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To: Senate Committee on Assessment and Taxation
From: Spencer Duncan, Government Affairs Director
Date: February 14, 2024
RE: SB 468 – Tying Revenue Neutral Rate to Tax Incentives
In Opposition – Verbal Testimony

Thank you to the Chair and Committee for the opportunity to provide testimony.

We ask you to not support SB 468, which will have a negative impact on cities, businesses, and citizens. The bill will discourage cities from utilizing economic incentive tools that reduce the tax burden on businesses and create economic activity and jobs. We also have concerns with veering from the original intention of the Revenue Neutral Rate (RNR) process by attaching tax incentive usage to its provisions.

The Revenue Neutral Rate (RNR) process was created to provide transparency and accountability in the property tax and mill levy process. Tying usage of economic incentive programs to the RNR process was not the original intent. We have concerns about the Legislature setting precedent by creating a "strings attached" approach to the process. If there are changes to the RNR process that need to be made the League is ready to have those conversations.

In a perfect world, economic incentive tools would not play a pivotal role in retaining and recruiting businesses for economic development. But they do play a part and for many communities their use is vital in attracting and retaining businesses for economic growth and job creation. Cities need these tools at their disposal, not because they are the primary objective, but because the business marketplace demands them to stay competitive.

The economic incentive tools outlined in SB 468 are tax abatements, industrial revenue bonds and tax increment financing districts. Use of these is weighed considerably by cities before they are utilized, analyzing the pros and cons to a community. **They each also go through a process which provides public input before they are enacted, as each takes public affirmative action by a governing body.**

These tools are utilized to important impact in communities. They are used to take underperforming, blighted and economically stressed areas and work with businesses to develop them into vibrant economic beacons. In the case of a TIF, there are additional legal requirements that must be met to ensure an area is distressed before a TIF can be created

Tying use of economic incentive tools to the RNR process creates a scenario in which communities will be less inclined to make these available to business and the non-profit community. Even cities that do not plan to exceed RNR will be less inclined to offer these tools because it takes away their flexibility to make that decision on their own, during the budget process in conversation with citizens.

Disincentivizing cities to use these economic incentive tools harms cities, businesses, and citizens. It discourages use of a tool cities use to jumpstart economic development; it takes away tools businesses utilize to offset costs and reduce tax burdens; and it takes away opportunities for citizens for new jobs and hinders cleaning up areas which have been long-standing blighted areas.

There are also non-profit organizations that are eligible for, and benefit from, the use of these economic incentive tools.

Below in this testimony is more information on the benefits these economic incentive tools provide to cities, businesses, and citizens. We ask you not to support SB 468.

Thank you for your time and consideration of these issues. I am always available to provide additional information and answer any questions you have.

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ECONOMIC INCENTIVE TOOLS in SB 468
Explanation and Benefits

Industrial Revenue Bonds (IRB)
IRBs are municipal debt securities issued by a government agency on behalf of a private sector company or non-profit to build or acquire property and/or heavy equipment.

IRB Benefits:

- Low Interest Rates: IRBs typically offer lower interest rates compared to conventional financing options because they are exempt from federal taxes, making them an attractive source of capital.
- Flexible Terms: IRBs often have flexible terms and repayment schedules, allowing businesses to tailor financing to their specific needs and capabilities.
- Job Creation and Economic Development: IRBs are often used to finance projects that promote job creation and economic development. By providing financing for expansion or relocation, IRBs can stimulate economic growth and create employment opportunities.

Tax Increment Financing (TIF) Districts

A TIF district is an area within a city that is designated for urban renewal and improvement. By state law, an area can only be designated a TIF district if it can be shown to be blighted.

TIF Benefits:

- Economic Development: TIF districts incentivize private investment within blighted or underutilized areas by providing financial assistance to developers. This can lead to job creation and revitalization of distressed neighborhoods.
- Community Improvement: TIF districts address blight, decay, and disinvestment in areas by encouraging redevelopment and revitalization. This can result in improved aesthetics and a more vibrant and attractive community.
- Job Creation: By stimulating economic development and attracting new businesses to an area, TIF districts create job opportunities.
- Public-Private Partnerships: TIF districts involve collaboration between government entities, developers, businesses, and community stakeholders. This public-private partnership approach fosters cooperation, leverages resources, and maximizes the impact of redevelopment efforts.

Business Tax Abatements

A Business Tax Abatement is a reduction or exemption on the level of taxation faced by a business. It can also be utilized by a non-profit, depending on their tax status.

Abatement Benefits:

- Cost Savings: A primary benefit of abatements is the potential for significant cost savings. By reducing or eliminating certain taxes, businesses can lower operating expenses. This can be particularly beneficial for small businesses and startups that have limited financial resources.
- Incentive for Investment: Abatements serve as an incentive for businesses to invest in a particular location. It attracts new businesses, encourages existing businesses to expand, and stimulates economic development.
- Promotion of Economic Growth: Abatements help stimulate economic growth by fostering a business-friendly environment that attracts investment and encourages entrepreneurship. When businesses thrive, they create employment opportunities, generate tax revenue, and contribute to the prosperity of a community.
- Retention: In competitive business environments, tax abatements help communities retain existing businesses and prevent them from relocating to other areas with favorable tax policies.
- Community Development: Abatements can support community development initiatives by attracting businesses that provide goods, services, and employment opportunities that meet the needs of residents.
- Partnership and Collaboration: Abatements often involve collaboration between businesses and local governments. By working together to create mutually beneficial arrangements, businesses and governments strengthen their partnership, leverage resources, and achieve shared economic development goals.