considered in several state legislatures during their 1983 sessions. Much legislative activity involved amending current TIF legislation to deal with problems experienced in implementation (Texas, Florida, Indiana, Maryland, Nevada, and Utah). Two states tried again to pass TIF legislation, but failed (Massachusetts and Washington), and first-time legislation was defeated in Georgia and North Carolina.

As Table 1 illustrates, the most active states are found in the Plains and Great Lakes regions, all authorizing the use of TIF. The Far West follows with four out of six states using TIF, and legislative activity during a fifth. Only Hawaii, a state that allows little local discretionary authority, administering and financing most programs itself, had no TIF activity in the Far West in 1983.

In the Rocky Mountain region, three out of five states authorize TIF. The Southwest and New England have a 50 percent authorization rate. The Southeast lags with only four out of twelve states authorizing TIF. Attempts to pass legislation were made in two additional

TABLE 1

ENHANCING LOCAL SELF-HELP CAPABILITIES
AUTHORITY TO USE TAX INCREMENT FINANCING

State and Region	Authorizing States (by year) 1980	1981	1982	1983	Number of States authorizing out of Total in Region
New England					4/6
Connecticut	x	x	x	x	
Maine	x	x	x	x	
Massachusetts	-	-	-	**	
New Hampshire	x	x	x	x	
Rhode Island	-	-	-	-	
Vermont	-	-	-	-	
Mideast					1/5
Delaware	-	-	-	-	
Maryland	x	x	x	x§	
New Jersey	-	-	-	*	
New York	-	-	-	+	
Pennsylvania	-	-	-	-	
Great Lakes					5/5
Illinois	x	x	x	x	
Indiana	x	x	x	x§	
Michigan	-	x	x	x	
Ohio	x	x	x	x	
Wisconsin	x	x	x	x	
Plains					7/7
Iowa	x	x	x	x	
Kansas	x	x	x	x	
Minnesota	x	x	x	x	
Missouri	-	-	-	x	
Nebraska	x	x	x	x	
North Dakota	x	x	x	x	
South Dakota	x	x	x	x§	
Southeast					4/12
Alabama	-	-	-	-	
Arkansas	-	x	x	x§	
Florida	x	x	x	x	
Georgia	-	-	-	*	
Kentucky	-	-	-	-	
Louisiana	-	-	-	-	
Mississippi	-	-	-	-	
North Carolina	-	-	-	*	
South Carolina	-	x	x	x§	
Tennessee	x	x	x	x	
Virginia	-	-	-	-	
West Virginia	-	-	-	-	
Southwest					2/4
Arizona	-	-	-	-	
New Mexico	x	x	x	x	
Oklahoma	-	-	-	-	
Texas	-	x	x	x	
Rocky Mountain					3/5
Colorado	-	x	x	x	
Idaho	-	-	-	-	
Montana	x	x	x	x	
Utah	x	x	x	x	
Wyoming	-	-	-	-	
Far West					4/6
California	x	x	x	x	
Nevada	x	x	x	x	
Oregon	x	x	x	x	
Washington	-	-	-	*	
7.? Alaska	x	x	x	x§§	
Hawaii	-	-	-	-	
Total	23	28	28	29++	

Table 1 Legend

* Legislation introduced, 1983

** Legislation reintroduced, 1983

§ Has not been implemented.

Maryland: difficulties in conjunction with a triennial assessment law.
Indiana: unmarketable because of poor economic conditions in the state and confusion remains over specifics of the program.
S.Dakota: first use was to have been a downtown mall, but a competing firm developed a mall outside the district before the downtown project could get started; downtown plans were dropped.
Arkansas: awaiting court test of constitutionality.
S.Carolina: awaiting court test of constitutionality.

§§ Unable to confirm.

+ Voters approved a statewide referendum in November 1983 to allow TIF in New York State.

++ Plus active consideration of first-time legislation in four states, and re-submitted legislation in one.

Source: ACIR staff compilation

Southeastern states in 1983, and this region may experience greater activity as economic growth continues in that part of the country. According to authorities in both Georgia and North Carolina, legislation stands a good chance of passing in the future. Georgia's bill was defeated due to a technical error in the language, and North Carolina's over voter inability to understand how TIF works -- probably due to wording in the referendum that went before the voters.

The five Mideast states continue to resist the tax increment idea more than any other region, with only Maryland authorizing its use. Even there implementation is a problem because of a triennial tax assessment law, making it difficult to estimate and use the annual increments. The tax increment process cannot afford a three-year lag. Unlike a one-time "dead" period that ends once clearing and construction begins, assessing only once every three years impedes planning and does not allow for timely collection and use of tax revenues. New Jersey is the only other state in the region in which TIF legislation has been adopted by the state legislature, but was vetoed by the Governor and is now considered a "dead issue."

Because interest is high, both in states now using it and in others contemplating it, ACIR has developed draft legislation that attempts to compile the strongest points from various state statutes. A breakdown of state TIF enabling statutes can be found in the Appendix.

