

ALASKA LEGISLATURE COMMITTEE FILES 1987-88 8672

4481 HCRA HB 434 - HB 439

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*JUNEAU OFFICE
**ADMITTED IN NEW YORK ONLY

January 25, 1988

Representative Curt Menard
Pouch V
Juneau, Alaska 99811

Re: Legislation Relating to Municipal Redevelopment

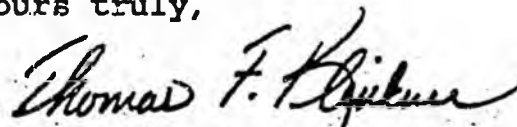
Dear Representative Menard:

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

TEK/mlo

A180628



Alaska State Legislature

House of Representatives

Committee on Community & Regional Affairs

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 455-4831

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

(4) HB 434

TELEPHONE
(907) 586-1325


105 MUNICIPAL WAY, SUITE 301
JUNEAU, ALASKA 99801

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,

House C&RA Committee RE HB 434

February 29, 1988

Page 2

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

ALASKA STATE LEGISLATURE

⑤ HB 434

Curt Menard

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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 *CDM*
Representative

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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MEMORANDUM

TO: Committee Members
House Community and Regional Affairs

FROM: Curt Menard *C M*
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"

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MEMORANDUM

TO: Committee Members
Community and Regional Affairs

FROM: Curt Menard *C.M.*
Representative

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

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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 = \$1.40

****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

POUCH Y STATE CAPITAL
JUNEAU ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

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 BOROUGHES. 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 BOROUGHES. 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

Representative Curt Menard

Page 2

March 1, 1988

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 BOROUGHES. 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 BOROUGHES. 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

7 HB 434

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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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

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	2647	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

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

EXHIBIT 5-3 (cont'd)

Example of Tax Increment Financing

Amount Borrowed:		826234							
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									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 Fund 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

ces other than general tax

endent redevelopment com-
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for in the Capital Projects
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principal means of financing
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ment financing, not only for

redevelopment, but, insofar as legally permissible, for general purpose govern-
ment operations as well. Thus, the future is likely to see TIF projects of longer,
even indefinite, duration, levying taxes on geographically larger and more de-
veloped 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 incre-
mental increase.

Other User Pay Approaches

Finance directors and other government officials and administrators are un-
derstandably 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 ordi-
nances 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 equi-
table 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

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

March 2, 1988

POSITION PAPER

RE: House Bill 434

SPONSOR: Menard, Larson & Lawacki

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.

⑧ HB 434

STEVE COWPER, GOVERNOR

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ANCHORAGE, ALASKA 99508-4302
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House Bill 434
March 2, 1988
Page 2

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.


David G. Hoffman, Commissioner

(9) HB 434

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*JUNEAU OFFICE
**ADMITTED IN NEW YORK ONLY

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.

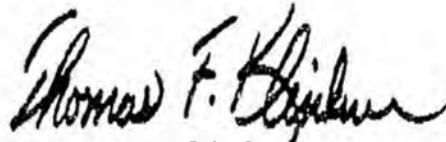
The purpose of subsection (b) is to expressly authorize municipalities to establish public corporations to exercise powers related to development and redevelopment projects. Article X, Section 11 of the Alaska constitution authorizes home rule municipalities to exercise all legislative powers not prohibited 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.

Representative Curt Menard
March 7, 1988
Page 2

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

TFK/mlo
cc: David L. Soulak

A180844

MEMORANDUM

10 HB 434
RECEIVED MAR 10 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 municipalities 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
SEWARD, ALASKA 99664



11 HB 434 / CRA
MAR - 8 1988
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● Fire (907) 224-3445
● Telecopier (907) 224-3248

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 governments 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

*Wagner Center
for your info*

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

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.

