

Tax Increment Financing
in
Arizona

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TABLE OF CONTENTS

INTRODUCTION AND BACKGROUND	1
SUMMARY OF TAX INCREMENT FINANCING	2
SUMMARY OF THE ARIZONA PROPERTY TAX SYSTEM	5
SUMMARY OF THE ARIZONA EDUCATION FINANCE SYSTEM	9
THE RELATIONSHIP BETWEEN TAX INCREMENT FINANCING AND THE ARIZONA PROPERTY TAX SYSTEM	11
THE RELATIONSHIP BETWEEN TAX INCREMENT FINANCING AND THE ARIZONA EDUCATION FINANCE SYSTEM	15
OTHER ASPECTS OF TAX INCREMENT FINANCING	17
CONCLUSIONS	18
APPENDICES	19

TAX INCREMENT FINANCING IN ARIZONA

INTRODUCTION & BACKGROUND

The purpose of this paper is to provide general information concerning tax increment financing and some of the potential effects of its implementation in the state of Arizona. Tax increment financing is a revitalization financing technique that received substantial attention during the 1986 legislative session.

This paper is being presented to the Study Commission on Methods of Revitalization Financing, which was created by Chapter 274, Laws of 1986. The commission is charged with evaluating alternative financing techniques that might be utilized in revitalizing blighted and economically depressed areas and the potential impact of such techniques on the various taxing entities with the state.

In order to properly analyze the impacts of tax increment financing as it might be implemented in Arizona, it is helpful to review how it operates, its historical development and Arizona's property tax system, including the financing of elementary and secondary education.

The statutory authorization for tax increment financing in Arizona was originally enacted in 1977. The governing board of municipalities were authorized to create "redevelopment districts". Authorization was also provided for the collection and segregation of the "tax increment" associated with property taxes imposed by existing political subdivisions. Additionally, the issuance of "property tax increment bonds", which are secured by a pledge of "tax increment" collections, were authorized.

In October of 1977, the City of Tucson attempted to issue "tax increment bonds". The Attorney General refused to certify the bonds and the City of Tucson sought to force such certification in the courts. Both the trial Court and the Court of Appeals declared the bond issue to be invalid and the tax increment financing statutes to be unconstitutional under Article VII, Section 13 of the Arizona Constitution. As a result of this court decision, tax increment financing has received little attention in Arizona during the intervening years.

During those years, however, substantial changes have been made to the Arizona property tax system. In 1980 a comprehensive system of reforms was

passed by the Legislature, referred to the voters of the state, and enacted into the Arizona Constitution. These reforms dealt with a variety of property tax issues including the computation of the maximum permissible tax levy by counties, cities and community college districts, as well as mechanisms for limiting the annual growth in assessed valuation of individual properties.

Directly related to the property tax reforms enacted in 1980 is the education financing system within Arizona. That system is largely dependent on and integrally related to the Arizona property tax system.

The education finance system within Arizona was initially enacted in the mid 1970's, substantially revised in 1980, and has been subject to legislative adjustments since then. Expenditures of the elementary and secondary schools are controlled through state imposed formulas and are financed by means of a "qualifying" local property tax effort supplemented by equalization assistance from the state. The basic property tax mechanisms of the system have remained unchanged since 1980.

In the 1986 legislative session, substantial interest in tax increment financing developed once again. This resulted from the continuing interest in finding workable mechanisms to finance the revitalization of certain areas of the state. A Senate Concurrent Resolution was introduced to amend the Arizona Constitution to conform various facets of the existing property tax system to aspects of the tax increment financing mechanism.

The primary purpose of this report is to provide a cursory review of tax increment financing (with particular attention to the 1977 enactments) and the impact of its implementation in Arizona within the context of the Arizona property tax system and the education finance system in Arizona. This will be done through the use of a number of simplified examples. The examples used are not intended to represent any existing or proposed redevelopment districts or political subdivisions.

In addition to these issues, a number of other important questions and concerns involving tax increment financing must be addressed prior to any implementation of such a system in Arizona. However, the limited scope of this report prevents an appropriate discussion of these issues here.

SUMMARY OF TAX INCREMENT FINANCING

Tax increment financing provides a mechanism for determining and collecting the "property tax increment" within "redevelopment project areas", frequently designated as redevelopment districts. Simply stated, any property taxes levied and collected on the increased assessed value of property

located within a redevelopment district is segregated for expenditure on projects within that district. Other existing property taxing jurisdictions receive only the property taxes generated from that amount of the assessed value of property within the redevelopment district as of the date of the creation or designation of the area. Thus, the amount of taxable value subject to taxation by the existing property taxing jurisdictions is "frozen" for the length of time the redevelopment district exists. Any property taxes collected as a result of the "increments" (increases) to the assessed value of the area are diverted for the redevelopment district.

This segregation of property tax collections in turn provides a flow of revenue to the redevelopment district to be used in accordance with an adopted redevelopment plan. Further, those revenues can be used to secure bonds or other indebtedness issued to carry out purposes outlined in the redevelopment plan.

Tax increment financing provides a system for generating property tax revenues from increases in property values that result, at least partially, from the redevelopment projects that are financed by bonds secured by the property taxes collected on the increased value. Thus, the property taxes collected on the increases in value, which result, in some part, from the redevelopment projects, are used to secure and retire the bonds issued to finance those same projects. In theory, those benefitting from the projects pay the taxes used to finance the projects.

The tax increment financing system established by Chapter 139, Laws of 1977 is very similar to that described above and the systems enacted in a variety of other states. However, many of the other states utilizing tax increment financing do not rely on a property tax and education finance system similar to that contained within the Arizona Constitution and Revised Statutes.

Section 36-1488.01, as added by Chapter 139, provided for creation of a redevelopment district and the collection and segregation of the "tax increment". Section 36-1481, also added by Chapter 139, provided for the issuance of bonds to be repaid from the revenues generated through the tax increment financing system. That section also specified that the bonds are not obligations of the issuing municipality; are not general obligations or general debt of the municipality; and therefore, need not be approved at an election held pursuant to Article VII, Section 13 of the Arizona Constitution.

In October of 1977, shortly after the enactment of Chapter 139, the City of Tucson sought to issue \$1.5 million worth of tax increment bonds for the Pueblo West Redevelopment Project. In accordance with Section 36-1484,

A.R.S., the issue was submitted to the Attorney General for certification. The Attorney General refused to certify the bonds arguing that they were in violation of Article VII, Section 13 of the Arizona Constitution. Tucson sought judicial review of the decision of the Attorney General requesting a special order directing the Attorney General to certify the bonds so that they could be issued. The trial court and the Court of Appeals of Arizona, Division II agreed with the opinion of the Attorney General stating that the issuance of tax increment finance bonds without an election was a violation of Article VII, Section 13 of the Constitution.

The reasoning of the court in reaching its decision is of some interest because of the distinctions drawn by the court. The court found that, because the source of revenue securing repayment of the bonds was an ad valorem property tax, which is a "general tax" of the city, the bonds were in fact debt of the city requiring an election under the Constitution. Additionally, the court found that the tax increment financing scheme set forth in Section 36-1488.01 was unconstitutional under the same section. As a result of this finding the Court of Appeals, as had the trial court, refused any further review of the statutes because of this overriding constitutional flaw.

In 1986, a proposed amendment to the Arizona Constitution, in the form of Senate Concurrent Resolution 1010, was introduced in the Arizona Legislature. The resolution would have amended the Arizona Constitution, and was intended to address a variety of issues within the Chapter 139 tax increment financing system, which was held to be unconstitutional. The introduction of this resolution caused the debate that surrounded tax increment financing during the late 1970's to be rekindled.

Specifically, SCR 1010 would have added a Section 22 to article IX of the Arizona Constitution. That section would have directly authorized the legislature to enact statutes providing for the exercise of tax increment financing powers by cities and towns in the state.

SCR 1010 also would have amended the constitution to authorize the issuance of tax increment financing bonds, provide that such bonds were not debt under the provision of Article IX, Section 8, and specify that the bonds did not require electoral approval pursuant to Article VII, Section 13. Finally, the SCR proposed that tax increment property tax collections and expenditures be outside of the expenditure limitations imposed on local governments pursuant to Article IX, Section 20 of the Arizona Constitution.

SCR 1010 was not passed by the Legislature during its 1986 session and the remainder of this report will review tax increment financing as it was structured by Chapter 139, Laws of 1977.

Tax increment financing was originally developed in the 1950's as a technique for identifying and segregating property tax revenues that could be dedicated to the financing of redevelopment projects within cities. It is important to remember the historical context that contributed to the development of this financing mechanism. The 1950's were a period of relatively stable property values during which significant increases in taxable value (assessed value) resulted primarily from the construction of new property rather than inflationary pressures on existing property. The level of property taxation and the associated property tax rates were moderate compared to recent experiences. Finally, property taxes represented the primary source of revenue for local governments throughout the country.

The use of tax increment finance increased steadily until the mid-1970's. Particularly during the 1970's, tax increment financing was a very popular technique for generating revenues to finance urban redevelopment. It was used extensively in many of the major cities in the State of California. However, the operation of tax increment financing in the 1970's produced a number of results substantially different than those initially envisioned when it was developed two decades years earlier. The 1970's were a period of substantial, continued inflation in property values. This difference between the 1970's and the 1950's was responsible for much of the change in the impact of tax increment financing. Inflationary increases in property values greatly exaggerated the impact of tax increment financing both from the perspective of the redevelopment districts and the existing property taxing jurisdictions.

As a result of some of adverse impacts of tax increment financing and its often over zealous utilization, the technique fell into general disrepute during the late 1970's and the early part of this decade.

SUMMARY OF THE ARIZONA PROPERTY TAX SYSTEM

In 1980, a comprehensive reform of the Arizona property tax system was enacted into the Arizona Constitution. The reforms dealt with virtually every aspect of the property tax system. Further, the system was developed in conjunction with a substantial revision to the system for financing elementary and secondary schools in Arizona. This joint development was essential in light of the historic dependence of Arizona school districts on the property tax.

The 1980 property tax reforms established a system of limitations on the amount of property taxes that could be imposed by counties, cities, towns and community college districts. (School district property tax collections are effectively limited through the education finance system and

special district property tax collections are loosely controlled through a series of tax rate and/or budget limitations.) Thus, the only unregulated property tax after 1980 was the state property tax, which falls directly under the control of the State Legislature.

The 1980 reforms were designed to protect property taxpayers from continually increasing property taxes and provide greater predictability of future tax liability. During the 1970's, property taxes on individual properties tended to increase commensurate with increases in the taxable value of the properties. Most increases in taxable value were attributable to inflationary pressures and market pressures within the state. The reluctance of property tax dependent governments to reduce tax rates resulted in annual increases in property tax liabilities.

To address the problem of continually increasing property taxes, a system of "levy limitations" was enacted. These limitations, found in Article IX, Section 18 of the Arizona Constitution, effectively eliminated the annual increases in property tax liability resulting from increases in property values. Simply stated, the levy limits force a taxing jurisdiction to reduce its property tax rate to offset inflationary increases in the taxable (assessed) value of property within the jurisdiction. Therefore, the jurisdiction receives the same amount of property taxes each year regardless of increases in the assessed value. Two specific exceptions exist to this simple rule. First, the overall collections of a jurisdiction are allowed to increase by two per cent each year. Second, the total collections of a jurisdiction are allowed to increase by an amount equal to the taxes that are imposed and collected on newly constructed and previously untaxed property. Thus, the limitation is frequently referred to as "the two per cent plus new property levy limit".

The 1980 levy limitations have two primary effects. The first effect is to protect taxpayers from increasing property tax bills. On average, taxpayers' limited property taxes increased by two per cent each year. The second is to limit the total collections available to finance government operations.

The levy limitations have effectively controlled increases in property taxes paid by individual taxpayers in the intervening years. The limitations on property tax collections have also constrained the growth of government and resulted in a shift of reliance from property tax revenues to other available sources (if any).

It is important to note that the levy limitation system enacted in 1980, while protecting taxpayers from increasing property tax liabilities, does not drastically limit growth in assessed valuation for tax purposes as

occurred in California following the passage of Proposition 13.

Since 1980, the total assessed value of property in Arizona has continued to grow as a result of two underlying causes. The first of these is the construction of new property as the population and economy of the state continue to grow. The second cause of increased assessed valuation has been continued market pressure (demand) for existing properties. Based on current population and economic projections for the next several decades, there is no reason to believe that either of these two underlying pressures on property values is likely to disappear.

The examples that follow are intended to simply illustrate the operation of the property tax levy limitations as contained in the Arizona Constitution. In all cases the initial tax rate is assumed to be \$2.00; the total assessed value in the first year is \$ 1,000,000; and therefore the total property tax levy is \$20,000.