In those states that use TIF, support runs fairly high from most sectors, and examples abound of benefits gained from its use. Uses vary, including downtown redevelopment (either for local commercial benefit, to promote tourism, or in some cases, after a disaster), industrial development, and housing. Some examples from 1983 interviews follow:

DOWNTOWN COMMERCIAL DEVELOPMENT -- FOR RESIDENTS OR TOURISTS

SPARKS, NEVADA revitalized its downtown for residents, as well as promoted tourism, by emphasizing its RAILROAD HERITAGE as an added enticement to visit the casinos there. THE TOWN CENTER PROJECT includes the Lillard Train Depot Park, the old depot, railroad equipment, and a railroad museum. The development also included constructing many moderate income multi-unit housing structures, hoping to achieve "an attractive living area for downtown employees who can walk to work if they desire." 14/

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14 Nevada State Journal, 20 November 1977.

(Continuation)

NASHVILLE, TENNESSEE's 6.5 acre RIVERFRONT PARK, located on the Cumberland River site of the original Fort Nashborough, is a combination of commercial and aesthetic redevelopment of an old warehousing area, as well as historic preservation of an era. Twenty-three private businesses participated in the Nashville redevelopment plan. One resident said, at its grand opening in July 1983, "This is where the city of Nashville began, and we've sort of come full circle back to the banks of the river." 15/

CONCORD, NEW HAMPSHIRE'S EAGLE SQUARE is a four-block area that was developed primarily with federal and private money, with the city using TIF to fill in the gaps. The city contributions included streets, sidewalks, sewers, and parking facilities.

AKRON, OHIO makes use of TIF's long-term benefits under Ohio law through greatly increased tax income as a result of CENTRE PLAZA, a six-acre downtown "superblock."

PORTLAND, OREGON, through the traditional urban renewal activities of land acquisition, relocation, and clearance, rebuilt its downtown into a major commercial center. Portland was able to retire the bonds early because the project was so well planned.

SALT LAKE CITY, UTAH rebuilt its north-central business core with almost all new structures, hotels, and some housing. A local administrator said that TIF was the "driving force behind Salt Lake City's downtown beautification drive." In addition, Salt Lake's "Gateway Project," a successful effort to beautify the major entrance to the city, was financed through TIF.

15 The Tennessean (Nashville), 11 July 1983, p. 12.

DISTRESS FROM A NATURAL DISASTER

XENIA, OHIO was able to rebuild a major portion of its downtown area after one of the country's worst tornado disasters. XENIA TOWNE SQUARE, a 99,000 square-foot shopping center situated in the heart of the downtown area, will accommodate 35 retail and service stores, and local officials hope it will reestablish downtown Xenia as the commercial center for the surrounding market area. The plan called for the city to clear, assemble, and prepare the area for redevelopment, stimulating private sector investment. The Office of Local Government Services in the Ohio Department of Economic and Community Development received an award for the state assistance which helped make the project a reality. 16/

CANTON, ILLINOIS, the first tax increment project in that state, also started because a tornado had devastated much of the downtown area. A public/private effort between Fulton Square Development Corporation and the City of Canton, the downtown redevelopment project includes two large commercial buildings, several small retail stores, street improvements, and public parking.

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16 The Ohio Developer (Winter 1980), p. 45.

INDUSTRIAL DEVELOPMENT

COKATO, MINNESOTA used TIF as part its of industrial development plans. The objectives of the plan included what most areas desire: a major source of employment; an expanded tax base. providing adequately serviced industrial and commercial sites to accommodate desirable new firms; and creating a positive visual amenity that will project a favorable image for the city.17/

GAHANNA, OHIO used TIF to pay for improvements to an 88-acre site, including land acquisition and installation of water, sewers, and roadways to service the plants. A newspaper story on the development pointed to the ways residents will benefit from the plan, including through local income taxes paid by construction workers who build the plants and later by plant employees. Money generated through new industry also has a "multiplier effect" on the economy of the city: "For every dollar in payroll, an additional $3.50 should be generated for local business." 18/ The industrial push was also touted as "a boost for local lending institutions as Ohio law permits a group of banks and savings and loans to join together to reduce the lending risk in industrial redevelopment areas." 19/

PONTIAC, MICHIGAN used TIF to finance urban land assembly loan, using UDAG and other public money to set up industrial development within the city. GRAND RAPIDS, MICHIGAN used TIF to cover the public costs of redeveloping existing industrial properties.

17
City of Cokato, Mn., "Development District Program/Tax Increment Finance Plan," June 1981.

18
Walter Trimble, Gahanna Dispatch (Ohio), April 1978.

19
Ibid.

HOUSING

DODGE CENTER, MINNESOTA officials found that the "community's growth and industrial expansion has directly affected the availability and adequacy of dwelling units within the city. Low and moderate income families have been especially affected...." Administrators, therefore, undertook an expansion of low and moderate income rental housing and said that the project, "because of its unique nature and special federal regulations, would not be feasible without substantial local financial assistance." Tax increment financing allowed such financial assistance. 20/

CONCLUSION

Tax increment financing is not an answer to distress by itself, but it can be a valuable part of a larger package. With proper precautions, it can enhance the ability of a local government to control its own redevelopment needs. TIF has proved to be a useful, and sometimes crucial, tool for local governments in those states where it is authorized.