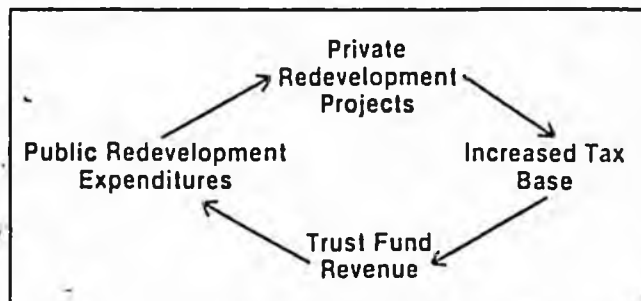


Figure 1. The TIF Cycle

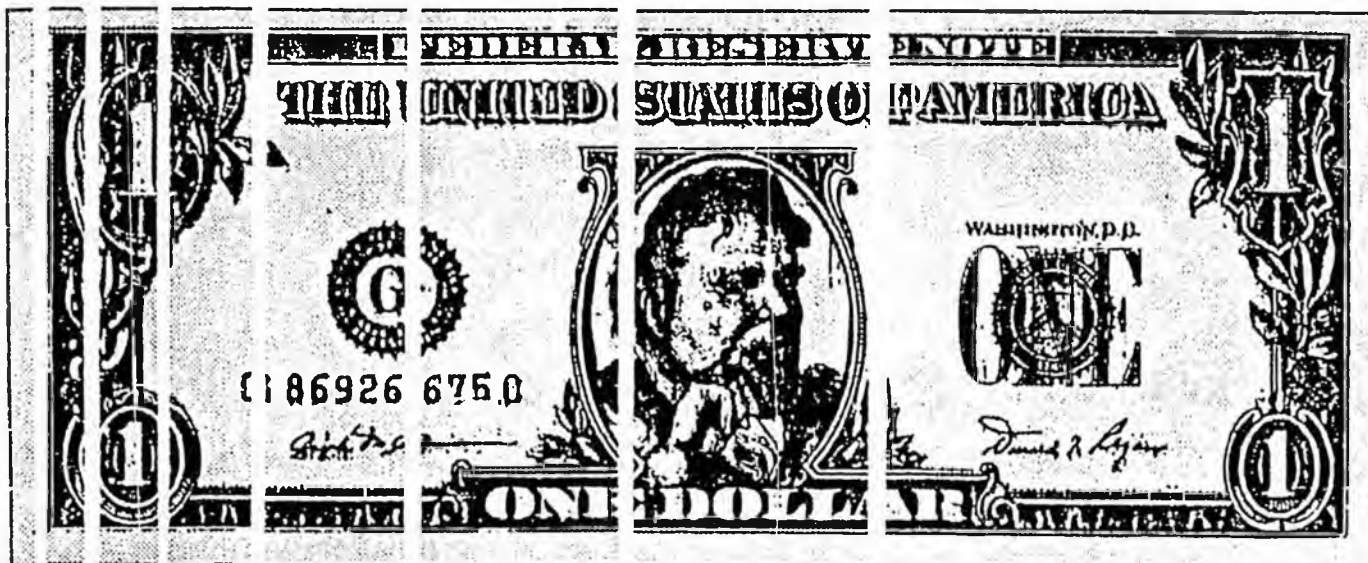
redevelopment to support public redevelopment, thereby making more private investment possible. The beauty, to the taxpayer, is that there are no increased property taxes. This particularly appeals to homeowners and suburbanites who often don't care to have their taxes flowing into downtown redevelopment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

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-



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 re-

quires 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

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JUL 11 1984

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Information Bulletin:

Advisory Commission on Intergovernmental Relations
Washington, DC 20575

*cc Julie, Bob
ptr aug*

BULLETIN NO. 84-2

May 1984

TAX INCREMENT FINANCING: A LOCAL OPTION FOR FINANCING REDEVELOPMENT

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AUG 8 1984

CITY OF SEWARD
CITY MANAGER

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 - Total funds
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CORRECTION

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TO ASSURE LEGIBILITY**

*Maya Carter
for your info*

January 1983

83-1

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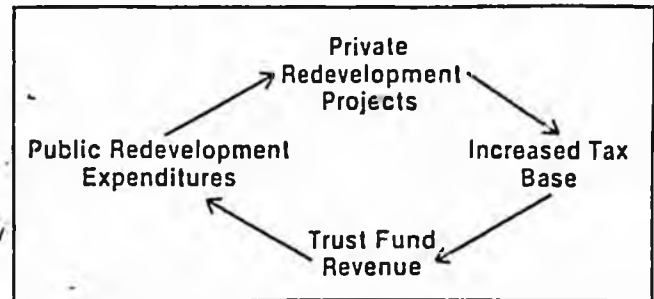


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Cities that expect to use tax increment financing successfully will have to be like the pig and make a total commitment. It would be a mistake to think that TIF is a new panacea that relieves everyone of responsibility while it produces cash windfalls.

