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Official Business

Alaska State Legislature

Senate Labor and Commerce Committee

State Capitol
Juneau, AK 99801-1182

SPONSOR STATEMENT

Senate Bill 365: Municipal Improvement Areas

Tax increment financing ("TIF") is a well accepted municipal planning and financial tool used nationwide to facilitate the revitalization of blighted areas. Alaska adopted this tool for municipalities to use with its 1988 adoption of AS 29.47.460. Essentially, it allows a municipality to issue bonds for the improvement of blighted areas funded only by the tax revenues generated by the increased tax base that occurs as a result of the development. The result is that other portions of the tax base are not called upon to subsidize such improvement, and the risk that the tax base will not increase is passed onto the bondholders rather than the taxpayers when the bond is issued as a revenue bond.

Senate Bill 365 fine tunes this tool and makes it more useful under real life Alaska conditions. The language in section 1, second sentence, clarifies the current ambiguity of whether TIF's can be used only with general obligation bonds or as revenue bonds. The current provision is silent, leaving the matter to judicial interpretation. The language makes clear that both methods can be used, as well as in combination.

The language also allows TIF's to be used in public-private partnership ventures, where the bond proceeds can be used to improve both public improvements, and private improvements through the use of loans or grants. This provides greater flexibility to municipalities that wish to improve a blighted area without relying solely on new public improvements, which, without private renovation, may not be sufficient to spur the renewal of an area. It implements the belief that successful urban renewal projects will be most successful when the private market commits its resources to new development.

Finally, the new definition of "improvement area" broadens the earlier restriction that TIF be used only with blighted areas. "Blighted areas" as defined in the existing law, is more of a Rust Belt concept of abandoned and vacant buildings, substandard structures, and tax delinquencies. In Alaska, some municipalities, such as Anchorage with its 2020 Comprehensive Plan, wish to shape development of town centers. The current definition is too restrictive for such use. Our "blighted areas" are often areas of substandard improvement, surrounded by vacant land, or inappropriate "grand fathered" development. The new definition will give municipalities a better and more flexible financial tool to guide positive development into the future.



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Current Statute

Sec. 29.47.460. Debt for development and redevelopment projects.

(a) In undertaking a development or redevelopment project, a municipality may issue bonds to finance public improvements for the project, 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, and delinquencies in payment of real property taxes;

(2) "redevelopment purposes" means the

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

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

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

(b) 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 an area described in the ordinance shall be used to repay the principal and interest on bonds, notes, or other indebtedness that is incurred for a development or redevelopment project, and may irrevocably pledge the tax increment from the area for that purpose. The area described in the ordinance may be a service area. 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.

History -

(Sec. 2 ch 118 SLA 1988; am Sec. 1 ch 20 SLA 2001)

Amendment Notes -

The 2001 amendment, effective July 26, 2001, in subsection (b) deleted "but only if additional security in the form of a letter of credit or equal security is also pledged" from the end of the first sentence.

**Municipality
of
Anchorage**



P.O. Box 196650
Anchorage, Alaska 99519-6650
Telephone: (907) 343-4333
Fax: (907) 343-4526
<http://www.ci.anchorage.ak.us>

George P. Wuerch, Mayor

HERITAGE LAND BANK

April 17, 2002

Representative Kevin Meyer
Chair Community & Regional Affairs Committee
Alaska State House of Representatives

Senator Ben Stevens
Chair Labor and Commerce Committee
Alaska State Senate

Dear Representative Meyer/Senator Stevens

The existing Tax Increment Financing (TIF) laws are a current tool that municipalities can use to redevelop blighted areas. Anchorage is interested considering this tool for this purpose.


The current law would better serve this purpose if two basic concepts were incorporated into law.

The first change would remove ambiguity with regard to TIF financings in terms of whether they are done using revenue bonds versus General Obligation Bonds. The new language would allow the local government to choose the most appropriate method.

The second change addresses the physical areas, which can be improved through the TIF law. The new language would allow the TIF law to apply to those areas within a specific geographic area that include blighted areas as well as adjacent areas that are currently undeveloped or poorly developed. This would allow for a comprehensive development of a given generally blighted area.

The Municipality is in support of these changes as they allow greater flexibility in utilizing the TIF tool for neighborhood redevelopment.

Sincerely,


George Canelos,
Executive Director, Heritage Land Bank