*****EXAMPLE ONE - NO GROWTH*****

TAX YEAR	TOTAL ASSESSED VALUE	TAX RATE	TOTAL TAX COLLECTIONS	GROWTH IN COLLECTIONS	VALUE OF NEW PROPERTIES
1	\$1,000,000	\$2.00	\$20,000		
2	\$1,000,000	\$2.04	\$20,400	2.00%	\$0
3	\$1,000,000	\$2.08	\$20,808	2.00%	\$0
4	\$1,000,000	\$2.12	\$21,224	2.00%	\$0
5	\$1,000,000	\$2.16	\$21,649	2.00%	\$0

TOTAL ASSESSED VALUE INCLUDES:
NO INFLATIONARY GROWTH
NO NEW CONSTRUCTION

*****EXAMPLE TWO - INFLATION ONLY*****

TAX YEAR	TOTAL ASSESSED VALUE	TAX RATE	TOTAL TAX COLLECTIONS	GROWTH IN COLLECTIONS	VALUE OF NEW PROPERTIES
1	\$1,000,000	\$2.00	\$20,000		
2	\$1,100,000	\$1.85	\$20,400	2.00%	\$0
3	\$1,210,000	\$1.72	\$20,808	2.00%	\$0
4	\$1,331,000	\$1.59	\$21,224	2.00%	\$0
5	\$1,464,100	\$1.48	\$21,649	2.00%	\$0

TOTAL ASSESSED VALUE INCLUDES:
10 % INFLATIONARY GROWTH
NO NEW CONSTRUCTION

*****EXAMPLE THREE - CONSTRUCTION ONLY*****

TAX YEAR	TOTAL ASSESSED VALUE	TAX RATE	TOTAL TAX COLLECTIONS	GROWTH IN COLLECTIONS	VALUE OF NEW PROPERTIES
1	\$1,000,000	\$2.00	\$20,000		
2	\$1,100,000	\$2.04	\$22,440	12.20%	\$100,000
3	\$1,200,000	\$2.08	\$24,970	11.27%	\$100,000
4	\$1,300,000	\$2.12	\$27,592	10.50%	\$100,000
5	\$1,400,000	\$2.16	\$30,308	9.85%	\$100,000

TOTAL ASSESSED VALUE INCLUDES:

NO INFLATIONARY GROWTH

\$100,000 NEW CONSTRUCTION

*****EXAMPLE FOUR - INFLATION AND CONSTRUCTION*****

TAX YEAR	TOTAL ASSESSED VALUE	TAX RATE	TOTAL TAX COLLECTIONS	GROWTH IN COLLECTIONS	VALUE OF NEW PROPERTIES
1	\$1,000,000	\$2.00	\$20,000		
2	\$1,200,000	\$1.85	\$22,255	11.27%	\$100,000
3	\$1,420,000	\$1.72	\$24,419	9.73%	\$100,000
4	\$1,662,000	\$1.59	\$26,502	8.53%	\$100,000
5	\$1,928,200	\$1.48	\$28,511	7.58%	\$100,000

TOTAL ASSESSED VALUE INCLUDES:

10 % INFLATIONARY GROWTH

\$100,000 NEW CONSTRUCTION

In the first example, there is assumed to be no growth in total assessed value. As shown the property tax collections grow by two per cent per year (and the tax rate gradually increases).

In the second example, assessed values experience 10% inflation per year. Property tax collection still grow by only two per cent per year, however, the tax rate is forced down each year as property values continue to grow.

In the third example, total assessed value is increased due to new construction of \$100,000 per year (and no inflationary increases). This time property tax collections increase by more than two percent per year. Note that the tax rates are equal to the rates in the first example where no growth occurred. The increased property tax collections are derived from taxes collected on new properties subject to tax at the same rate as previously existing properties.

In the fourth example, both pressures on assessed value are illustrated. Total assessed value is increased due to **inflation and new construction**. Once again, the tax rate is reduced to offset the inflationary increases in property values (as in example two) and the total tax collections increase due to the new construction (as in example three).

Hopefully, these examples will also prove useful in explaining the impact of tax increment financing below.

SUMMARY OF THE ARIZONA EDUCATION FINANCE SYSTEM

Integrally related to the Arizona property tax system is the system of financing elementary and secondary education within Arizona. Simply stated, school districts determine an authorized "budget level" based on various budget criteria (student population, etc.) and expenditure categories. The districts are then, in effect, required to levy a "qualifying" property tax as their "local effort" towards the financing of local education. The "qualifying" "local effort" is determined by applying a statutorily established tax rate (the qualifying tax rate) to the taxable value within a school district.

The state, through equalization aid, then provides sufficient money to close the gap between the level of the "local effort" property taxes and the authorized budget level of the district.

This system provides an adequate (authorized) level of available revenues for all students in all districts regardless of the amount of taxable property in the district. In other words, in those districts with substantial levels of taxable assessed value a greater percentage of the district's total budget is financed using "local" property taxes and a lesser percentage is financed through equalization aid. In a low assessed value district, more of the district's budget will come from equalization assistance and less from local property taxes. Taxpayers' property tax liability to the district is thereby limited.

Thus, the education financing system limits a taxpayer's property tax liability to school districts to approximately the level of the qualifying tax rate multiplied by the taxpayer's assessed value. However, unlike jurisdictions bound by the constitutional levy limits the district's tax rate is not necessarily reduced to offset inflationary increases in property values.

The following example illustrates the relationship between local property taxes, assessed values and "equalization assistance" in the financing of school districts in Arizona. The district is assumed to have an "author-

ized budget level of \$30,000 and assessed value of \$500,000 in the first year; and an initial "qualifying" and actual tax rate of \$4.12.

*****EDUCATION FINANCE EXAMPLE*****

YEAR	DISTRICT BUDGET LIMIT	DISTRICT ASSESSED VALUE	DISTRICT TAX RATE	TOTAL TAX COLLECTIONS	TOTAL EQUALIZATION ASSISTANCE
1	\$30,000	\$500,000	\$4.12	\$20,600	\$9,400
2	\$32,400	\$540,000	\$4.12	\$22,248	\$10,152
3	\$34,992	\$583,200	\$4.12	\$24,028	\$10,964
4	\$37,791	\$629,856	\$4.12	\$25,950	\$11,841
5	\$40,815	\$680,244	\$4.12	\$28,026	\$12,789

ASSUMPTIONS:

8% GROWTH IN BUDGET AND RCL = DSL

8% GROWTH IN VALUE

In the example above, given the district's authorized budget level, the amount of "equalization assistance" is computed by multiplying the district's "qualifying" tax rate, \$4.12 (and actual tax rate in this example) by the district's assessed value, \$500,000. The resulting "qualifying levy" (\$20,600 in the first year, \$28,026 in the fifth year) is subtracted from the district budget and the difference is the amount of equalization assistance (\$9,400 in the first year, \$12,789 in the fifth year).

Several differences between this example and the earlier tax limit examples bear particular notice. First, note that the tax rate remains constant throughout the five years and the district's tax collections increase commensurate with the growth of assessed value -- unlike the earlier examples where the tax rate declined as values increased and the tax collections remained relatively constant. Second, the "equalization assistance" mechanism assures the availability of sufficient revenue to reach the authorized budget level. No such assurance exists for most of the jurisdictions subject to the constitutional levy limits.

THE RELATIONSHIP BETWEEN TAX INCREMENT FINANCING AND THE ARIZONA PROPERTY TAX SYSTEM

As discussed above, a number of property taxing jurisdictions in Arizona are subject to constitutionally imposed levy limitations. Due to the constitutional status of these levy limits, the computation of the maximum permissible levy must occur without regard for the existence of redevelopment districts.

The amount of revenue generated by the tax increment financing system is a direct function of the growth in assessed valuation within the redevelopment area and the level of property tax rates established for the various jurisdictions overlapping that area. As mentioned above, the amount of taxes collected on the increased valuation are no longer received by the taxing jurisdiction but are instead transferred to the tax increment financing district for the designated projects. As a result of the 1980 property tax reforms, the impact of tax increment financing on a jurisdiction subject to the levy limitation will vary depending upon the cause of the increased assessed valuation.

Because of the provisions of the levy limitation, the permissible amount of property tax collections authorized in the Constitution for a jurisdiction subject to the levy limitation will increase by the amount of taxes collected from the new property (in addition to the two per cent annual growth). However, tax increment financing requires that those tax collections be used to finance redevelopment projects and not paid to the jurisdictions imposing the tax rate. This means that the increased revenue that would otherwise be received by the taxing jurisdiction is instead diverted to the redevelopment projects.

Alternatively, increases in assessed valuation that are the result of the increased market value of existing properties do not generate additional property tax revenues for those jurisdictions subject to the levy limit. Increases in assessed valuation due to changes in market value are offset by a reduction in the tax rate of those jurisdictions subject to the levy limitation. The property tax collections of the jurisdiction remain the same even though assessed valuations are increasing (temporarily ignoring the allowable two per cent increase). However, the property taxes generated by applying the tax rate of the jurisdiction against the increased assessed valuation, within the redevelopment district, must be diverted to redevelopment. These lost revenues cannot be made up under the provisions of the levy limitation and therefore the other taxing jurisdictions will experience an **actual loss in revenues** when compared to prior years.

The examples that follow simply illustrate the operation of tax increment financing in conjunction with the property tax levy limitations contained in the Arizona Constitution. In all cases the initial tax rate is assumed to be \$6 (\$2 each for the county, for the city, and for the community college); the total assessed value in the first year is \$1,000,000; and therefore the total property tax levy is \$60,000. Further, a redevelopment district is assumed to be created in the second year with an initial assessed valuation of \$50,000.

*****EXAMPLE ONE - NO GROWTH*****

TAX YEAR	TOTAL ASSESSED VALUE	COMBINED TAX RATE	TOTAL TAX COLLECTIONS	GROWTH IN COLLECTIONS	TAX INCREMENT A.V.	TIF TAX COLLECTIONS	REMAINING TAX COLLECTIONS
1	\$1,000,000	\$6.00	\$60,000				
2	\$1,000,000	\$6.12	\$61,200	2.00%	\$50,000	\$0	\$61,200
3	\$1,000,000	\$6.24	\$62,424	2.00%	\$50,000	\$0	\$62,424
4	\$1,000,000	\$6.37	\$63,672	2.00%	\$50,000	\$0	\$63,672
5	\$1,000,000	\$6.49	\$64,946	2.00%	\$50,000	\$0	\$64,946

TOTAL ASSESSED VALUE INCLUDES:

NO INFLATIONARY GROWTH

NO NEW CONSTRUCTION

*****EXAMPLE TWO - INFLATION ONLY*****

TAX YEAR	TOTAL ASSESSED VALUE	COMBINED TAX RATE	TOTAL TAX COLLECTIONS	GROWTH IN COLLECTIONS	TAX INCREMENT A.V.	TIF TAX COLLECTIONS	REMAINING TAX COLLECTIONS
1	\$1,000,000	\$6.00	\$60,000				
2	\$1,100,000	\$5.56	\$61,200	2.00%	\$50,000	\$0	\$61,200
3	\$1,210,000	\$5.16	\$62,424	2.00%	\$55,000	\$258	\$62,166
4	\$1,331,000	\$4.78	\$63,672	2.00%	\$60,500	\$502	\$63,170
5	\$1,464,100	\$4.44	\$64,946	2.00%	\$66,550	\$734	\$64,212

TOTAL ASSESSED VALUE INCLUDES:

10 % INFLATIONARY GROWTH

NO NEW CONSTRUCTION

*****EXAMPLE THREE - CONSTRUCTION ONLY*****

TAX YEAR	TOTAL ASSESSED VALUE	COMBINED TAX RATE	TOTAL TAX COLLECTIONS	GROWTH IN COLLECTIONS	TAX INCREMENT A.V.	TIF TAX COLLECTIONS	REMAINING TAX COLLECTIONS
1	\$1,000,000	\$6.00	\$60,000				
2	\$1,100,000	\$6.12	\$67,320	12.20%	\$50,000	\$0	\$67,320
3	\$1,200,000	\$6.24	\$74,909	11.27%	\$55,000	\$312	\$74,597
4	\$1,300,000	\$6.37	\$82,774	10.50%	\$60,000	\$637	\$82,137
5	\$1,400,000	\$6.49	\$90,924	9.85%	\$65,000	\$974	\$89,950

TOTAL ASSESSED VALUE INCLUDES:

NO INFLATIONARY GROWTH

\$100,000 NEW CONSTRUCTION EACH YEAR (\$5,000 IN TIF A.V.)