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-



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.

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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.

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 redevelopment 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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Information Bulletin:

Advisory Commission on Intergovernmental Relations
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BULLETIN NO. 84-2

May 1984

TAX INCREMENT FINANCING: A LOCAL OPTION FOR FINANCING REDEVELOPMENT

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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
Finance Dept*

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

	<u>Page</u>
IN BRIEF.....	1
BACKGROUND.....	1
PROS AND CONS.....	3
CONDITIONS AND ACTIONS IMPORTANT TO TIF'S SUCCESS.....	5
Education of Voters and Elected Officials.....	5
The Concept.....	5
The Bonding Mechanism.....	6
Other Options.....	7
Planning and Tracking.....	7
Intergovernmental Cooperation: A Mutual "Buying In" to the Concept.....	8
Evaluation.....	9
The State Role.....	9
1983 DATA.....	10
CONCLUSION.....	17
APPENDIX.....	18

BACKGROUND

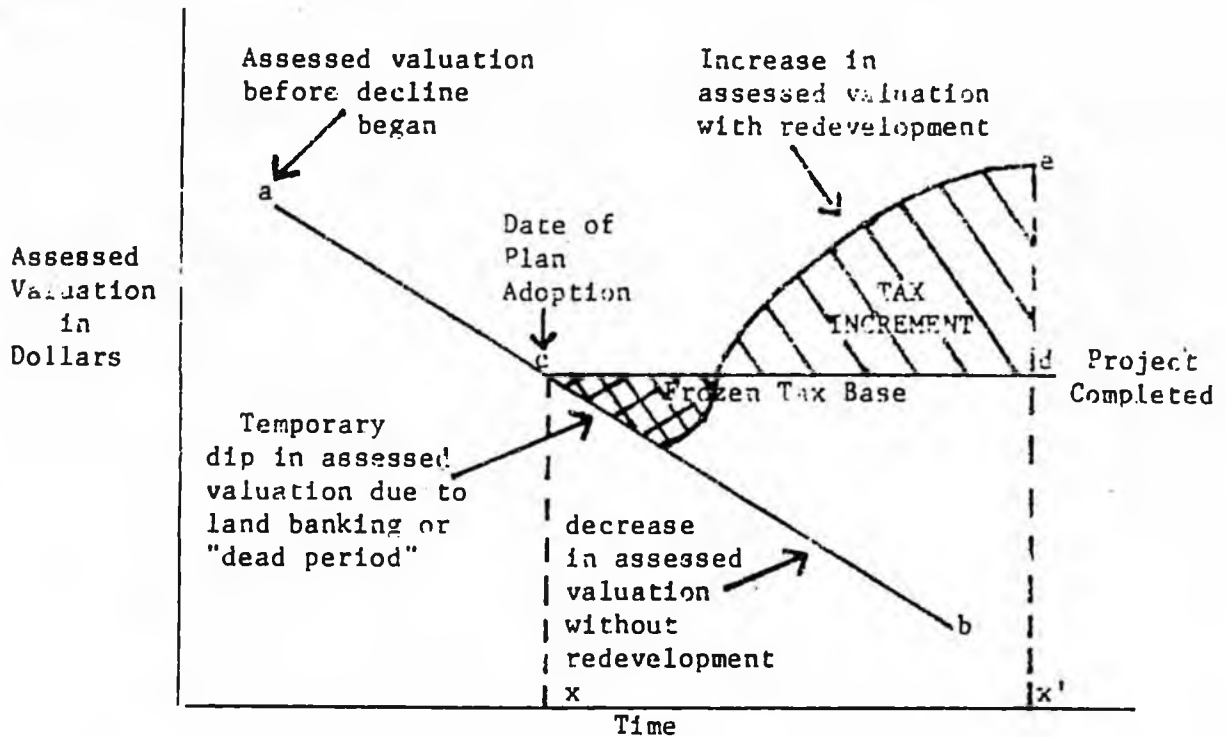
Tax Increment Financing (TIF) is a tool used by local governments to finance redevelopment while increasing future fiscal capacity through a stronger tax base. A locality that is designated for TIF is allowed to have its tax base frozen at a rate in effect immediately before development. Any amount over the base value is placed in a fund of development, or anticipated development, zone into a special fund which is used to retire any debt incurred in financing redevelopment. A time limit is put on the debt repayments, after which the full tax due is paid to jurisdictional taxing authority within the redevelopment 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 pay 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