(This *Bulletin* was prepared by Susan Szaniszlo, ACIR Fellow)

20
Dodge Center, Mn., " Dodge Center Housing Development and Tax Increment Finance Plan," 1979.

APPENDIX

STATES AUTHORIZING THE USE OF TAX INCREMENT FINANCING

STATE	ENABLING STATUTE	YEAR
Arkansas	Arkansas Community Redevelopment Financing Act 17: 6.1 - 6.7	[illegible]
California	Community Redevelopment Law Health and Safety Code, Sect. 3300 Div., 24, parts 1, 1.5, 1.7	[illegible]
Connecticut	Chapter 132 of the Connecticut General Statutes Sections 8-134a; 8-192a	1967
Colorado	Urban Renewal Law; 31-25-107 31-25-809, Downtown Revitalization	1977 1981
[illegible]da	Community Redevelopment Act of 1969 Florida Statutes 163.330 - .450	1969
Illinois	Real Property Tax Increment Allocation Act Chap. 24, Part 11: 74.4-1 -- 4.11	1976
Indiana	Tax Increment Financing 36 - 7.1439	1975
Iowa	Urban Renewal Law St. Code 403.19 Tax Increment Financing	1957 1969
Kansas	Redevelopment of Central Business District Areas 12-1770	1976
Maryland	Tax Increment Financing Act of 1980 Art. 41, Sec. 266JJ	1980
Maine	Municipal Development Districts Title 30, Sec. 4861	1977
Michigan	Tax Increment Finance Authorization Act 450 of Michigan Public Acts of 1980	1980
Minnesota	Minnesota Tax Increment Finance Act MS 273.71 - 78	1960

Missouri	Real Property Tax Increment Allocation Redevelopment Act Chap. 99.800 - .865	1982
Montana	Tax Increment (or Blighted Area) Financing 7-15-4201	1977
Nebraska	Community Improvement Financing (Community Development Law) Sec. 182101 - 2153	1979
New Hampshire	Municipal Economic Development and Revitalization Districts RC 162-K	1979
New Mexico	Urban Development Law - Metropolitan Redevelopment Code 3-60A: 1-48	1979
Nevada	Community Redevelopment Law NRS 279.382	1959
Ohio	Urban Redevelopment Tax Increment Financing ORC 5709.41-43	1976
Oregon	Tax Increment Financing of Urban Redevelopment Indebtedness ORS 457.420-.460	1961
South Carolina	Tax Increment Financing for Redevelopment Projects 31-8-10	1981
South Dakota	Tax Incremental Districts Chapter 11:9.1 - 47	1978
Tennessee	Redevelopment Plan Containing Tax Increment Financing Provisions (amendment to Authorization of Housing Redevelopment Authority, 1945) TCA 13-20-205	1978
Texas	Tax Increment Financing Act of 1981 Texas Revised Civil Statutes Ann., Art. 1066e	1981
Utah	Neighborhood Development Act (Utah Development Law) Utah Code Annot. 1983; 11-19-1	1969
Wisconsin	Tax Incremental Financing Law Wisconsin Statute 66.46	

ALASKA STATE LEGISLATURE

(12) HB 434

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THE MAT-SU BOROUGH

M E M O R A N D U M

TO: All Committee Members
House Community and Regional Affairs

FROM: Curt Menard
Representative Com

DATE: March 11, 1988

RE: HB434

HB434 would give local government across Alaska the ability to use tax increment financing (TIF) to develop their communities.

Tax increment financing allows local governments to create public corporations that in turn could offer bonds to finance redevelopment. The bonds would be repaid by some portion of the incremental difference on taxes owed.

If for no other reason, HB434 is necessary to allow municipalities to take advantage of federal tax-exempt bonds for redevelopment in blighted areas.

The 1986 federal tax legislation, in Section 144 (c) (2), provides that a bond shall not be treated as a qualified (i.e., tax-exempt) redevelopment bond unless the bond, among other things, is issued pursuant to "a state law which authorizes the issuance of such bonds for redevelopment purposes in blighted areas."

HB434 includes and defines language mandated by federal law for tax-exempt redevelopment bonds.

HB434 is designed to enhance local governments' ability to support and maintain innovative financial alternatives necessary to meet their individual needs with maximum local control.

Twenty-nine states currently authorize the use of Tax Increment Financing and several more have pending legislation.
HB434 includes the language mandated by federal law for tax-exempt redevelopment bonds.

TIF has been endorsed by the city of Palmer, the Mat-Su Joint Chambers of Commerce, the City of Seward, the Alaska Municipal League, the City of Homer, the City of Kenai, the Mat-Su Planning Commission, the Alaska State Chamber of Commerce, and by Ron Garzini, the Municipal Manager of the City of Anchorage.