March 4, 1997

BILL ANALYSIS

TO: Members, Committee on Trade and Economic Development

FROM: Kenny Pittman, Research Analyst (786-7392)

RE: HB 2075 - Regulating tax increment financing.

BACKGROUND:

Tax increment financing (TIF) is a technique used in other states to finance public improvements. Tax increment financing blends the concept of a local improvement district with property tax collections. Using a TIF district, a city is able to use the additional property taxes that a proposed development would generate to finance development costs and public improvements.

When a TIF district is created, the net capacity of the properties in the district is certified as the district's original tax capacity.– The regular property taxes that are paid on the property value above the original tax capacity are captured– by the city, rather than being paid to all the taxing districts (state, county, school district, and special taxing districts, in addition to the city). These additional property taxes are referred to as tax increments– and are used to pay development costs. Usually, the city issues general obligation bonds to finance the up-front development costs. The principal and interest on the bonds are repaid with the tax increments generated by the new development. Once the bonds are repaid, the tax collections cease being diverted and are again distributed to the taxing districts.

The state community redevelopment financing program was created in 1982, to provide cities and counties a financing mechanism to use both regular and excess property taxes to finance public improvements. However, constitutional amendments to authorized the program were defeated by the voters in 1982 and 1985.

SUMMARY:

The existing statutes authorizing the community redevelopment financing program is repealed and the tax increment financing program (TIF) is created.

Any city with a population of 100,000 or more may enter into agreements with local taxing districts for the purpose of financing public improvements through the use of increases in the regular property tax. A city using tax increment financing to finance public improvements must: (1) adopt an ordinance designating a tax increment area that is within the boundaries of the city; (2) identify the public improvements proposed to be financed; (3) obtain approval from every taxing district within the tax increment area; (4) ensure that the private development will be consistent with county and city comprehensive plan and development regulations under the state's growth management act; and (5) certify that the percentage of the taxing districts tax increment value is less than 2 percent of the assessed value of any taxing district within the tax increment district.

Before a city adopts an ordinance creating a tax increment area and district it must: (1) obtain written agreement for the use of tax increment financing to finance the public improvement from each taxing district, including the state; (2) hold a public hearing on the proposed financing of the public improvement; and (3) adopt an ordinance establishing the tax increment area that describes the boundaries, estimates the cost of the public improvement, and portion of the costs financed by tax increment financing.

After adoption of the tax increment financing district, each taxing district receives an amount equal to its regular property taxes prior to the adoption of the district, plus 50 percent of the increase in the assessed value of the property in the district. An amount equal to the other 50 percent in increased value is diverted to the city for the purpose of paying principal and interest on general obligation bonds issued to finance public improvements.

Each specific taxing district authorized to impose either regular property taxes or non-voter approved excess levies, is given specific authority to provide capital facilities that may be financed under the tax increment financing program. Before a taxing district may allocate a limited portion of its property tax revenue it must enter into a written agreement to participate in the project.

Public improvements– include street or highway improvements, water and sewer systems, storm drainage and storm water systems, park and recreation improvements, public squares and common areas, beautification of public areas, transit, and intermodal

transportation facilities.

Taxing district— means the state, counties, rural county library districts, metropolitan park districts, park and recreation service areas, park and recreation districts, road districts, fire protection districts, port districts, public utility districts, cultural arts, stadium, and convention center districts, cemetery districts, public hospital districts, and flood control zone districts.

Appropriation: None.

Fiscal Note: Requested February 25, 1997.

Effective Date: Ninety days after adjournment of session in which bill is passed.