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 sustains 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 project. Revenue bonds are often used for long-term governmental projects, and are not necessarily connected with a tax increment district. Unlike general obligation bonds, revenue bonds do not pledge the full faith and credit of a government, and they rarely require voter approval. Revenue 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 TIF in conjunction with other money, usually Community Development Block Grant (CDBG) and Urban Development Action Grant (UDAG) funds, so 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

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 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 severance 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)				Number of States authorizing out of Total in Region
	1980	1981	1982	1983	
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	-	-	-	*	
Alaska	x	x	x	x\$	
Hawaii	-	-	-	-	
Total	23	28	28	29++	

7.7 -

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 Midwest 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 traditional 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/

(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.

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 15 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.

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

<u>STATE</u>	<u>ENABLING STATUTE</u>	<u>YEAR</u>
Arkansas	Arkansas Community Redevelopment Financing Act 17: 6.1 - 6.7	1971
California	Community Redevelopment Law Health and Safety Code, Sect. 3300 Div., 24, parts 1, 1.5, 1.7	1951
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
Florida	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	1970
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

Curt Menard

251 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 *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.

H B

439

#	Date In	Doc. Type	Date	Subject	DESCRIPTION	From	Copied	Init.
(1)	2/10	Bill	2/8					
(2)	2/11	Bill Rev.	2/11	Bill Rev		DCH		
(3)	2/15	PP	2/5	DCRA				
(4)	2/15	FN	2/15	DCRA				
(5)	2/16	Memo	2/16	10 Sp. From AM L supp 439				
(6)	2/26/8	C Rpt	2/26	Con Rpt.	2 DP	1 DVP		
A	2/16	Min	2/16					
		Min	2/25					

= Distributed, all files

(Ltr) = Master, Backup, Next Com. Files

STATE OF ALASKA THE LEGISLATURE

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

LEGISLATIVE AFFAIRS AGENCY LEGISLATIVE REFERENCE LIBRARY

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	2-16-88	3:00p.m.
" "	2-26-88	3:00p.m.

2/8 D R F 2/10 P 2/8 N

BILL PREPARATION/ACTION*

Bill # HB 439 Date Referred: 2/8/88 Out:
Title: Increase Municipal & Community Entitlements
Sponsor: Adams / Hoffmann / Sp. Referrals: CR A F/N

CONTACTS:*****

Name _____
DCRA Plasman 2/15 2/16
Adams - Elmer will 2/15 2/22 [2/26]
PP FN 2/8

FEB 24 1988

Mayor Sanderson
Hillsburg

May come on Fri, 26th
of Feb to testify on support
of HB 439.

REMARKS: _____

MEETINGS:*****

Date	Action
* 2/15/88	1st pub. hng. - hold
2/26/8	passed out 2 DP, 1 DNP + comment

*See other side for additional information.

HOUSE COMMITTEE REPORT

(5)

(6) HB 439

Date referred: 2/8/88

FURTHER REFERRALS: Finance

DATE: FEB 26 1988

The Community and Regional Affairs Committee has considered HB 439

"An Act relating to entitlements for municipalities and unincorporated communities; and providing for an effective date."

RECOMMENDS:

- replace with _____ the same title
- attached amendment(s) a new title
- 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 same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Cato Better Cato

Springer Heinrich Springer

SIGNING OTHER RECOMMENDATIONS.

Collins Virginia Calhoun - Do NOT PASS unless there IS AN INCREASE IN THE Level of Funding for the Program.