*****EXAMPLE FOUR - INFLATION AND CONSTRUCTION*****

TAX YEAR	TOTAL ASSESSED VALUE	COMBINED TAX RATE	TOTAL TAX COLLECTIONS	GROWTH IN COLLECTIONS	TAX INCREMENT A.V.	TIF TAX COLLECTIONS	REMAINING TAX COLLECTIONS
1	\$1,000,000	\$6.00	\$60,000				
2	\$1,200,000	\$5.56	\$66,764	11.27%	\$50,000	\$0	\$66,764
3	\$1,420,000	\$5.16	\$73,258	9.73%	\$60,000	\$516	\$72,742
4	\$1,662,000	\$4.78	\$79,507	8.53%	\$71,000	\$1,005	\$78,502
5	\$1,928,200	\$4.44	\$85,533	7.58%	\$83,100	\$1,468	\$84,065

TOTAL ASSESSED VALUE INCLUDES:

10 % INFLATIONARY GROWTH

\$100,000 NEW CONSTRUCTION EACH YEAR (\$5,000 OF NEW CONSTRUCTION IN TIF A.V.)

In the first example, there is assumed to be no growth in total assessed value. As shown, the total property tax collections grow by 2% per year. There are no tax increment collections because the assessed valuation of the redevelopment district (tax increment A.V.) does not increase above the base amount.

In the second example, assessed values experience 10% inflation per year. Property tax collections, in total, still grow by only 2% per year; the tax rate is forced down each year; and some tax increment collections occur. Because of the reduction in the tax rate (resulting from the inflationary growth in assessed valuation), the tax increment collections directly correspond to losses in the property tax collections that would otherwise be received by the existing taxing jurisdictions. In this example, the \$734 of tax increment collections in the fifth year represents the difference between the \$64,946 received by the jurisdictions in the first example and the \$64,212 received in the second example.

In the third example, total assessed values increase due to new construction of \$100,000 per year (\$5,000 of which occurs in the redevelopment district) and no inflationary increases. This time, total property tax collections increase by more than 2% per year and tax increment collections occur. The \$974 in tax increment collections in the fifth year is attributable to new construction within the redevelopment district just as the growth in the remaining tax collections is attributable to new construction outside of the district. It is important to note that the tax rates in this example are equal to the tax rates in the first example where no growth occurred. Also, the tax increment collections are augmented as a result of the gradual growth in the tax rate. This is because the "incremental values" are subject to tax at the same rate as on other properties.

In the fourth example, both pressures on assessed value are illustrated. Total assessed value is increased due to **inflation and new construction**. Once again, the tax rate is reduced to offset the inflationary increases in property value (as in Example 2) and the total tax collections increase due to the new construction (as in Example 3). These combined forces result in the greatest amount of tax increment collections as both inflation and new construction compound the amount of increases in value within the redevelopment district. Note that the tax rates are reduced in this example, as in the second example, as a result of the inflationary increases in property values. This is the reason that the total tax increment collections do not equal the sum of the tax increment collections due to inflation in the second example and construction in the third example. The reduction in the tax rate (as the result of the inflationary increases) offsets some of the gain due to the new construction.

These examples help to illustrate one of the basic conflicts between tax increment financing and the Arizona property tax system. While increases in assessed valuation attributable to new construction result in increased property tax collections, increases in assessed valuation that result from inflationary pressures do not result in increased property tax collections. Therefore, any inflationary growth in assessed valuations within a redevelopment district will necessarily result in, not a diversion of increased property tax revenues, but rather a diversion of existing property tax revenues away from existing property taxing jurisdictions to the redevelopment projects. In other words, every dollar available for the financing of redevelopment projects is a dollar reduction experienced by the other taxing jurisdictions. The greater the rate of inflation and the longer the term of the program the more extreme the effect.

In summary, jurisdictions subject to the levy limitation will be deprived of increases in property tax collections that would occur as the result of the addition of new property to the tax rolls and will experience an actual reduction in property tax collections in those instances where assessed valuations increase as a result of increases in market value.

It is also important to note that the majority of jurisdictions receiving property taxes have no control over the creation, size or scope of redevelopment project areas.

Finally, it is also important to note that the impact of these property tax collection transfers will be particularly acute in the case of county governments. This is because counties are particularly dependent upon the property tax as a primary source of revenue and have limited access to alternative revenue sources.

THE RELATIONSHIP BETWEEN TAX INCREMENT FINANCING AND THE ARIZONA EDUCATION FINANCE SYSTEM

As discussed above, the financing of elementary and secondary education within Arizona is integrally related to the property tax. The amount of "equalization assistance" provided to individual school districts is a direct function of the amount of assessed value within the district. Further, school districts use local property taxes to fund a significant portion of their budgets.

Tax increment financing diverts the property taxes collected from a portion of the assessed valuation within a redevelopment district, which would otherwise be subject to taxation by a school district. Thus, there is a conflict between the existing tax increment financing statutes and the existing education finance system in Arizona. The implementation of tax increment financing in Arizona would necessitate conforming changes be made to one or both of the systems. Depending upon the conforming changes, the impact of tax increment financing on the school finance system would differ.

The implementation of a tax increment financing system will result in a loss of property taxes that would otherwise be received by school districts that overlay the redevelopment district. The amount of property tax collections diverted to the redevelopment projects must be made up through one of two alternatives. Either a school district must raise its local property tax rate to make up for the diverted collections or the state must provide additional equalization assistance to replace the diverted collections.

The following three charts illustrate the effect of these two alternatives on the hypothetical district used, earlier in this report, to illustrate the operation of the education finance system.

*****EDUCATION FINANCE EXAMPLE*****

YEAR	DISTRICT BUDGET LIMIT	DISTRICT ASSESSED VALUE	DISTRICT TAX RATE	TAX INCREMENT VALUE	TIF TAX COLLECTIONS	DISTRICT TAX COLLECTIONS
1	\$30,000	\$500,000	\$4.12			\$20,600
2	\$32,400	\$540,000	\$4.12	\$25,000	\$0	\$22,248
3	\$34,992	\$583,200	\$4.12	\$27,000	\$82	\$23,945
4	\$37,791	\$629,856	\$4.12	\$29,160	\$171	\$25,779
5	\$40,815	\$680,244	\$4.12	\$31,493	\$268	\$27,759

ASSUMPTIONS:

8% GROWTH IN BUDGET AND RCL = DSL

8% GROWTH IN VALUE

*****EDUCATION FINANCE EXAMPLE - INCREASED TAX RATES*****

YEAR	DISTRICT BUDGET LIMIT	DISTRICT ASSESSED VALUE	DISTRICT TAX RATE	TAX INCREMENT VALUE	TIF TAX COLLECTIONS	DISTRICT TAX COLLECTIONS
1	\$30,000	\$500,000	\$4.12			\$20,600
2	\$32,400	\$540,000	\$4.12	\$25,000	\$0	\$22,248
3	\$34,992	\$583,200	\$4.13	\$27,000	\$83	\$24,028
4	\$37,791	\$629,856	\$4.15	\$29,160	\$173	\$25,950
5	\$40,815	\$680,244	\$4.16	\$31,493	\$270	\$28,026

ASSUMPTIONS:

8% GROWTH IN BUDGET AND RCL = DSL

8% GROWTH IN VALUE

*****EDUCATION FINANCE EXAMPLE - INCREASED EQUAL. ASST.*****

YEAR	DISTRICT BUDGET LIMIT	DISTRICT ASSESSED VALUE	DISTRICT TAX RATE	TAX INCREMENT VALUE	TIF TAX COLLECTIONS	DISTRICT TAX COLLECTIONS
1	\$30,000	\$500,000	\$4.12			\$20,600
2	\$32,400	\$540,000	\$4.12	\$25,000	\$0	\$22,248
3	\$34,992	\$583,200	\$4.12	\$27,000	\$82	\$23,945
4	\$37,791	\$629,856	\$4.12	\$29,160	\$171	\$25,779
5	\$40,815	\$680,244	\$4.12	\$31,493	\$268	\$27,759

ASSUMPTIONS:

8% GROWTH IN BUDGET AND RCL = DSL

8% GROWTH IN VALUE

In the first example if the local school district tax rate is allowed to increase as in the first example, it will increase from \$4.12 in the first year to \$4.16 in the fifth year. This translates to increased property taxes being paid by all taxpayers within the school district, including those residing outside of the redevelopment district. District tax collections are increased by \$267 (\$28,026 - \$27,759) in the fifth year. In addition, it is important to note that the tax rate increase compounds the tax increment collections up to \$270 in the fifth year from \$268.

The second table illustrates the other alternative mechanism available to replace the diverted tax increment collections. If the school district tax rate is held constant at \$4.12 (only the "frozen" assessed value within the redevelopment district is utilized in the computation of the "qualifying local levy" and the levy of local district property taxes), the operation of the tax increment system will result in an increase in equalization assistance of \$268 in the fifth year. This additional equalization assistance

would most likely have to come from increased state general fund appropriations for education assistance.

The tax increment financing system that exists in California specifically provides for the state to make up for any loss in property tax collections of school districts through increased equalization assistance.

For the purposes of this analysis, it is most important to note that the same amount of revenue will have to be made up in either instance if school districts are to maintain their expenditures at the same level as in the absence of the redevelopment district.

OTHER ASPECTS OF TAX INCREMENT FINANCING

In addition to the issues discussed above, a number of other important questions and concerns involving tax increment financing must be addressed prior to any implementation of any such system in Arizona. Some of these include:

The diversion of "tax increment" property taxes could include those attributable to "secondary", as well as, "primary" tax rates. The diversion of secondary property taxes, which are often pledged to secure and finance general obligation bond issues, might impair existing bond contracts and could endanger the repayment of outstanding bond issues. Further, the issuance of new general obligation bonds, with their accompanying new tax rates, would cause tax increment collections to increase substantially.

Tax increment collections might be surprisingly unpredictable. The lack of predictability could occur because other jurisdictions determine the tax rates used to calculate the "increment", and through voter authorization may impose additional taxes that may effect the "increment". Alternatively, substantial increases in the market values of properties located outside the redevelopment district, but within the boundaries of property taxing jurisdictions that overlay the district, will result in decreased tax rates for those jurisdictions subject to levy limits. The lower tax rates may result in lower "incremental" collections.

Federal tax reform may also directly affect the tax status of the interest on "tax increment" bonds.

CONCLUSIONS

At the time of its initial development, tax increment financing was clearly an effective mechanism for generating revenues to support redevelopment projects within a redevelopment area. However, it was developed several decades ago in an environment substantially different from that which exists in Arizona today. It was a time when the property tax system was subject to significantly fewer restrictions and controls and when property values for tax purposes were significantly less volatile than they have been in recent years.

Clearly, tax increment financing does not easily mesh with the Arizona property tax system as it has existed since the enactment of the 1980 reforms. If implemented within the existing tax system, it will undoubtedly result in substantial shifts of revenues between existing property taxing jurisdictions and the redevelopment district. Further, depending upon the resolution of a variety of policy issues that must be addressed before it can be implemented, it may result in shifts in the tax burden from property taxpayers to other types of taxpayers.

Although not discussed in detail in this report, it is generally accepted that tax increment financing has been the subject of various abuses in other states. Many of these abuses undoubtedly result from operation of the system in an environment substantially different from that for which it was originally designed.

The implementation of a tax increment financing system in Arizona would have the effect of radically changing the priority of access to property taxes within our state. Currently, all political jurisdictions, authorized to levy property taxes, have equal access to the available taxable value of property within their boundaries. The level of taxation is restricted through a variety of limitations either constitutional or statutory, which differ depending upon the particular character of the taxing jurisdiction. However, in all instances, the implementation of a tax increment financing system would clearly place the highest priority for access to property tax revenues under the control of those bodies creating and operating redevelopment districts.

This shift in the priority of access to the property tax in Arizona clearly delineates the public policy decision that must be made when considering the potential implementation of tax increment financing. The principal issue that must be addressed prior to the implementation of a tax increment financing scheme is the relative merit and the relative priority of redevelopment projects within Arizona cities vis-a-vis the financing of general city operation, counties, community colleges, primary and secondary education, and ultimately state government.

APPENDIX 1

CHAPTER 139, 33RD LEGISLATURE, SECOND REGULAR SESSION

SUPERIOR COURT IN THAT COUNTY, REQUIRE ONE OR MORE HEARINGS OR CONFERENCES AT WHICH THE PARTIES MUST ATTEND IN ORDER TO FURTHER THE PURPOSES OF THIS ARTICLE. THE COURT MAY ALSO GRANT EXEMPTIONS FROM SUCH A LOCAL AND MANDATORY RULE IF TO DO OTHERWISE WOULD CAUSE UNDUE HARDSHIP.

Sec. 16. Title 25, chapter 3, Arizona Revised Statutes, is amended by adding a new article 4, to read:

ARTICLE 4. ALIENATION OF AFFECTIONS

25-341. Abrogation of alienation of affection action
THE COMMON LAW CAUSE OF ACTION FOR ALIENATION OF AFFECTIONS IS ABOLISHED.

