



PAYCHECK \$ and POLITICS

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The ABC's of TIF in Arkansas

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Does the title look a little bit like an encrypted message? No idea where to find the decoder?

This brief guide will translate the acronyms into understandable language and provide you with key questions to ask your local decision-making bodies about the use of Tax Increment Financing (TIF) in your community and its impacts on funding for local schools.

What is TIF, anyway?

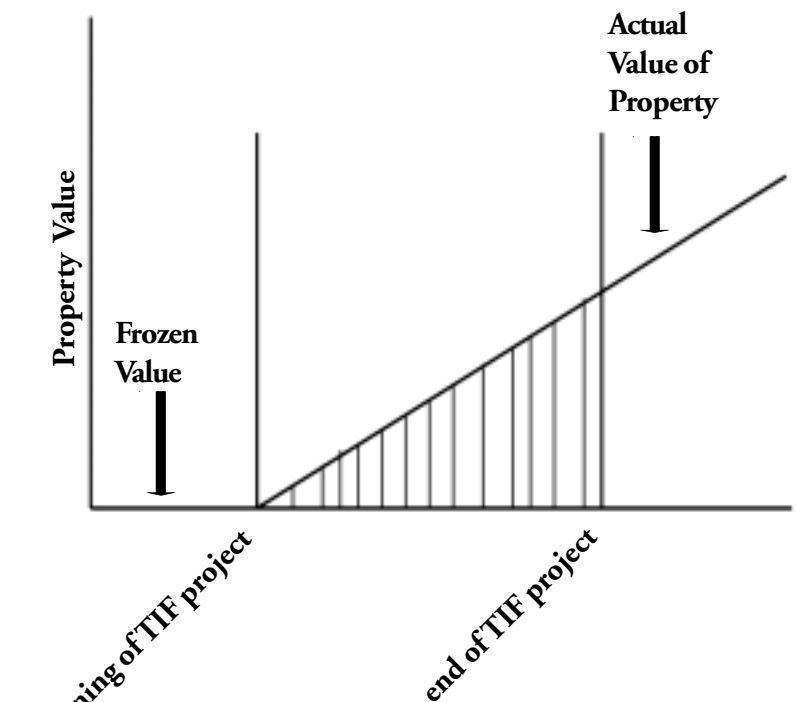
Tax Increment Financing, or TIF, originated in California in 1952. Originally intended as a way to raise matching funds for federal grants, TIF has grown quickly and spread widely ever since. TIF reached Arkansas in 2000 as a result of Amendment 78 to the Arkansas Constitution.

TIF has varying requirements throughout the many states that utilize it, but the basic operation is pretty much the same: TIF is used to finance public investments (usually infrastructure such as water lines and street repair) needed to spur economic development in a blighted area.

At the beginning of the process, specific parcels of land are set aside for economic development (these parcels are then known as TIF districts).

How does TIF affect my taxing jurisdiction?

Properties within the TIF district are valued and that value is then “frozen” prior to development. Tax revenue resulting from property taxes on properties within the TIF district’s frozen tax base continues to go to the taxing authority. Any subsequent increase in property tax revenue from an increase in the value of the land due to the new development is dedicated to



Legend:

Taxes on this amount go to the TIF district and not to the taxing authority; this amount is known as the tax increment.



pay for the development. This increase is known as the tax increment, giving TIF its name.

The theory behind TIF is straightforward – any increased tax revenues in the TIF district will have been brought about by the funded development. In other words, the development is funding the growth and being funded by the growth. But in the debate about Tax Increment Financing questions abound about that simple statement – is TIF needed to fund the growth; would the growth have happened anyway?

How are TIF districts chosen?

The Blight Requirement

Prior to the federal Fair Housing Act (FHA) of 1949, the only way a municipality could engage in redevelopment activities was to participate in federally funded low-income housing projects. Once the FHA passed, communities could engage in broader redevelopment projects, but to receive federal aid on the new project, the project had to conform to overall federal planning objectives which clearly included addressing slums and blight. The idea of a blighted area requirement for redevelopment came from these initial efforts.