Springer Heinrich Springer
Chairman's signature

File Contents

HB 439 - Increase Municipal and Community Entitlements

<u>No.</u>	<u>Description</u>
1.	Bill - HB 439
2.	Bill Review - HCRA Staff, Harrison
3.	Position Paper - DCRA
4.	Zero Fiscal Note with Attachment - DCRA
5.	Position Paper - AML



Official Business

COMMITTEE:

HOUSE COMMUNITY & REGIONAL AFFAIRS

DATE: Tuesday, Feb. 16, 1988

SIGN-IN

Subject of meeting:

~~HB 357 Grants for Local Service Roads & Trails~~

*HB 439 Increase Munic. & Community Entitlements

*~~HB 419 Community Economic Disaster Loan Fund~~

NAME (PLS PRINT)	YOUR TITLE & ADDRESS	PHONE	REPRESENTING	DO YOU WANT TO TESTIFY?
Bill Rofzen	Project Assistant (Revenue Sharing) DCRA			NO
Elmer Lindstrom	Aide - Rep. Adams			If Chairman Springer would like
Carolyn Berg	Citizen Concern			Yes
Jim Plesman			DCRA	



Alaska State Legislature

House of Representatives

Committee on Community & Regional Affairs

Pouch V
State Capitol
Juneau, Alaska 99811
(907) 465-4833

To: Representative Henry Springer, Chairman
HCRA

From: HCRA Staff - David Harrison *DelH*

Date: February 15, 1988

Subject: BILL REVIEW
HB 439 - "An Act relating to entitlements for municipalities and unincorporated communities; and providing for an effective date." [Adams, Hoffman, Springer]

* Section 1. AS. 29.60.140(a) The department shall pay to each unincorporated community an entitlement of \$50,000 [\$25,000] each fiscal year to be used for a public purpose.

COMMENT: The only change in present statute in (a) of this section is the amount of entitlement to unincorporated communities.

There are about 74 unincorporated communities receiving aid to unincorporated communities under the revenue sharing program. The various factors affecting entitlement determines the exact prorated amount of funding each unincorporated community receives. If the entitlement is increased to \$50,000, each unincorporated community will receive a greater increase than in FY '88. Please refer to the memo by Mr. Jim Plasman, Deputy Director of DCRA, dated February 4, 1988.

* Section 2. AS 29.60.290(a)
A municipality qualifying for an entitlement under AS 29.60.010 - 29.60.080 or 29.60.100 - 29.60.180 shall receive a minimum of payment of \$50,000 [\$25,000] plus an area cost-of-living differential for each fiscal year if....

COMMENT: The amendment as proposed raises the minimum municipal entitlement from \$25,000 to \$50,000. Various sections of the municipal statutes are listed indicating municipal status and classifications. Again, please refer to Mr. Jim Plasman's memo of February 4, 1988, (attached) related to this amendment.

Total entitlements to municipalities are formulated from miscellaneous entitlement, tax equalization entitlement as well as minimum entitlement add on. Entitlements are based upon a number of factors. Tax equalization accounts are prorated to municipalities according to factors that determine actual minimum entitlements received. Statutes mentioned in this bill are attached for your information and quick review.

Attachments

MEMORANDUM

State of Alaska

Community and Regional Affairs

TO: Marla Berg
Legislative Aide to
Representative Al Adams

DATE: February 4, 1988


FILE NO:

TELEPHONE NO: 465-4750

THRU:

SUBJECT: Fiscal Impact of SRS
Amendments

FROM:


Jim Plesman
Deputy Director
Municipal and Regional
Assistance Division

You have asked what the fiscal impacts of changing the unincorporated entitlement and minimum municipal entitlement from \$25,000 to \$50,000. While this would not have a fiscal impact on the department's operations, it would affect the allocation of funds under the revenue sharing formula.