Approved by the Governor - May 31, 1977

Filed in the Office of the Secretary of State - May 31, 1977

State of Arizona
Senate
Thirty-third Legislature
First Regular Session
1977

CHAPTER 139

SENATE BILL 1300

AN ACT

RELATING TO PUBLIC HEALTH AND SAFETY; PRESCRIBING NATURE OF OBLIGATION AND SOURCES OF PAYMENT FOR REDEVELOPMENT BONDS; PROVIDING FOR TAX INCREMENT FINANCING OF REDEVELOPMENT PROJECTS; PROVIDING FOR THE ALLOCATION OF TAXES; PROVIDING FOR PLEDGE OF MONIES ALLOCATED TO MUNICIPALITIES FOR PAYMENT OF PRINCIPAL AND INTEREST ON REDEVELOPMENT PROJECT LOANS, ADVANCES OR INDEBTEDNESS; PRESCRIBING CONTENTS OF REDEVELOPMENT PLANS; PROVIDING FOR SPECIAL TAX INCREMENT FUNDS AND PAYMENT INTO SUCH FUNDS; PROVIDING FOR THE TRANSMITTAL OF CERTIFICATION AND DESCRIPTION OF LAND WITHIN REDEVELOPMENT PROJECT AND OTHER DOCUMENTS TO COUNTY ASSESSOR, CLERK OF BOARD OF EQUALIZATION, DEPARTMENT OF REVENUE AND OTHER ASSESSING OFFICER; PROVIDING FOR TRANSMITTAL OF STATEMENT PERTAINING TO ALLOCATION OF TAXES TO AFFECTED TAXING AGENCIES; PROVIDING FOR ABSTRACT OF TAX AND ASSESSMENT ROLL; PROVIDING FOR CERTAIN EXPIRATION; PROVIDING FOR CERTAIN DELAYED REPEAL: AMENDING SECTION 36-1481, ARIZONA REVISED STATUTES; AMENDING TITLE 36, CHAPTER 12, ARTICLE 3, ARIZONA REVISED STATUTES, BY ADDING SECTION 36-1488.01; AMENDING SECTION 36-1481, ARIZONA REVISED STATUTES, AS AMENDED BY THIS ACT, EFFECTIVE FROM AND AFTER JULY 1, 1979, AND REPEALING SECTION 36-1488.01, AS ADDED BY THIS ACT, EFFECTIVE FROM AND AFTER JULY 1, 1979.

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 36-1481, Arizona Revised Statutes, is amended
3 to read:
4 36-1481. Issuance of bonds
5 A. A municipality may issue bonds from-time-to-time in its
6 discretion to finance the undertaking of any redevelopment project under
7 this article, including the payment of principal and interest upon any
8 advances for surveys and plans for redevelopment projects, and may also
9 issue refunding bonds for the payment or retirement of such bonds
10 previously issued by it. Such bonds shall be made payable, as to both
11 principal and interest, solely from the income, proceeds, revenues and
12 funds of the municipality, INCLUDING TAX INCREMENT FUNDS RECEIVED PUR-
13 SUANT TO SECTION 36-1488.01, derived from or held in connection with its
14 undertaking and carrying out of redevelopment projects under this

1 article, whether or not they are financed in whole or in part with the
2 proceeds of such bonds, but payment of such bonds, both as to principal
3 and interest, may be further or exclusively secured by a pledge of any
4 loan, grant or contribution from the federal government or other source,
5 in aid of any redevelopment projects of the municipality undertaken under
6 this article and by a mortgage of any of such redevelopment projects.

7 B. THE BONDS AND OTHER OBLIGATIONS OF THE MUNICIPALITY ISSUED
8 PURSUANT TO SUBSECTION A OF THIS SECTION ARE NOT A GENERAL OBLIGATION OR
9 GENERAL DEBT OF THE MUNICIPALITY, THE STATE OR ANY OF ITS POLITICAL SUB-
10 DIVISIONS, AND NEITHER THE MUNICIPALITY, THE STATE, NOR ANY OF ITS
11 POLITICAL SUBDIVISIONS ARE GENERALLY LIABLE FOR THEM, NOR IN ANY EVENT
12 SHALL THE BONDS OR OBLIGATIONS GIVE RISE TO A GENERAL OBLIGATION OR
13 LIABILITY OF THE MUNICIPALITY, THE STATE OR ANY OF ITS POLITICAL SUB-
14 DIVISIONS, OR A CHARGE AGAINST THEIR GENERAL CREDIT OR TAXING POWERS,
15 OR BE PAYABLE FROM ANY FUNDS OR PROPERTIES OTHER THAN THOSE FUNDS OR
16 PROPERTIES SPECIFICALLY DESCRIBED IN SUBSECTION A OF THIS SECTION AND
17 THOSE BONDS AND OBLIGATIONS SHALL SO STATE ON THEIR FACE. Bonds issued
18 under this section shall not constitute an indebtedness within the meaning
19 of any constitutional or statutory debt limitation or restriction. Bonds
20 issued under the provisions of this article are declared to be issued for
21 an essential public and governmental purpose, and together with interest
22 thereon and income therefrom, shall be exempted from all taxes.

23 C. Bonds issued under this section shall be authorized by resolu-
24 tion of the local governing body, may be issued in one or more series,
25 shall bear such date or dates, be payable upon demand or mature at such
26 time or times, bear interest at such rate or rates, be in such denomination
27 or denominations, be in such form either coupon or registered, carry such
28 conversion or registration privileges, have such rank or priority, be
29 executed in such manner, be payable in such medium of payment, at such
30 place or places, and be subject to such terms of redemption, with or
31 without premium, as provided by the resolution or trust indenture or
32 mortgage issued pursuant thereto.

33 D. Such bonds may be sold at not less than par at public sales
34 held after notice published once at least ten days prior to the sale in
35 a newspaper having a general circulation in the area of operation and in
36 such other medium of publication as the municipality determines, or may
37 be exchanged for other bonds on the basis of par, but such bonds may be
38 sold to the federal government at private sale at not less than par, and,
39 if less than all of the authorized principal amount of such bonds are
40 sold to the federal government, the balance may be sold at private sale
41 at not less than par at an interest to the municipality of not to exceed
42 the interest cost to the municipality of the portion of the bonds sold
43 to the federal government.

44 E. If any of the public officials of the municipality whose signa-
45 tures appear on any bonds or coupons issued under this article cease to
46 be such officials before delivery of the bonds, their signatures shall
47 nevertheless be valid and sufficient for all purposes the same as if the
48 officials had remained in office until delivery. Any provision of law

1 to the contrary notwithstanding, bonds issued pursuant to this article
2 shall be fully negotiable.

3 F. In any action or proceedings involving the validity or enforce-
4 ability of any bond issued under this article or the security therefor
5 FOR SUCH BOND, the recitation in substance in the bond that it has been
6 issued by the municipality in connection with a redevelopment project
7 shall be conclusive proof that the bond was issued for such purpose and
8 such project shall be conclusively deemed to have been planned, located
9 and carried out in accordance with the purposes and provisions of this
10 article.

11 G. NEITHER THE MEMBERS OF THE GOVERNING BODY OF A MUNICIPALITY OR
12 A COMMISSION NOR ANY PERSONS EXECUTING THE BONDS ARE LIABLE PERSONALLY ON
13 THE BONDS BY REASON OF THEIR ISSUANCE.

14 Sec. 2. Title 36, chapter 12, article 3, Arizona Revised Statutes,
15 is amended by adding section 36-1488.01, to read:

16 36-1488.01. Property tax increment; redevelopment plans

17 A. IN THIS SECTION, UNLESS THE CONTEXT OTHERWISE REQUIRES:

18 1. "TAXES" INCLUDES ALL LEVIES ON AN AD VALOREM BASIS ON LAND,
19 REAL PROPERTY, PERSONAL PROPERTY OR OTHER PROPERTY NOT OTHERWISE EXEMPTED
20 FROM SUCH LEVIES BY THE CONSTITUTION OR STATUTES OF THIS STATE.

21 2. "TAXING AGENCY" MEANS ANY CITY, INCLUDING CHARTER CITY, TOWN,
22 COUNTY OR SCHOOL DISTRICT, INCLUDING COMMON SCHOOL DISTRICTS, UNIFIED
23 SCHOOL DISTRICTS, HIGH SCHOOL DISTRICTS AND COMMUNITY COLLEGE DISTRICTS.
24 B. ANY REDEVELOPMENT PLAN MAY CONTAIN A PROPERTY TAX INCREMENT
25 PROVISION UNDER WHICH TAXES, IF ANY, LEVIED UPON TAXABLE PROPERTY IN A
26 REDEVELOPMENT PROJECT EACH YEAR BY OR FOR THE BENEFIT OF ANY TAXING AGENCY
27 AFTER THE DATE THE LOCAL GOVERNING BODY APPROVES THE REDEVELOPMENT PLAN,
28 INCLUDING ANY AMENDMENTS TO SUCH PLAN, INCORPORATING PROPERTY TAX INCRE-
29 MENT PROVISIONS, SHALL BE DIVIDED AS FOLLOWS:

30 1. THAT PORTION OF THE TAXES WHICH WOULD BE PRODUCED BY THE RATE
31 AT WHICH THE TAX IS LEVIED EACH YEAR BY OR FOR EACH TAXING AGENCY UPON
32 THE ASSESSED VALUE OF THE TAXABLE PROPERTY IN THE REDEVELOPMENT PROJECT
33 AS SHOWN UPON THE ASSESSMENT AND TAX ROLL USED IN CONNECTION WITH THE
34 TAXATION OF SUCH PROPERTY BY SUCH TAXING AGENCY, LAST EQUALIZED PRIOR TO
35 THE DATE ON WHICH THE LOCAL GOVERNING BODY APPROVED THE REDEVELOPMENT
36 PLAN, SHALL BE ALLOCATED AND WHEN COLLECTED SHALL BE PAID INTO THE FUNDS
37 OF THE RESPECTIVE TAXING AGENCIES AS TAXES BY OR FOR THE TAXING AGENCIES
38 ON ALL OTHER PROPERTY ARE PAID. FOR THE PURPOSE OF ALLOCATING TAXES
39 LEVIED BY OR FOR ANY TAXING AGENCY OR AGENCIES WHICH DID NOT INCLUDE THE
40 TERRITORY IN A REDEVELOPMENT PROJECT ON THE DATE OF APPROVAL OF THE
41 REDEVELOPMENT PLAN BY THE LOCAL GOVERNING BODY, BUT TO WHICH SUCH TERRITORY
42 HAS BEEN ANNEXED OR OTHERWISE INCLUDED AFTER SUCH DATE, THE ASSESSMENT AND
43 TAX ROLL OF THE COUNTY LAST EQUALIZED ON SUCH DATE SHALL BE USED IN
44 DETERMINING THE ASSESSED VALUATION OF THE TAXABLE PROPERTY IN THE PROJECT
45 ON SUCH DATE.

46 2. THAT PORTION OF THE LEVIED TAXES EACH YEAR IN EXCESS OF SUCH
47 AMOUNT SHALL BE ALLOCATED AND WHEN COLLECTED SHALL BE PAID INTO A SPECIAL
48 FUND OF THE MUNICIPALITY TO PAY THE PRINCIPAL OF AND INTEREST ON LOANS,
49 MONIES ADVANCED TO OR ANY INDEBTEDNESS, INCURRED BY SUCH MUNICIPALITY TO

ANCE OR REFINANCE, IN WHOLE OR IN PART, SUCH REDEVELOPMENT PROJECT, UNLESS AND UNTIL THE TOTAL ASSESSED VALUATION OF THE TAXABLE PROPERTY IN SUCH REDEVELOPMENT PROJECT EXCEEDS THE TOTAL ASSESSED VALUE OF THE TAXABLE PROPERTY IN SUCH PROJECT AS SHOWN BY THE LAST EQUALIZED ASSESSMENT AND TAX ROLL REFERRED TO IN PARAGRAPH 1 OF THIS SUBSECTION ALL OF THE TAXES DUE AND COLLECTED UPON THE TAXABLE PROPERTY IN SUCH REDEVELOPMENT PROJECT SHALL BE PAID INTO THE FUNDS OF THE RESPECTIVE TAXING AGENCIES.

SUCH LOANS, ADVANCES AND INDEBTEDNESS, IF ANY, AND INTEREST THEREON, HAVE BEEN PAID, ALL MONIES THEREAFTER RECEIVED FROM TAXES UPON THE TAXABLE PROPERTY IN SUCH REDEVELOPMENT PROJECT SHALL BE PAID INTO THE FUNDS OF THE RESPECTIVE TAXING AGENCIES AS TAXES ON ALL OTHER PROPERTY ARE PAID.