A blight requirement, then, serves the important role of connecting the private interest with the spending of public funds.¹

The Changing Definition of Blight

According to Webster's, blight is a deteriorated condition. States have used many definitions for blight, some that resemble the dictionary definition and others that do not. Arkansas' newly passed legislation also requires "blight," but the legislature's definition of blight goes much further than the dictionary definition. The new requirements for "blight" in Arkansas are so loose as to allow a TIF district to be formed just about anywhere in the state. However, without an actual "blight," it's hard to see the connection between the use of public funds and the private development. Is the subsidization of infrastructure for a lifestyle center in a rapidly growing area of Arkansas a good use of public dollars? Should local taxpayers tie up much-needed school revenue in a development that would have taken place without the subsidy?

These questions are important questions that need to be addressed.

Our new law (Act 2231 of 2005) states that a TIF district can encompass land that:

- a) is in an advanced state of dilapidation or neglect or is so structurally deficient that improvements or major repairs are necessary to make the property functional;
- b) has structures that have been vacant for more than three years;
- c) has structures that are functionally obsolete and cause the structures to be ill-suited for their original use; or
- d) has vacant or unimproved parcels of property located in the redevelopment district ... in an area that is predominately developed and are substantially impairing or arresting the growth of the city or county due to obsolete platting, deterioration of structures, absence of structures, infrastructure, site improvements, or other factors hindering growth.²

The Process and Public Comment Under the Arkansas TIF Process

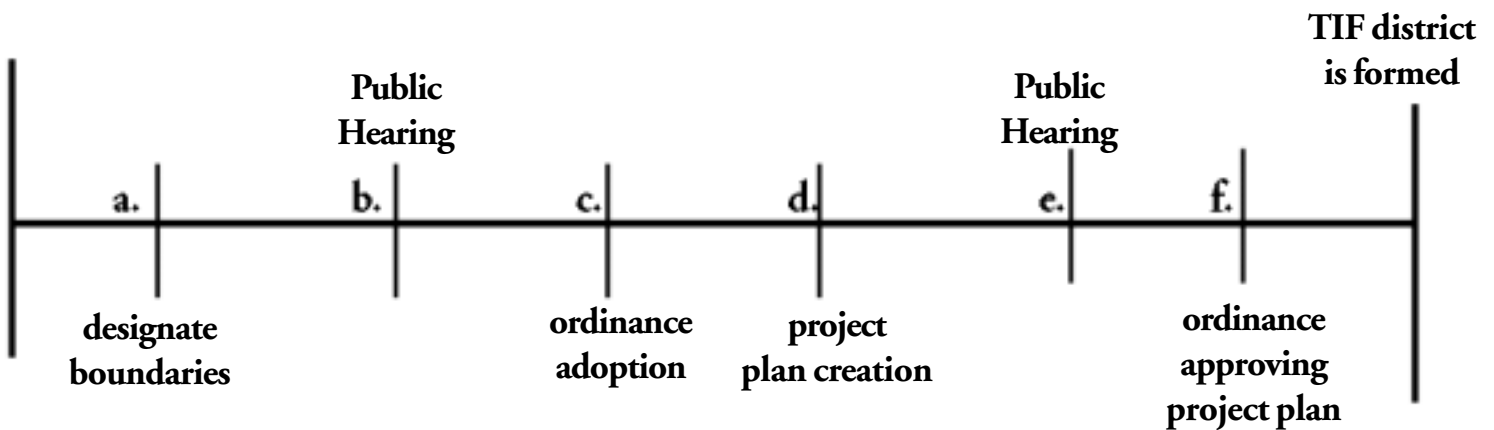
Voters will have no chance to vote directly on the use of their tax dollars, but they will have at least one opportunity for their voices to be heard. Below is a timeline of the TIF process – remember this process, once started, can form a development district lasting for 25 years.

The local governing body (the city council, city board of directors, county quorum court, or any other legislative body governing a city or county) initiates the process.³

The Local Governing Body takes the following steps:

- a. Designates the TIF district boundaries
- b. Holds a PUBLIC HEARING
- c. Adopts an ordinance containing the "blight" finding and a statement of how the TIF district will benefit from the redevelopment. This ordinance also sets up the financing district.
- d. Creates a project plan listing the public works and improvements benefiting the district. The project plan also must include an economic analysis by an independent third party. This analysis

Time Line for TIF District Creation



will compare the projected amount of tax revenue to be diverted from the taxing units to the projected sales, income and ad valorem tax revenue to be received by taxing units as a result of the TIF district. The analysis will then be submitted to the Arkansas Department of Economic Development for review.