The impact on the Miscellaneous Services Account of such a change would be a decline in the proration factor for the Miscellaneous Services Account of about 3.8 percent. Assuming FY 88 variables, this would reduce the Miscellaneous Services proration factor from about 55.59 percent to 51.76 percent. For unincorporated communities, their actual payment would rise from a projected FY 88 payment of \$13,917 (based upon a \$25,000 entitlement level) to \$25,916 (based upon the proposed \$50,000 level). Other payments from this account for roads, health facilities, hospitals, and volunteer fire departments outside of municipalities would be reduced by about 3.8 percent. Assuming FY 88 variables, in order to "hold harmless" other recipients from this account, ~~\$528,510~~ would have to be added to the account.

about \$1,028,000

The impact on the Tax Equalization Account would be two-fold. While there would be the direct impact of raising the municipal minimum entitlement, there would also be an indirect impact from raising the unincorporated community entitlement. With the reduction in the amount municipalities receive for roads and health facilities, some municipalities would need incrementally more for the minimum entitlement add-on paid out of the tax equalization account. The impact would be to reduce payments from the Tax Equalization Account by about 10 percent. Assuming FY 88 variables, in order to "hold harmless" other recipients under this account, the decrease would amount

Marla Berg
February 4, 1988
Page Two

to 9.69 percent and an additional \$2,562,809 would need to be added to this account.

If you have any further questions, please give me a call.

cc: Bert Greist
Deputy Commissioner

bcc: Bob Evans
Office of the Governor
Director of Legislative
Relations

Bill Rolfzen
Project Assistant

STATE OF ALASKA

③ HB 439

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

MUNICIPAL & REGIONAL ASSISTANCE DIVISION

949 E. 36th AVENUE, SUITE 400
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KOTZEBUE, ALASKA 99752-0350
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P.O. BOX 41
NOME, ALASKA 99762-0041
PHONE: (907) 443-5457

February 15, 1988

POSITION PAPER

RE: House Bill 439

SPONSORS: Representatives Adams, Hoffman, and Springer

EFFECTS OF BILL:

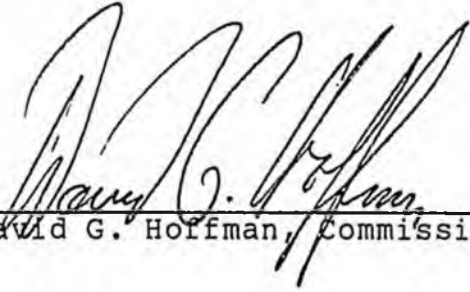
This bill would increase the State Revenue Sharing entitlement for unincorporated communities from \$25,000 to \$50,000 and the minimum municipal entitlement from \$25,000 to \$50,000. In FY 88, 74 unincorporated communities will receive State Aid to Unincorporated Communities under the State Revenue Sharing Program. Unincorporated community entitlements are paid out of the Miscellaneous Services account, along with entitlements to municipalities for roads, health facilities and hospitals, and entitlements to volunteer fire departments in the unorganized borough. The revenue sharing entitlements from this account will be prorated at about 55 percent in FY 88, so that unincorporated communities will receive about \$13,880 rather than \$25,000. Assuming FY 88 funding variables, raising the unincorporated community entitlement to \$50,000 would increase the actual payment to unincorporated communities to about \$25,000 through a reallocation of funds within the Miscellaneous Services account. Other payments from this account would be reduced by about 6.9 percent.

In FY 88, we project that about 83 municipalities will receive funds under the minimum municipal entitlement provision. The amount of money used to fund the existing minimum municipal entitlement (\$25,000 plus a geographic differential) will be about \$1.6 million, which comes from the tax equalization account of the state revenue sharing program. Assuming FY 88 funding variables, this bill will include an additional 25 communities under the minimum municipal entitlement provision. Actual payments will vary, based upon differing COLA's and the impact of the prorationing of the tax equalization account. The proration factor for other payments from the tax equalization account would fall from about 94.6 percent to about 86.1 percent.

COMMENTS:

The department supports the concept of this bill, which is designed to give a greater measure of financial support to those smallest municipalities and communities in the state. Recent events have shown that these small municipalities are suffering tremendous hardship. Those municipalities which will be affected by this provision will be those with relatively small local revenue raising capacities because of the lack of a local tax base. Consequently, the bill would focus assistance on those areas with the greatest need and the least resources to respond to the need. A continuing problem for these municipalities is to attract and retain qualified municipal personnel because of their inability to pay adequate, stable wages. Raising the minimum entitlement will enhance the ability to do this, leading to greater continuity of services at the local level, and a better ability to maintain proper fiscal controls over local finances.