C. IN ANY REDEVELOPMENT PLAN OR IN THE PROCEEDINGS FOR THE ADVANCEMENT OF BONDS, OR MAKING OF LOANS, OR THE INCURRING OF ANY INDEBTEDNESS, BY A MUNICIPALITY TO FINANCE OR REFINANCE, IN WHOLE OR IN PART, THE REDEVELOPMENT PROJECT, THE PORTION OF TAXES MENTIONED IN SUBSECTION B, PARAGRAPH 2 OF THIS SECTION MAY BE IRREVOCABLY PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON SUCH LOANS, ADVANCES, OR INDEBTEDNESS.

D. IF A REDEVELOPMENT PLAN CONTAINS A PROVISION REGARDING PROPERTY TAX INCREMENTS AS PERMITTED BY SUBSECTION B OF THIS SECTION, THE REDEVELOPMENT PLAN SHALL ALSO CONTAIN THE FOLLOWING PROVISIONS:

1. A LIMITATION ON THE LENGTH OF TIME FOR WHICH TAX INCREMENT MONIES MAY BE COLLECTED AND ALLOCATED FOR REDEVELOPMENT.

2. A LIMITATION ON THE PRINCIPAL AMOUNT OF BONDED INDEBTEDNESS TO WHICH TAX INCREMENTS ARE PLEDGED WHICH CAN BE OUTSTANDING AT ANY ONE TIME FOR THE REDEVELOPMENT PROJECT.

E. THE MUNICIPALITY MAY ADOPT PROPERTY TAX INCREMENT PROVISIONS AS PART OF A REDEVELOPMENT PLAN EITHER AT THE TIME OF ADOPTION OF A REDEVELOPMENT PLAN, OR THEREAFTER AS AN AMENDMENT TO A REDEVELOPMENT PLAN, WHETHER SUCH PLAN HAS BEEN OR IS APPROVED BEFORE OR AFTER THE DATE THIS SECTION BECOMES LAW. IF PROPERTY TAX INCREMENT PROVISIONS ARE ADDED TO A REDEVELOPMENT PLAN BY AN AMENDMENT TO A REDEVELOPMENT PLAN, WHETHER SUCH REDEVELOPMENT PLAN IS ADOPTED BEFORE OR AFTER THE DATE THIS SECTION BECOMES LAW, THE LAST EQUALIZED ASSESSMENT AND TAX ROLL REFERRED TO IN SUBSECTION B, PARAGRAPH 1 OF THIS SECTION WHICH SHALL BE USED TO DETERMINE THE PORTION OF TAXES AS PROVIDED IN SUBSECTION B SHALL BE THE ASSESSMENT AND TAX ROLL LAST EQUALIZED PRIOR TO THE APPROVAL OF THE REDEVELOPMENT PLAN BY THE LOCAL GOVERNING BODY, WHEN SUCH APPROVAL WAS FIRST GIVEN AND PRIOR TO ANY AMENDMENT OF SUCH PLAN.

F. THE PORTION OF TAXES SPECIFIED BY SUBSECTION B, PARAGRAPH 2 OF THIS SECTION SHALL NOT BE ALLOCATED AND PAID FOR THE FIRST TIME UNTIL THE YEAR WHICH BEGINS AFTER THE NOVEMBER 1 NEXT FOLLOWING THE APPROVAL BY THE LOCAL GOVERNING BODY OF A REDEVELOPMENT PLAN WITH PROPERTY TAX INCREMENT PROVISIONS, OR OF AMENDMENTS ADDING SUCH PROVISIONS TO A REDEVELOPMENT PLAN. SUCH TAXES WILL BE ALLOCATED AND PAID ONLY IF THE AMOUNT REQUIRED BY SUBSECTION 1 OF THIS SECTION HAS BEEN MADE.

G. IF A MUNICIPALITY PREPARES A REDEVELOPMENT PLAN WHICH PROVIDES FOR THE DIVISION OF TAXES AS PERMITTED BY THIS SECTION, OR PREPARES AN AMENDMENT TO SUCH REDEVELOPMENT PLAN WHICH SO PROVIDES, IN ADDITION TO

1 ANY OTHER NOTICE AND HEARING REQUIREMENTS ESTABLISHED IN SECTION 36-1479,
2 THE MUNICIPALITY SHALL TRANSMIT TO THE GOVERNING BODY OF EACH TAXING
3 AGENCY WHICH LEVIES TAXES UPON ANY PROPERTY IN THE PROJECT AREA, AND WHICH
4 WOULD BE AFFECTED BY A DIVISION OF PROPERTY TAX INCREMENTS, A COPY OF THE
5 PROPERTY TAX INCREMENT PROVISIONS AND A STATEMENT THAT IF THE PROVISIONS
6 ARE ADOPTED TO PERMIT SUCH A DIVISION OF TAX REVENUES, PROPERTY TAXES
7 RESULTING FROM INCREASES IN VALUATION ABOVE THE ASSESSED VALUE AS SHOWN
8 ON THE LAST EQUALIZED ASSESSMENT AND TAX ROLL MAY BE ALLOCATED FOR REDEVELOPMENT
9 PURPOSES, RATHER THAN BEING PAID INTO THE TREASURY OF THE TAXING
10 AGENCY. THE MUNICIPALITY SHALL TRANSMIT SUCH DOCUMENTS BY REGISTERED MAIL
11 AT LEAST THIRTY DAYS PRIOR TO THE DATE SET FOR PUBLIC HEARING REQUIRED BY
12 SECTION 36-1479 ON THE REDEVELOPMENT PLAN OR AMENDMENT TO SUCH PLAN.

13 H. ALL FUNDS RECEIVED BY A MUNICIPALITY FROM THE COUNTY TREASURER
14 AS ITS PORTION OF TAXES DESCRIBED IN SUBSECTION B, PARAGRAPH 2 OF THIS
15 SECTION SHALL BE DEPOSITED IN A SPECIAL TAX INCREMENT FUND WHICH SHALL BE
16 HELD SEPARATELY FROM ALL OTHER FUNDS HELD BY THE MUNICIPALITY. PAYMENT
17 OF SUCH FUNDS BY THE COUNTY TREASURER SHALL BE MADE IN THE SAME MANNER AS
18 PAYMENT OF OTHER AD VALOREM COLLECTIONS IS MADE TO CITIES AND TOWNS PRE-
19 SCRIBED BY SECTION 42-487.

20 I. AFTER THE ADOPTION BY A LOCAL GOVERNING BODY OF A REDEVELOPMENT
21 PLAN WITH PROPERTY TAX INCREMENT PROVISIONS, OR THE AMENDMENT OF SUCH A
22 PLAN TO INCLUDE SUCH PROVISIONS, OR THE AMENDMENT OF A PLAN CONTAINING
23 SUCH PROVISIONS TO ALTER THE PROJECT BOUNDARIES, THE CLERK OF THE MUNICI-
24 PALITY SHALL FILE WITH THE ASSESSOR AND CLERK OF THE BOARD OF EQUALIZA-
25 TION IN THE COUNTY IN WHICH THE REDEVELOPMENT PROJECT IS LOCATED AND
26 WITH THE DEPARTMENT OF REVENUE, CERTIFICATION THAT SUCH ACTION HAS
27 BEEN TAKEN AND A MAP OR PLAT INDICATING THE BOUNDARIES OF THE PROJECT AREA.
28 SUCH DOCUMENTS SHALL ALSO BE TRANSMITTED TO THE OFFICER OR OFFICERS PER-
29 FORMING THE FUNCTIONS OF ASSESSOR FOR ANY TAXING AGENCIES WHICH, IN
30 LEVYING OR COLLECTING ITS TAXES, DO NOT USE THE COUNTY ASSESSMENT ROLL
31 OR DO NOT COLLECT ITS TAXES THROUGH THE COUNTY AND TO THE GOVERNING BODY
32 OF EACH OF THE TAXING AGENCIES WHICH LEVIES TAXES UPON ANY PROPERTY IN
33 THE PROJECT AREA. THE DOCUMENTS REQUIRED IN THIS SUBSECTION SHALL BE
34 TRANSMITTED TO THE APPROPRIATE AGENCIES WITHIN THIRTY DAYS, BUT IN NO
35 EVENT LATER THAN THE NOVEMBER 1 PRECEDING THE TAX YEAR FOR WHICH TAXES
36 ARE TO BE DIVIDED AS PROVIDED HEREIN.

37 J. THE ABSTRACT OF THE TAX AND ASSESSMENT ROLL PREPARED BY THE
38 CLERK OF THE COUNTY BOARD OF EQUALIZATION PURSUANT TO SECTION 42-248 SHALL
39 SHOW THE VALUATION OF TAXABLE PROPERTY WHICH IS LOCATED IN A REDEVELOPMENT
40 PROJECT AREA FOR WHICH PROPERTY TAX INCREMENT PROVISIONS HAVE BEEN ADOPTED,
41 AND SHALL INDICATE THAT SUCH PROPERTY IS WITHIN THE BOUNDARIES OF A REDEVELOPMENT
42 PROJECT.

43 K. THE GOVERNING BODY OF A MUNICIPALITY MAY CREATE A REDEVELOPMENT
44 DISTRICT FINANCED OR PARTIALLY FINANCED BY PROPERTY TAX INCREMENT
45 FINANCING PURSUANT TO THE PROVISIONS OF THIS SECTION, EXCEPT THAT SUCH
46 DISTRICT MAY NOT:

47 1. CONTAIN MORE THAN FIVE PER CENT OF THE TOTAL ASSESSED VALUATION
48 OF THE MUNICIPALITY. FOR THE PURPOSES OF THIS PARAGRAPH THE FIVE PER

1 CENT LIMITATION SHALL BE COMPUTED BY TOTALING THE ASSESSED VALUATION OF
2 EACH SUCH PROJECT AS OF THE DATE OF INITIAL APPROVAL OF SUCH PROJECT.

3 2. INCLUDE WITHIN THE TAX INCREMENTAL FINANCING PORTION OF THE
4 PLAN PROVISIONS FOR THE CONSTRUCTION, ALTERATION OR REPAIR OF PUBLIC
5 BUILDINGS.

6 L. WHEN ESTABLISHING A DISTRICT PURSUANT TO THIS SECTION, THE
7 GOVERNING BODY OF A MUNICIPALITY MUST FIND THAT SUCH DISTRICT WILL
8 PROVIDE FOR SLUM CLEARANCE OR BLIGHT REDUCTIONS AND CONTAIN PROJECTS WHICH
9 WILL INCREASE THE ECONOMIC VITALITY OF THE DISTRICT AND THE MUNICIPALITY.

10 Sec. 3. Section 36-1481, Arizona Revised Statutes, as amended by
11 section 1 of this act, is amended to read:

12 36-1481. Issuance of bonds

13 A. A municipality may issue bonds in its discretion to finance
14 the undertaking of any redevelopment project under this article, includ-
15 ing the payment of principal and interest upon any advances for surveys
16 and plans for redevelopment projects, and may also issue refunding bonds
17 for the payment or retirement of such bonds previously issued by it.
18 Such bonds shall be made payable, as to both principal and interest,
19 solely from the income, proceeds, revenues and funds of the municipality,
20 including tax-increment-funds-received-pursuant-to-section-36-1488-01, de-
21 rived from or held in connection with its undertaking and carrying out
22 of redevelopment projects under this article, whether or not they are
23 financed in whole or in part with the proceeds of such bonds, but payment
24 of such bonds, both as to principal and interest, may be further or ex-
25 clusively secured by a pledge of any loan, grant or contribution from the
26 federal government or other source, in aid of any redevelopment projects
27 of the municipality undertaken under this article and by a mortgage of
28 any of such redevelopment projects.

29 ~~B. The bonds and other obligations of the municipality issued~~
30 ~~pursuant to subsection A of this section are not a general obligation or~~
31 ~~general debt of the municipality, the state or any of its political sub-~~
32 ~~divisions, and neither the municipality, the state, nor any of its polit-~~
33 ~~ical subdivisions are generally liable for them, nor in any event shall~~
34 ~~the bonds or obligations give rise to a general obligation or liability~~
35 ~~of the municipality, the state or any of its political subdivisions, or~~
36 ~~a charge against their general credit or taxing powers, or be payable~~
37 ~~from any funds or properties other than those funds or properties specifi-~~
38 ~~cally described in subsection A of this section and those bonds and~~
39 ~~obligations shall so state on their face.~~ Bonds issued under this sec-
40 tion shall not constitute an indebtedness within the meaning of any
41 constitutional or statutory debt limitation or restriction. Bonds issued
42 under the provisions of this article are declared to be issued for an
43 essential public and governmental purpose, and together with interest
44 thereon and income therefrom, shall be exempted from all taxes.

45 C. Bonds issued under this section shall be authorized by
46 resolution of the local governing body, may be issued in one or more
47 series, shall bear such date or dates, be payable upon demand or mature
48 at such time or times, bear interest at such rate or rates, be in such

1 denomination or denominations, be in such form either coupon or registered,
2 carry such conversion or registration privileges, have such rank or
3 priority, be executed in such manner, be payable in such medium of
4 payment, at such place or places, and be subject to such terms of
5 redemption, with or without premium, as provided by the resolution or
6 trust indenture or mortgage issued pursuant thereto.

