ATRA OPPOSES HB4130

Tax Increment Financing (TIF)

HB4130 has significant legal and fiscal policy problems that explain why TIF has never become law in Arizona.

The concept of TIF is not new in Arizona. In 1977, the Arizona Legislature enacted a TIF law granting cities the authority to create "redevelopment districts" that would be financed by skimming the incremental growth in property taxes that would otherwise go to counties, schools, community colleges, and the state. The 1977 law also granted the authority to issue bonds that would be backed by the tax increment collections.

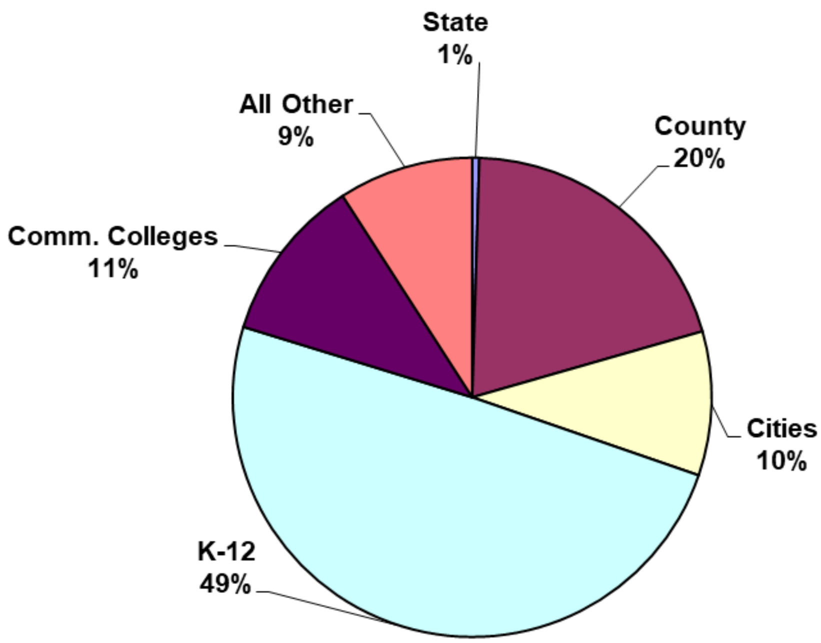
In October of 1977, the City of Tucson attempted to issue TIF bonds. When the Attorney General refused to certify the bonds, the City sought to force certification in court. The lower court and the Court of Appeals both declared the bonds to be invalid and the TIF statutes unconstitutional. The court ruled that the issuance of the TIF bonds, without prior voter approval at an election, violated the Constitution. Specifically, the court ruled that because the revenue source backing the bonds, ad valorem property taxes, was a "general tax" of the City, the bonds were a debt of the City and required an election under the Constitution. Since most TIF financings typically involve leveraging future growth in property taxes through some form of debt financing, the Tucson decision essentially eliminated any prospects for property TIF financing in Arizona.

Following the failed effort by the City of Tucson, the TIF law laid dormant until 1986 when there was an unsuccessful attempt to refer a Senate Concurrent Resolution to the voters to make property TIF debt financing legal. There were a couple of attempts to advance property TIF legislation during the early 1990's that were designed as pay-as-you-go TIFs; however, those attempts were also unsuccessful.

The pay-as-you-go TIF legislation failed to secure the support of the State Legislature largely because of its impacts on the budgets of the jurisdictions that use property taxes. In addition, unlike many states where TIF laws are in place, Arizona's state general fund is interlinked with K-12 school districts through the equalization formula that controls school spending. As a result, the state general fund absorbs the largest negative impact from property taxes being redirected from K-12 schools to the city or TIF district. Also, Arizona's constitutional property tax levy limitations that were voted into the Constitution in 1980 also collide with the standard property TIF structures that might work in other states.

For that reason, previous efforts to pass a property TIF law in Arizona were not only opposed by ATRA and other segments of the business community but also by many local governments that were concerned about the revenue loss to their budgets. It is important to remember that property TIF has been historically supported by cities for fairly obvious reasons: Property taxes play a much less significant role in city budgets than the jurisdictions that are losing their property tax revenue to the TIF district.

The chart below reflects the statewide distribution of property taxes for tax year 2025.



Jurisdiction	2025 Total Levies	% of Total
State	$46,304,539	0.5%
County	$1,958,649,167	20.1%
Cities	$948,083,447	9.7%
K-12	$4,824,773,630	49.5%
Comm. Colleges	$1,086,904,099	11.1%
All Other	$888,384,944	9.1%
Totals	**$9,753,099,826**	**100.0%**