

WHAT IS TAX-INCREMENT FINANCING (TIF)

- Redevelopment financing technique authorized and used in 47 states across the country.
- Local governing body determines a defined area classed as 'slum or blighted' and designates it for redevelopment via an adopted plan. Within this area, the property tax base (assessed valuation) is frozen at the current level for a stipulated period of time. Property tax revenues derived from the growth of the tax base over the frozen level are diverted for reinvestment into the area for qualified projects.
- TIF revenues generated can be invested on a 'pay-as-you-go' approach or used to amortize bonded debt or other financing instruments.
- Nationally, TIF is the foremost tool used to stimulate affordable housing and downtown redevelopment investment.

ARIZONA TAX-INCREMENT FINANCING LEGISLATIVE & LEGAL ISSUES

- TIF was passed by the Arizona State Legislature in 1977 and bond issuance was deemed unconstitutional by the Arizona Court of Appeals in 1980. Since 1980, legislation amended in '94, '97 and '98.
- TIF Tax-Exempt Bonds – TIF bonds were deemed to be subject to voter approval, and the court's action proceeded no further. Other constitutional issues may be applicable. Also subject to the Private Activity Cap and applicable federal tax law.
- TIF Revenue Generation ('Pay-As-You-Go') – ARS 36-1488.01 was repealed in 1999. New enabling legislation needed.

THE USE OF TAX-INCREMENT FINANCING IN ARIZONA

- **City of Casa Grande – Uses TIF revenues for public improvements in their predominantly non-residential, redevelopment area generating about \$130,000/year in revenues from the primary tax base.**
- **City of Apache Junction – In 1997 the City authorized the use of tax increment within a portion of its downtown redevelopment area over the ensuing 30 years from the primary tax base and excluded the Fire District. Proceeds have been used for public improvements. Residential areas covered by the district are comprised of retirees so school district impacts were limited. Revenues of about \$300,000/year are generated to the district and the entity is investigating bonding authority through GADA.**

TAX INCREMENT: SOLUTIONS FOR OTHER TAXING JURISDICTIONS

Arizona Primary and Secondary Tax Levies – Primary levies are generally restricted to operations and maintenance uses for taxing jurisdictions while the secondary are restricted to capital expenditures.

Impact To Affected Taxing Jurisdictions - For all taxing jurisdictions, use only the primary levy and tax base.

Arizona Constitutional 2% Ad Valorem Levy Limit - Collections from cities, counties and community college districts may rise only 2% a year from inflationary increases of the existing tax base plus the valuation of new property added to the rolls. Increases beyond the 2% limit would have the effect of keeping tax rates down. The limit was imposed to control annual governmental expenditures and the resulting tax burden on property owners.

Impact To Affected Taxing Jurisdictions - Assuming that TIF districts were limited in size to no greater than some modest proportion of the tax bases of these jurisdictions (cities, counties and community college districts) and restricted to new valuation added, the imposition might be manageable. This would need to be checked, and for jurisdictions of varying sizes.

Public School Finance – The State of Arizona prescribes annual operations and maintenance budgets for schools on a per student basis, which are funded through local property tax contributions and state equalization funds distributed by Arizona counties.

Impact To Affected Taxing Jurisdictions - Assuming that TIF districts were limited in size to no greater than some modest proportion of the tax bases of these districts, schools will need to be kept financially whole for the inflationary growth of their O&M budgets and net increase in student enrollment from within the TIF district. Just compensation would need to be paid to the school district and/or the county (the distributing entity for state equalization proceeds). *Thus, the financing of housing of all types with TIF revenues would be a budgetary matter of consequence for school districts and the redevelopment entity.*

Centrally Assessed Properties –Ensure that TIF would not adversely affect centrally assessed properties.