7 D. Such bonds may be sold at not less than par at public sales
8 held after notice published once at least ten days prior to the sale in
9 a newspaper having a general circulation in the area of operation and in
10 such other medium of publication as the municipality determines, or may
11 be exchanged for other bonds on the basis of par, but such bonds may be
12 sold to the federal government at private sale at not less than par, and,
13 if less than all of the authorized principal amount of such bonds are
14 sold to the federal government, the balance may be sold at private sale
15 at not less than par at an interest to the municipality of not to exceed
16 the interest cost to the municipality of the portion of the bonds sold
17 to the federal government.

18 E. If any of the public officials of the municipality whose
19 signatures appear on any bonds or coupons issued under this article
20 cease to be such officials before delivery of the bonds, their signatures
21 shall nevertheless be valid and sufficient for all purposes the same as
22 if the officials had remained in office until delivery. Any provision
23 of law to the contrary notwithstanding, bonds issued pursuant to this
24 article shall be fully negotiable.

25 F. In any action or proceedings involving the validity or
26 enforceability of any bond issued under this article or the security
27 for such bond, the recitation in substance in the bond that it has been
28 issued by the municipality in connection with a redevelopment project
29 shall be conclusive proof that the bond was issued for such purpose and
30 such project shall be conclusively deemed to have been planned, located
31 and carried out in accordance with the purposes and provisions of this
32 article.

33 ~~G. Neither the members of the governing body of a municipality~~
34 ~~or a commission nor any persons executing the bonds are liable personally~~
35 ~~on the bonds by reason of their issuance.~~

36 Sec. 4. Delayed repeal

37 A. Section 36-1488.01, Arizona Revised Statutes, is repealed
38 effective from and after July 1, 1979.

39 B. Upon repeal of section 36-1488.01, Arizona Revised Statutes,
40 the authorization of a municipality to issue bonds to be secured by tax
41 increment funds pursuant to this act and the authorization to pay the
42 principal and interest on such bonds from tax increment funds received
43 pursuant to this act shall terminate.

44 Sec. 5. Effective dates

45 A. The provisions of section 3 of this act shall become effective
46 from and after July 1, 1979.

47 B. Except as provided by subsection A of this section, the pro-
48 visions of this act shall become effective as provided by law.

Approved by the Governor - May 31, 1977

Filed in the Office of the Secretary of State - May 31, 1977

APPENDIX 2

CITY OF TUCSON V. ROBERT K. CORBIN
ATTORNEY GENERAL OF STATE OF ARIZONA
623 P.2d 1239

Cite as 128 Ariz. 83 (App.)

[3] Adverting to the facts of the present case, the appellant was clearly in close proximity to the automobile at the time of the accident. The more difficult question is whether appellant's activity was an integral part of the occupancy and use of the vehicle. This determination turns on whether appellant was participating in the activity of putting tire chains on the car at the time of the accident. No question appears as to the necessity or the desirability of putting the chains on the car in furtherance of its legitimate use and operation. It is true that, at the time of the accident, appellant was waiting to perform specific physical assistance, but the record does not suggest any inconsistent activity or abandonment of purpose. While her preceding photographic activities could not be said to be a part of the tire chaining effort, appellant had put the camera away and had been expressly summoned to the rear of the vehicle by Santa Maria to assist him in fastening the chains to the left rear tire. The record clearly indicates that appellant was standing two or three feet from the rear of the car waiting to fulfill her function in this process and had been so standing for a period of one minute or less to five minutes at the time the accident occurred.

Appellee contends that even if appellant intended to assist Santa Maria in the chaining operation, intention alone is insufficient to create coverage. In this regard, appellee cites *Testone v. Allstate Insurance Co., supra*; *New Amsterdam Casualty Co. v. Fromer*, 75 A.2d 645 (D.C.1950); and *Lautenschleger v. Royal Indemnity Co.*, 15 N.C. App. 579, 190 S.E.2d 406 (1972). While we agree with the proposition that intention alone would be insufficient, the operative facts here clearly indicate that not only had the appellant actually been actively participating in the overall tire chaining project, but also that her location at the time of the accident was controlled by the necessity of her continued participation. Therefore, this is not a case of mere intention.

We do not find within the four corners of the record before the trial court upon the parties' cross-motions for summary judgment a disputable factual issue in regard to appellant's participation in the task of put-

ting tire chains on the car at the time of the accident. Accordingly, and as a matter of law, we hold that at the time of the accident, appellant's activities were in such close proximity to the car and so related to its operation and use as to be an integral part of her occupancy and use of the car. She was therefore "upon" the car within the meaning of the policy provision.

Since we do not find any dispute on factual issues and in view of our interpretation of the meaning of the subject language in the policy, the judgment of the trial court is reversed and the case remanded with instructions to enter judgment that coverage is available to appellant under the uninsured motorist provisions of appellee's liability policy and that appellee is obligated to proceed with arbitration.

Judgment is reversed and remanded with instructions.

OGG, P. J., and JACOBSON, J., concur.



623 P.2d 1239

The CITY OF TUCSON, a municipal corporation, Plaintiff/Appellant,

v.

Robert K. CORBIN, Attorney General of the State of Arizona, Defendant/Appellee,

and

County of Pima, a body politic; Tucson Unified School District No. 1; and Pima County Community College District, Real Parties in Interest/Appellees.

2 CA-CIV 3626.

Court of Appeals of Arizona, Division 2.

Dec. 17, 1980.

Rehearing Denied Jan. 21, 1981.

Review Denied Feb. 11, 1981.

Municipality brought action against Attorney General and three other taxing au-

thorities, requesting special order directing Attorney General to certify tax increment bonds issued by municipality for redevelopment projects under state slum clearance and redevelopment law. The Superior Court, Pima County, Cause No. 176308, James C. Carruth, J., held that the tax increment financing scheme was unconstitutional, and municipality appealed. The Court of Appeals, Hathaway, C. J., held that the property tax increment provisions were unconstitutional under state constitutional provision requiring that questions upon bond issues or special assessments be submitted to the vote of affected real property tax payers.

Affirmed.

1. Municipal Corporations ⇐906

A municipality is not affected by a bond issue or special assessment when it in no way incurs liability for payment.

2. Municipal Corporations ⇐864(1), 918(1)

Municipal revenue bonds or obligations payable out of a special fund separate from the city's general funds do not require an election before they may be issued, and are not affected by constitutional restrictions on municipal indebtedness. A.R.S.Const. Art. 7, § 13.

3. Municipal Corporations ⇐907

State's property tax increment scheme under the slum clearance and redevelopment law was unconstitutional under constitutional provision requiring that questions upon bond issues or special assessments be submitted to the vote of affected real property tax payers, since tax increment provisions allowed pledge of proceeds from ad valorem taxation to pay off municipal property tax increment bonds, and since an election was required even if proposed increase in indebtedness would not violate constitutional debt limitations. A.R.S. § 36-1471 et seq.; A.R.S.Const. Art. 7, § 13.

4. Municipal Corporations ⇐410(1), 918(1)

Under state constitutional article requiring that questions upon bond issues or special assessments be submitted to vote of real property tax payers of political subdivisions affected by such question, the electors of the affected district shall be given a voice in accepting or rejecting a proposed expenditure which ultimately pledges their district's general taxing power; an election is required even if the proposed increase in indebtedness would not violate constitutional debt limitations. A.R.S.Const. Art. 7, § 13.

O'Connor, Cavanagh, Anderson, Westover, Killingsworth & Beshears, P. A. by M. E. Rake, Jr. and Larry L. Smith, Phoenix, for plaintiff/appellant.

Robert K. Corbin, Atty. Gen. by Charles S. Pierson, Asst. Atty. Gen., Phoenix, for defendant/appellee.

Stephen D. Neely, Pima County Atty. by Rose Silver, Deputy County Atty., Tucson, for real party in interest/appellee, Pima County.

DeConcini, McDonald, Brammer, Yetwin & Lacy, P. C. by J. Wm. Brammer, Jr., Tucson, for real party in interest/appellee, Tucson Unified School District No. 1.

Stolkin & Weiss, P. C. by Ronald J. Stolkin, Tucson, for real party in interest/appellee, Pima County Community College District.

OPINION

HATHAWAY, Chief Judge.

In this appeal, we are faced with the question of the constitutionality of Arizona's property tax increment financing scheme under the slum clearance and redevelopment law, A.R.S. Secs. 36-1471, et seq.

Our legislature has defined a method of redevelopment of slum or blighted areas within municipalities. After a finding of necessity has been made by the local governing body, a slum clearance and redevelopment commission may be formed to pre-

Cite as 128 Ariz. 83 (App.)

pare a redevelopment plan.¹ A municipality is given broad powers of eminent domain and disposal of property in a redevelopment

project area.² Redevelopment projects may be financed by municipal bonds, and, since 1977, by property tax increment bonds.³

1. A.R.S. Secs. 36-1473, 36-1476, 36-1479.
2. A.R.S. Secs. 36-1478, 36-1480.
3. A.R.S. Sec. 36-1481 provides in part:

"Issuance of bonds

A. A municipality may issue bonds in its discretion to finance the undertaking of any redevelopment project under this article, including the payment of principal and interest upon any advances for surveys and plans for redevelopment projects, and may also issue refunding bonds for the payment or retirement of such bonds previously issued by it. Such bonds shall be made payable, as to both principal and interest, solely from the income, proceeds, revenues and funds of the municipality, including tax increment funds received pursuant to Sec. 36-1488.01, derived from or held in connection with its undertaking and carrying out of redevelopment projects under this article. . . .

B. The bonds and other obligations of the municipality issued pursuant to subsection A of this section are not a general obligation or general debt of the municipality, the state or any of its political subdivisions, and neither the municipality, the state, nor any of its political subdivisions are generally liable for them, nor in any event shall the bonds or obligations give rise to a general obligation or liability of the municipality, the state or any of its political subdivisions, or a charge against their general credit or taxing powers, or be payable from any funds or properties other than those funds or properties specifically described in subsection A of this section and those bonds and obligations shall so state on their face. Bonds issued under this section shall not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. Bonds issued under the provisions of this article are declared to be issued for an essential public and governmental purpose, and together with interest thereon and income therefrom, shall be exempted from all taxes."

- A.R.S. Sec. 36-1488.01 provides in part:

"Property tax increment; redevelopment plans

A. In this section, unless the context otherwise requires:

1. 'Taxes' includes all levies on an ad valorem basis on land, real property, personal property or other property not otherwise exempted from such levies by the constitution or statutes of this state.

2. 'Taxing agency' means any city, including charter city, town, county or school district, including common school districts, unified school districts, high school districts and community college districts.

B. Any redevelopment plan may contain a property tax increment provision under which taxes, if any, levied upon taxable property in a redevelopment project area each year by or for the benefit of any taxing agency after the date the local governing body approves the redevelopment plan, including any amendments to such plan, incorporating property tax increment provisions, shall be divided as follows:

1. That portion of the taxes which would be produced, taking into account any credit or rebate against such tax levy or reduction in taxes to be collected, by the rate at which the tax is levied each year by or for each taxing agency upon the assessed value of the taxable property in the redevelopment project area as shown upon the assessment and tax roll used in connection with the taxation of such property by such taxing agency, last equalized prior to the date on which the local governing body approved the redevelopment plan, shall be allocated and when collected shall be paid into the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid. For the purpose of allocating taxes levied by or for any taxing agency or agencies which did not include the territory in a redevelopment project area on the date of approval of the redevelopment plan by the local governing body, but to which such territory has been annexed or otherwise included after such date, the assessment and tax roll of the county last equalized on such date shall be used in determining the assessed valuation of the taxable property in the project area on such date.

2. That portion of the levied taxes each year in excess of such amount shall be allocated and when collected shall be paid into a special fund of the municipality to pay the principal of and interest on loans, monies advanced to or any indebtedness, incurred by such municipality to finance or refinance, in whole or in part, such redevelopment project. Unless and until the total assessed valuation of the taxable property in a redevelopment project area exceeds the total assessed value of the taxable property in such project area as shown by the last equalized assessment and tax roll referred to in paragraph 1 of this subsection all of the taxes levied and collected upon the taxable property in such redevelopment project area shall be paid into the funds of the respective taxing agencies. When such loans, advances and indebtedness, if any, and interest thereon, have been paid, all monies thereafter received from taxes upon the taxable property in such redevel-

The concept of tax increment financing originated in California in the early 1950's.⁴ As a result of increasing difficulties in securing federal funding for redevelopment projects, use of this financing technique has increased, particularly over the last 10 years. Arizona's statutes are very similar to those of many other states which have adopted tax increment financing. These statutes do not require voter approval prior to issuance of tax increment bonds.