- e. Holds a PUBLIC HEARING (this public hearing and the prior hearing could be combined into one hearing)
- f. Approves the project plan in an ordinance. The plan must be shown to be economically feasible.

After the plan is approved by the local governing body, the TIF district is formed. From that point on, the local governing body is required to report to the Assessment Coordination Department (ACD) every year with ACD reporting to the governor and the legislature at the beginning of each biennium on the economic, social, and financial effect and impact of community redevelopment financing projects.

It is important to notice that while the legislature could step in and prohibit FUTURE uses of TIF if the biennial reports show a lack of economic enhancement, it is extremely unlikely that any TIF districts already in place would be modified.⁴ It is crucial for citizens interested in how their tax dollars are utilized be engaged in the TIF creation process by fully participating in public hearings.

School Dollars

Amendment 74 to the Arkansas Constitution calls for 25 mills of property tax revenue to be designated for the maintenance and operation of Arkansas schools. An Attorney General’s opinion prior to the passage of Act 2231 of 2005 prohibited the use of those 25 mills for anything other than schools. Rather than taking this as a sign to look elsewhere for redevelopment funding, the legislature resoundingly decided that the school-allotted 25 mills could be used for redevelopment. While exempting county-owned hospitals, police officer and firefighter pension funds, and libraries from the reach of a TIF district, the legislature gave the “full speed ahead” sign to developers to use the 25 mills dedicated to the maintenance and operation of Arkansas schools.

The question is not whether paying for redevelopment with school dollars will leave schools funded (they will be funded one way or another), but where that funding will come from. If local school tax funds are instead used to build a new lifestyle center, the state coffers will be forced to replace that lost revenue. These local schools, rather than being locally funded, will rely on state funding to fill the gap. This may look like a win-win from the community with the prospect of a TIF district – a lifestyle center and state-funded schools without a cent more in taxes. But, the only way for the state to make up revenue shortfalls is to tax all of its citizens at a higher rate. There is no doubt that schools will continue to be funded, indeed that is a constitutionally mandated commitment of the state’s, the question is about the source

of that funding. It is likely that part of the funding shortfall will be filled with state sales tax revenue, once again making an already unfair tax system even more unfair for low- and middle-income families.

It is possible, and probable, that the third party economic analysis will show that the proposed TIF district will raise the tax base of the land surrounding the TIF district – that the surrounding land will be worth more because of the TIF district and that this increase in value will increase the tax base in the jurisdiction and therefore will ease the decrease in the school funds. That may be true, but it is speculative to predict such an increase for a 25-year period. No one knows for sure that such an increase will happen just as no one knows for sure that there will be a shortfall. The important question is: do we, as a community, benefit from a development that takes away our school tax dollars, with no requirement that the shortfall be made up, with no requirement of a showing that the area wouldn't have developed on its own? It has been argued that opponents of TIF districts can't prove that a TIF district would harm schools, citizens should ask their governing bodies to prove it won't.

Speak up, be a voice, ask questions. Save your school revenue.

1. *Tax Increment Financing and Economic Development: Uses, Structures, and Impacts*; Craig L. Johnson and Joyce Y. Man, editors; State University of New York Press, 2001; pg. 37.
2. Act 2231 of 2005, Sections 14-168-305(d)(1)-(4).
3. Act 2231 of 2005, Sections 14-168-301(8) and (9).
4. Act 2231 of 2005, Sections 14-168-308(d)(2) states that "...no district shall be terminated so long as bonds with respect to the district remain outstanding." In other words, once the bonds are issued, the TIF district will remain in place.

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The State Fiscal Analysis Initiative (SFAI) Project

The mission of Arkansas Advocates is to ensure that all children and families have the resources and opportunities to lead healthy and productive lives and to realize their full potential. The goal of our SFAI project is to improve the economic well-being of the state's families with children by providing timely and credible analysis to policymakers, the media, and the public and promoting a more informed public debate about state tax and budget issues.

For More Information:

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