Without additional funds, the reallocation of funds will result in a decrease in entitlements to other revenue sharing recipients. In light of the state's revenue situation at this point, the administration is unable to support a request for additional funds to the program necessary to "hold harmless" other recipients.



David G. Hoffman, Commissioner

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: HB 439
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: DCRA
Title: "An act relating to entitlement for municipalities and uninc...." BRU: Municipal Revenue Sharing
Sponsor: Adams, Hoffman, Springer Components: State Revenue Sharing
Requestor: _____

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)

(see attached)

Prepared by: Jim Blaser Phone: 465-4750
Division: Municipal & Regional Assistance Date: 2/15/88
Approved by Commissioner: [Signature] Date: 2-15-88
Agency: Community & Regional Affairs

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

FISCAL NOTE ATTACHMENT
HB 439

While this bill would not have a fiscal impact on the department's operations, it would affect the allocation of funds under the revenue sharing formula.

The impact on the Miscellaneous Services Account of such a change would be a decline in the proration factor for the Miscellaneous Services Account of about 3.8 percent. Assuming FY 88 variables, this would reduce the Miscellaneous Services proration factor from about 55.59 percent to 51.76 percent. For unincorporated communities, their actual payment would rise from a projected FY 88 payment of \$13,917 (based upon a \$25,000 entitlement level) to \$25,916 (based upon the proposed \$50,000 level). Other payments from this account for roads, health facilities, hospitals, and volunteer fire departments outside of municipalities would be reduced by about 6.9 percent. Assuming FY 88 variables, in order to "hold harmless" other recipients from this account, \$1,028,043 would have to be added to the account.

The impact on the Tax Equalization Account would be two-fold. While there would be the direct impact of raising the municipal minimum entitlement, there would also be an indirect impact from raising the unincorporated community entitlement. With the reduction in the amount municipalities receive for roads and health facilities, some municipalities would need incrementally more for the minimum entitlement add-on paid out of the tax equalization account. The impact would be to reduce payments to other recipients from the Tax Equalization Account by about 10 percent. Assuming FY 88 variables, the decrease would amount to 9.69 percent and, in order to "hold harmless" other recipients under this account, an additional \$2,562,809 would need to be added to this account.

Alaska MUNICIPAL League


⑤ HB 439

TELEPHONE
(907) 586-1325

105 MUNICIPAL WAY, SUITE 301
JUNEAU, ALASKA 99801

MEMORANDUM

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

FROM: Scott A. Burgess, Executive Director 
Alaska Municipal League

DATE: February 16, 1988

SUBJECT: HB 439 - Increasing Minimum Entitlements

On behalf of its 135 member municipalities, the Alaska Municipal League supports the concept of HB 439 and increasing the minimum entitlements under the State Revenue Sharing Program. However, without increasing the level of funding for the program, the League cannot support the actual legislation.

AML Policy Statement states in PART I.B.1:

"b. In those cases in which legislation is approved increasing the state revenue sharing entitlement for specific recipients or for a specific purpose, the League advocates that the total funding for state revenue sharing be increased accordingly in order to preclude the dilution of funding to other recipients.

c. The League supports an increase in the state revenue sharing minimum entitlement."

By increasing the minimum entitlement from \$25,000 to \$50,000 without increasing the total appropriation for State Revenue Sharing will further dilute or reduce funding amounts to existing communities. Funding levels have already declined over 30% in the last two years. In fact, the low levels of total funding of the Revenue Sharing Program, has resulted in the specific programs under "State Aid for Miscellaneous Purposes, e.g., roads, ice roads, and health facilities, being prorated i.e. under funded. The Department of Community and Regional Affairs estimates that the total State Revenue Sharing amount would have to be increased approximately \$3.8 million to hold communities harmless given current funding levels.

Again, the AML supports the concept in HB 439 of increasing the minimum entitlements and would support the proposed legislation only if the level of Revenue Sharing funding is increased and municipalities are held harmless.