In a typical project utilizing tax increment financing, the redeveloping municipality finances its activities by issuing bonds to be repaid from future tax increments for the duration of the project. The assessed valuation of the property within the redevelopment area is determined as of a particular date. This is referred to as the "frozen base value" or "base year assessed value." After the bonds are sold and redevelopment occurs, the assessed valuation of the project property generally rises, which results in additional ad valorem tax revenues from that area. The difference in revenues received before and after the redevelopment, the "tax increment," is paid into a special fund and applied to repayment of the tax increment bonds. Only revenues above and beyond what would have been collected from the property owners under the base year assessed valuation are diverted into the repayment fund. When the bonds are fully repaid from the captured increments, the allocation to the special fund terminates and the full taxes are disbursed to the respective taxing authorities.⁵

opment project area shall be paid into the funds of the respective taxing agencies as taxes on all other property are paid."

4. Cal.Health & Safety Code Sec. 33670 (West 1973).
5. "This overall process provides local governments with a flexible funding source for redevelopment activity that avoids much of the red-tape and delay associated with grant programs. In some states, TIF [tax increment financing] also avoids the constraints of voter approval and municipal borrowing or debt limitations. However, these advantages in administrative flexibility and circumventing local political pressure creates greater potential for abuse by redevelopment officials, par-

In October 1977, the Tucson City Council adopted Resolution No. 10347, authorizing the issuance of \$1.5 million of tax increment bonds for the Pueblo West Redevelopment Project. Pursuant to A.R.S. Sec. 36-1484, the proposal was submitted to the attorney general for certification. The attorney general refused to certify the bonds, stating that "the bonds authorized by the City for issue would not be issued in accordance with the Constitution and laws of the State of Arizona." The attorney general listed 12 reasons for his conclusion.

The city then filed the instant action against the attorney general and the three other taxing authorities affected,⁶ requesting a special order directing the attorney general to certify that the Pueblo West tax increment bonds could be issued. The trial court ruled that the bonds were invalid and that the tax increment statutes adopted by the legislature were unconstitutional as creating a debt without an election in violation of Ariz.Const. art. 7, Sec. 13, as well as creating a "new tax" in violation of sections 3, 6 and 9 of article 9 and section 13 of article 4, part 2. To facilitate appeal, the trial court ruled in favor of the attorney general on all the remaining issues.

Ariz.Const. art. 7, Sec. 13 provides:

"Submission of questions upon bond issues or special assessments

Questions upon bond issues or special assessments shall be submitted to the vote of real property tax payers, who shall also in all respects be qualified electors of this State, and of the political subdivisions thereof affected by such question."

ticularly when projects appear economically feasible without such public assistance. (Footnotes omitted)" Davidson, "Tax Increment Financing as a Tool for Community Redevelopment," 56 U.Det.J.Urb.L. 405, 408 (1978). See also, Note, "Urban Redevelopment: Utilization of Tax Increment Financing," 19 Washburn L.J. 536 (1980).

6. Appellees Pima County, Tucson Unified School District No. 1 and Pima County Community College District took no active part in the case below and have filed no answering briefs in this court. All three parties have agreed to abide by the decision of this court on the briefs submitted.

The issuance of bonds "constitutes a public debt" and "violates" the provision of

[1, 2] municipal or special bonds, which incurs a liability. *Willie v. Willie*. For this obligation, separate proceedings are not required. *Willie v. Willie*, 100 P.2d 655 (1940). Incremental revenue is derived in *Willie* from the tax increment bonds, which are obligations and "shall be paid within the limits of the statutory provisions." Further, the bonds are placed on the bonds account taken by the incrementing from the redevelopment under the special fund event though ever collected and ad valorem property are that in the value of the

[3] N.C. 100, which constitute a public debt. Const. art. 10, section 1.

7. A.P.S. 100, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 428, 429, 430, 431, 432, 433, 434, 435, 436, 437, 438, 439, 440, 441, 442, 443, 444, 445, 446, 447, 448, 449, 450, 451, 452, 453, 454, 455, 456, 457, 458, 459, 460, 461, 462, 463, 464, 465, 466, 467, 468, 469, 470, 471, 472, 473, 474, 475, 476, 477, 478, 479, 480, 481, 482, 483, 484, 485, 486, 487, 488, 489, 490, 491, 492, 493, 494, 495, 496, 497, 498, 499, 500, 501, 502, 503, 504, 505, 506, 507, 508, 509, 510, 511, 512, 513, 514, 515, 516, 517, 518, 519, 520, 521, 522, 523, 524, 525, 526, 527, 528, 529, 530, 531, 532, 533, 534, 535, 536, 537, 538, 539, 540, 541, 542, 543, 544, 545, 546, 547, 548, 549, 550, 551, 552, 553, 554, 555, 556, 557, 558, 559, 560, 561, 562, 563, 564, 565, 566, 567, 568, 569, 570, 571, 572, 573, 574, 575, 576, 577, 578, 579, 580, 581, 582, 583, 584, 585, 586, 587, 588, 589, 590, 591, 592, 593, 594, 595, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606, 607, 608, 609, 610, 611, 612, 613, 614, 615, 616, 617, 618, 619, 620, 621, 622, 623, 624, 625, 626, 627, 628, 629, 630, 631, 632, 633, 634, 635, 636, 637, 638, 639, 640, 641, 642, 643, 644, 645, 646, 647, 648, 649, 650, 651, 652, 653, 654, 655, 656, 657, 658, 659, 660, 661, 662, 663, 664, 665, 666, 667, 668, 669, 670, 671, 672, 673, 674, 675, 676, 677, 678, 679, 680, 681, 682, 683, 684, 685, 686, 687, 688, 689, 690, 691, 692, 693, 694, 695, 696, 697, 698, 699, 700, 701, 702, 703, 704, 705, 706, 707, 708, 709, 710, 711, 712, 713, 714, 715, 716, 717, 718, 719, 720, 721, 722, 723, 724, 725, 726, 727, 728, 729, 730, 731, 732, 733, 734, 735, 736, 737, 738, 739, 740, 741, 742, 743, 744, 745, 746, 747, 748, 749, 750, 751, 752, 753, 754, 755, 756, 757, 758, 759, 760, 761, 762, 763, 764, 765, 766, 767, 768, 769, 770, 771, 772, 773, 774, 775, 776, 777, 778, 779, 780, 781, 782, 783, 784, 785, 786, 787, 788, 789, 790, 791, 792, 793, 794, 795, 796, 797, 798, 799, 800, 801, 802, 803, 804, 805, 806, 807, 808, 809, 810, 811, 812, 813, 814, 815, 816, 817, 818, 819, 820, 821, 822, 823, 824, 825, 826, 827, 828, 829, 830, 831, 832, 833, 834, 835, 836, 837, 838, 839, 840, 841, 842, 843, 844, 845, 846, 847, 848, 849, 850, 851, 852, 853, 854, 855, 856, 857, 858, 859, 860, 861, 862, 863, 864, 865, 866, 867, 868, 869, 870, 871, 872, 873, 874, 875, 876, 877, 878, 879, 880, 881, 882, 883, 884, 885, 886, 887, 888, 889, 890, 891, 892, 893, 894, 895, 896, 897, 898, 899, 900, 901, 902, 903, 904, 905, 906, 907, 908, 909, 910, 911, 912, 913, 914, 915, 916, 917, 918, 919, 920, 921, 922, 923, 924, 925, 926, 927, 928, 929, 930, 931, 932, 933, 934, 935, 936, 937, 938, 939, 940, 941, 942, 943, 944, 945, 946, 947, 948, 949, 950, 951, 952, 953, 954, 955, 956, 957, 958, 959, 960, 961, 962, 963, 964, 965, 966, 967, 968, 969, 970, 971, 972, 973, 974, 975, 976, 977, 978, 979, 980, 981, 982, 983, 984, 985, 986, 987, 988, 989, 990, 991, 992, 993, 994, 995, 996, 997, 998, 999, 1000.

The question before us is whether the issuance of property tax increment bonds constitutes a debt of the city which "affects" it, requiring an election under this provision.

[1, 2] It has long been established that a municipality is not affected by a bond issue or special assessment when it in no way incurs liability for payment. *City of Globe v. Willis*, 16 Ariz. 378, 146 P. 544 (1915). For this reason, municipal revenue bonds or obligations payable out of a special fund separate from the city's general funds do not require an election before they may be issued, and are not affected by constitutional restrictions on municipal indebtedness. *Guthrie v. City of Mesa*, 47 Ariz. 336, 56 P.2d 655 (1936). The city contends that tax increment bonds fall into the category of revenue or special fund obligations described in *Willis* and *Guthrie*. It points out that the tax increment statutes provide that such bonds shall not give rise to a general obligation or liability of the municipality and "shall not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction."⁷ Further, the city argues, the tax increments are placed in a special fund to pay off the bonds and that the only obligation undertaken by the city is to collect and pay over the incremental tax revenues, if any, resulting from any increased valuation within the redevelopment project area. We agree that under the statutory scheme the city's general funds would not be liable even in the event that no incremental tax revenues are ever collected. The parties stipulated below and it appears uncontradicted that ad valorem taxation presently affects the property in question, that the probabilities are that such taxation will continue to exist in the future, and that the fair market value of the property will probably increase in the future.

[3] Notwithstanding the legislature's recital that tax increment bonds do not constitute a debt within the meaning of Ariz. Const. art. 7, Sec. 13, we must look to the transaction for what it is, and not what it is

7. A.R.S. Sec. 36-1481(B). See footnote 3, supra.

called. *City of Phoenix v. Phoenix Civic Auditorium & Convention Center Ass'n*, 99 Ariz. 270, 408 P.2d 818 (1965), reh. 100 Ariz. 101, 412 P.2d 43 (1966). The *Phoenix Civic Auditorium* opinions are particularly instructive on the issue before us. In that case, a lease-back agreement under which the City of Phoenix was to condemn land and lease it to a nonprofit association, which would construct a civic center and rent the land back to the city, was held to create a debt upon the city exceeding the constitutional debt limitation. The supreme court stated that the issuance of bonds which are not payable from general funds but solely from revenues of an independent revenue-producing asset or utility does not constitute a debt of the municipality, but that the lease-back terms amounted to a purchase agreement which made "the general taxing power of the City" the real "security for the debts." On rehearing, the court held that if the lease was amended to provide that the proceeds of ad valorem taxes could not be subjected to payment of rent, the lease would not violate the Arizona Constitution.

The key constitutional infirmity in Arizona's tax increment statutes is that they allow the pledge of proceeds from ad valorem taxation to pay off municipal property tax increment bonds. Even though the incremental tax revenues are placed into a special fund, the "special fund" doctrine of *City of Globe v. Willis*, supra, and *Guthrie v. City of Mesa*, supra, does not remove these bonds from the category of obligations which must be approved by the voters under our constitution. Our supreme court has addressed the special fund doctrine by quoting at length from a Washington Supreme Court opinion, *State ex rel. Washington State Finance Committee v. Martin*, 62 Wash.2d 645, 384 P.2d 833 (1963):

"That the special fund doctrine is a useful and valid tool of government is apparent when one thinks of all of the institutions and devices of government supported by it. But the true test of its

application here is not what comes out of the fund, but what goes into it. If the revenues in it derive exclusively from the operation of the device or organ of government financed by the fund, as in the case of a toll bridge, or the operation of the State Liquor Control Board, or from sales or leases of publicly owned lands, any securities issued solely upon the credit of the fund are not debts of the state, but debts of the fund only. But if the state undertakes or agrees to provide any part of the fund from any general tax, be it excise or ad valorem, then securities issued upon the credit of the fund are likewise issued upon the credit of the state and are in truth debts of the state. Hence, we must take care that the employment of peripheral doctrines do not lead us away from the main point of the case. What is a debt of the State of Washington? Any obligation which must in law be paid from any taxes levied generally is, we think, a debt of the state. It matters little whether the tax be ad valorem or an excise.'

We agree with the Washington court that where the bonds are payable only from a constitutionally authorized fund, which is separate and distinct from the State's general revenues, the bonds thus funded are obligations of the special fund and not of the state." *Arizona State Highway Commission v. Nelson*, 105 Ariz. 76, 80, 459 P.2d 509, 513 (1969).

See also, *Tucson Transit Authority, Inc. v. Nelson*, 107 Ariz. 246, 485 P.2d 816 (1971).

Despite the presumption in favor of the constitutionality of a legislative enactment and our duty to view any attack in favor of the validity of the statute, *New Times, Inc. v. Arizona Board of Regents*, 110 Ariz. 367, 519 P.2d 169 (1974), we are constrained to hold that the provisions of our slum clearance and redevelopment law which authorize tax increment financing in its current form are unconstitutional as violative of Ariz. Const. art. 7, Sec. 13. The Supreme Court of Kentucky reached the same result in *Miller v. Covington Development Au-*

thority, 539 S.W.2d 1 (Ky.1976), stating that ad valorem taxes cannot be put in the "special fund" category, and that any obligation payable from ad valorem taxes is a debt. The Supreme Court of Iowa, while holding that state's tax increment statutes constitutional on due process and other grounds, also held that property tax increment bonds must be treated as a municipal debt obligation:

"The purpose of Sec. 3 [Iowa's constitutional debt limitation, similar to Ariz. Const. art. 9, § 8], as indicated by the special assessment and revenue bond cases, is to prevent the general taxes of a political subdivision from becoming overburdened by obligations. The taxes which will be used to pay the proposed urban renewal bonds and interest will be general taxes. This is not a case of a special assessment tax which was never intended to be used, and could not be used, to meet other expenses of the city. Nor is this a case where the bonds are to be paid from the operating revenues of a municipal enterprise which generates income, such as a power plant.

Ultimately the 'credit' of a city is its power to levy general taxes. When it pledges all or part of that power, it pledges its credit and in a realistic sense incurs an obligation. We think the bonds must realistically be treated as a debt for the purposes of Sec. 3.

Clearly the urban renewal bonds would constitute a constitutional debt if they were payable from the general revenues of the city without limitation. We think the result is not different because Sec. 403.19 carves out a certain portion of a city's general revenues and limits the liability of the city to those revenues. If the result were otherwise, a city could divide its general revenues into several special funds, each with a bond issue restricted to recourse against its own fund—and thus commit large portions of the city's revenues without regard to Sec. 3. The constitutional debt limitation could thus be virtually nullified." *Richards v. City of Muscatine*, 237 N.W.2d 48, 64 (Iowa 1975)

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Affirmed.

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[4] We perceive another reason why an election must be held in this instance. The electors of the affected district shall be given a voice in accepting or rejecting a proposed expenditure which ultimately pledges their district's general taxing power. An election is required even if the proposed increase in indebtedness would not violate constitutional debt limitations. *Ackerman v. Boyd*, 74 Ariz. 77, 244 P.2d 351 (1952); see also, *Tribe v. Salt Lake City Corp.*, 540 P.2d 499 (Utah 1975) (Henriod, C. J., dissenting).

We have reviewed the tax increment statutes of other jurisdictions together with case law interpreting these provisions and find no authority which dictates a different conclusion. The majority of these statutes have not been attacked on constitutional grounds in their respective jurisdictions. It is significant to note that California, the state which first adopted tax increment financing, amended its constitution to allow such financing in the face of its debt limitation provisions. Cal.Const. art. 16, Sec. 16.

The trial court correctly declared the instant bond issue invalid and the tax increment financing scheme set forth in A.R.S. Secs. 36-1481 and 36-1488.01 unconstitutional under Ariz.Const. art. 7, Sec. 13. We do not address the additional objections raised by counsel since the statutes do not survive this initial constitutional barrier.

Affirmed.

HOWARD and RICHMOND, JJ., concur.



623 P.2d 1245

The STATE of Arizona, Appellee,

v.

John ROBLES, Appellant.

No. 2 CA-CR 1998-2.

Court of Appeals of Arizona,
Division 2.

Dec. 23, 1980.

Rehearing Denied Jan. 14, 1981.

Review Denied Feb. 3, 1981.

Defendant was convicted in the Superior Court, Gila County, Cause No. 6797-A, Lloyd Fernandez, J., of aggravated assault and he appealed. The Court of Appeals, Hathaway, C. J., held that: (1) jury was properly instructed to consider effect of voluntary intoxication upon defendant, and (2) trial court was properly permitted to use, as factors in aggravation, fact that there was a threatened infliction of serious injury, and that there was a dangerous instrument or deadly weapon involved.

Affirmed.

1. Criminal Law ⇐ 774

In prosecution for aggravated assault, jury was properly instructed to consider effect of voluntary intoxication upon defendant. A.R.S. §§ 13-105, subd. 5, 13-503, 13-1203, subd. A, par. 2, 13-1204, subd. A, par. 2.

2. Criminal Law ⇐ 986.2(1)

Trial court, in sentencing for aggravated assault, properly used as factors in aggravation that there was threatened infliction of serious injury and that there was a dangerous instrument or deadly weapon involved. A.R.S. §§ 13-105, subd. 5, 13-503, 13-1203, subd. A, par. 2, 13-1204, subd. A, par. 2.

Robert K. Corbin, Atty. Gen. by William J. Schafer, III, and Georgia B. Ellexson, Asst. Attys. Gen., Phoenix, for appellee.

Sevrin J. Huselid, Globe, for appellant.

APPENDIX 3

SENATE CONCURRENT RESOLUTION 1010

REFERENCE TITLE: tax increment financing

STATE OF ARIZONA
37th LEGISLATURE
2nd Regular Session
SENATE

S.C.R. 1010
Introduced
February 4, 1986

Referred on February 6, 1986

Rules

Government

Finance

Introduced by Senator Lunn

A CONCURRENT RESOLUTION

PROPOSING AN AMENDMENT TO THE CONSTITUTION OF ARIZONA RELATING TO PUBLIC DEBT, REVENUE, AND TAXATION; PROVIDING FOR TAX INCREMENT FINANCING PLANS IN CITIES AND TOWNS; PRESCRIBING PROCEDURES, CONDITIONS AND LIMITATIONS; PROVIDING FOR BONDS AND OTHER EVIDENCES OF INDEBTEDNESS; PROVIDING FOR EXEMPTION FROM DEBT, LEVY AND EXPENDITURE LIMITATIONS; PROVIDING FOR EXEMPTION FROM ELECTION REQUIREMENT FOR BONDS, AND AMENDING ARTICLE IX, CONSTITUTION OF ARIZONA, BY ADDING SECTION 22.

1 Be it resolved by the Senate of the State of Arizona, the House of
2 Representatives concurring:

3 1. The following amendment of article IX, Constitution of Arizona,
4 by adding section 22, is proposed to become valid when approved by a
5 majority of the qualified electors voting thereon and upon proclamation of
6 the governor:

7 22. Tax increment financing

8 SECTION 22. A. THE LEGISLATURE MAY PROVIDE FOR THE
9 EXERCISE BY CITIES AND TOWNS OF TAX INCREMENT FINANCING POWERS
10 AUTHORIZED BY THIS SECTION AND MAY ENACT LAWS TO AUTHORIZE AND
11 REGULATE SUCH FINANCING, INCLUDING ANNEXATION AND OTHER
12 TERRITORIAL ADJUSTMENTS.

13 B. A CITY OR TOWN MAY ADOPT TAX INCREMENT FINANCING
14 PLANS TO APPLY TO REDEVELOPMENT AREAS AS DEFINED BY LAW WITHIN
15 ITS BOUNDARIES. A PLAN MAY ALLOCATE TO THE CITY OR TOWN ALL OR
16 PART OF THE PROPERTY TAXES LIMITED UNDER SECTION 18 OF THIS
17 ARTICLE WHICH ARE LEVIED BY THIS STATE OR ANY TAXING
18 JURISDICTION ON PROPERTY IN A TAX INCREMENT FINANCING PROJECT
19 AREA AND ATTRIBUTABLE TO INCREASES IN THE ASSESSED VALUATION
20 OF THE PROPERTY ABOVE THE LIMITED ASSESSED VALUE OF THE
21 PROPERTY IN A BASE YEAR. THE BASE YEAR SHALL NOT BE ANY YEAR

1 BEFORE THE YEAR IN WHICH THE PLAN IS ADOPTED. IF THERE IS NO
2 INCREASE IN THE LIMITED ASSESSED VALUE UNDER SECTION 18 OF
3 THIS ARTICLE OF THE PROPERTY IN THE TAX INCREMENT FINANCING
4 PROJECT AREA ABOVE THE TOTAL LIMITED ASSESSED VALUE FOR THE
5 BASE YEAR, NO AMOUNT MAY BE ALLOCATED TO A CITY OR TOWN AS TAX
6 INCREMENT MONIES. PROPERTY TAXES LIMITED UNDER SECTION 18 OF
7 THIS ARTICLE WHICH ARE ALLOCATED TO A CITY OR TOWN BY A TAX
8 INCREMENT FINANCING PLAN, WHEN COLLECTED, SHALL BE PAID TO THE
9 RESPECTIVE CITY OR TOWN. ALL OTHER TAXES, WHEN COLLECTED,
10 SHALL BE PAID TO THE RESPECTIVE TAXING JURISDICTION WHICH
11 LEVIED THE TAXES. AT SUCH TIME AS ALL COSTS AND EXPENSES
12 INCURRED IN CONNECTION WITH A PLAN HAVE BEEN PAID, NO FURTHER
13 TAX INCREMENT FINANCING ALLOCATION RELATING TO THAT PLAN MAY
14 BE MADE.

15 C. A TAX INCREMENT FINANCING PLAN MAY PROVIDE FOR
16 ISSUING BONDS OR OTHER OBLIGATIONS TO FINANCE OR REFINANCE ALL
17 OR PART OF A TAX INCREMENT FINANCING PLAN AND PROVIDE FOR THE
18 IRREVOCABLE PLEDGE OF TAX INCREMENT MONIES TO PAY THE DEBT
19 OBLIGATIONS AND FOR USING THE MONIES FOR DIRECT PAYMENT OF
20 PLAN OBLIGATIONS. TAX INCREMENT MONIES PAID DIRECTLY OR FROM
21 BONDS OR FROM OTHER DEBT SOURCES MAY BE EXPENDED BY CITIES AND
22 TOWNS FOR CAPITAL EXPENSES, LAND ASSEMBLAGE, ADMINISTRATIVE
23 EXPENSES DIRECTLY RELATED TO A REDEVELOPMENT PROJECT, EXPENSES
24 INCURRED IN CONNECTION WITH AUTHORIZING AND ISSUING BONDS OR
25 WITH INCURRING OTHER DEBT OBLIGATIONS AND SUCH OTHER PURPOSES
26 AS THE LEGISLATURE AUTHORIZES.

27 D. TAX INCREMENT MONIES ALLOCATED BY A TAX INCREMENT
28 FINANCING PLAN SHALL BE EXCLUDED IN COMPUTING A CITY'S OR
29 TOWN'S LIMITATION ON AD VALOREM TAXATION PURSUANT TO SECTION
30 19 OF THIS ARTICLE.

31 E. THE EXPENDITURE LIMITATION PRESCRIBED BY SECTION 20
32 OF THIS ARTICLE DOES NOT APPLY TO THE ALLOCATION, PAYMENT OR
33 EXPENDITURE OF TAX INCREMENT MONIES.

34 F. BONDS ISSUED OR OBLIGATIONS INCURRED PURSUANT TO A
35 TAX INCREMENT FINANCING PLAN:

36 1. DO NOT CONSTITUTE AN INDEBTEDNESS FOR PURPOSES OF
37 THE DEBT LIMITATIONS PRESCRIBED BY SECTION 8 OF THIS ARTICLE.

38 2. ARE NOT SUBJECT TO SUBMISSION TO A VOTE OF QUALIFIED
39 ELECTORS PURSUANT TO ARTICLE VII, SECTION 13, BUT THIS
40 PARAGRAPH DOES NOT PROHIBIT THE GOVERNING BODY OF A CITY OR
41 TOWN FROM SUBMITTING ANY QUESTION RELATING TO ISSUING SUCH
42 BONDS TO A VOTE OF THE QUALIFIED ELECTORS OF THE CITY OR TOWN.

43 2. The proposed amendment (approved by a majority of the members
44 elected to each house of the legislature, and entered upon the respective
45 journals thereof, together with the ayes and nays thereon) shall be by the
46 secretary of state submitted to the qualified electors at the next regular
47 general election, or at a special election called for that purpose, as
48 provided by article XXI, Constitution of Arizona.

For Committee on GOV



For Caucus & Floor Action

As passed by the Senate

Arizona State Senate

Phoenix, Arizona

FACT SHEET FOR S.C.R. 1010

Tax increment financing

S.C.R. 1010 proposes a constitutional amendment to authorize the use of tax increment financing by cities and towns.

Tax increment financing is a mechanism which allocates a portion of property tax revenues within the tax increment financing district to pay the costs of development of the area within the district. That portion of property taxes designated for the district is determined by establishing a base year in which property values are frozen for existing taxing jurisdictions and any revenue resulting from valuation increases above that base is allocated to the district. Under S.C.R. 1010 only primary property values are to be frozen.

S.C.R. 1010 allows for the issuance of bonds or other obligations which are to be paid from tax increment revenues. The bonds issued under the tax increments plan are exempt from the limitations on the bonded indebtedness of cities and towns. The S.C.R. also specifies that tax increment revenues are exempt from the levy and expenditure limits established in the constitution.

Prepared by Senate Staff
March 3, 1986