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*State Ballot Question Issue Brief #7*  
**SQ 707: Municipalities and Prospective Debt**  
(Revised)

**In a Nutshell**

**SQ 707 would allow cities, towns, or counties to pledge the apportionment of certain incremental revenue into the future. It would eliminate the need for local governments to approve each year the use of incremental revenue collections to pay off debt on bonds stretching over multiple years. The provision is limited to bonds used to provide tax incentives for certain redevelopment efforts.**

**Current Law**

Article 10, Section 6C, of the Oklahoma State Constitution permits the Legislature to allow cities, towns, or counties, alone or in combination, to provide tax incentives for historic preservation, reinvestment, or enterprise areas that are in economic stagnation or decline.

In practice, Section 6C allows cities and towns to use “Tax Increment Financing” (TIF) to fund redevelopment projects in blighted areas that would likely not otherwise be improved. After a city designates a TIF district, the city (or county, town, or development authority) essentially loans money for improvements to the area, typically by issuing bonds. The bonds are paid off using the incremental increases in taxes - particularly ad valorem, but sometimes sales tax - that are collected as a result of the improvements. Local tax-receiving entities (the city and county, plus schools, vo-techs, libraries, and health departments) must agree to forfeit the difference between the tax assessed on the properties before the TIF improvements and the increased assessments levied as a result of the improvements until the loan is paid off.

At the same time, Section 26 of Article 10 prohibits municipalities from incurring more debt than the amount of revenue they take in. In other words, local governments must, just like the State of Oklahoma itself, balance their budgets each fiscal year. In the context of TIFs, courts have ruled that local ordinances creating TIF districts cannot **oblige** a municipality to use the incremental tax revenue to pay off any bond debt *beyond the current fiscal year*. Instead, the local governing authority must approve a resolution each year authorizing the use of the incremental tax in paying off the bond debt.

**The Proposal**

SJR 12, approved during the 2003 Legislative session, asks voters to amend Section 6C of Article 10 of the State Constitution to allow municipalities to apportion local taxes and fees in a prospective manner notwithstanding the restrictions outlined in Article 10 Section 26. During the years that a TIF bond is being paid off, the incremental ad valorem tax collections are diverted to debt service. At the end of the TIF time period (when the bond is paid off), the tax-receiving entities resume receiving the full amount of property tax owed on the now-improved property.

Proponents argue that subjecting the repayment of bonds to the approval of the local government each year makes the bonds risky in the eyes of investors. This risk is reflected in higher interest rates charged on TIF-related bonds. If SQ 707 is approved, municipalities will be able to commit to paying off the debt into future years. This should reduce the risk on the bonds, lower the cost of securing bonds, and help promote the use of TIF districts in economic revitalization efforts.

### **Fiscal Impact**

TIFs operate at the local level – their direct fiscal impact is felt only locally. TIF districts already exist in Oklahoma today. SQ 707 does not purport, therefore, to establish the use of TIFs, but to increase their usage by lowering the cost of securing bonds (as described above) and making them easier to use for economic development. More economic development means a higher tax base and, potentially, more jobs. From this perspective, then, SQ 707 would have a positive fiscal impact for municipalities.

Critics of TIF-based development argue that the conditions governing the use of these tax incentives can be weakened to permit their use in non-blighted areas. Oklahoma’s Constitution states that tax relief may be provided in areas “that are exhibiting economic stagnation or decline.” There is no Constitutional requirement that TIFs be used *only* in areas that would otherwise not be developed. If redevelopment of an area is possible without incentives, then tax increment financing diverts tax revenue away from public services and toward economic development expenditures.

Whether the fiscal impact of SQ 707 is positive or negative, the Oklahoma Municipal League reports there is no official estimate as to its amount.

### **The Beneficiaries**

The ultimate goal of SQ 707 appears to be to increase the use of TIFs in redevelopment. Since TIFs allow a developer to use public funds to make improvements to a property, developers stand to benefit from the approval of SQ 707.

If a TIF is used to remove urban blight and promote development where it truly would otherwise not occur, then the residents and businesses within the TIF district and in surrounding neighborhoods would also stand to benefit from an increased use of TIF districts.

#### **State Question 707**

This measure amends Section 6C of Article 10 of the Oklahoma Constitution. The amendment deals with the use of certain city, town and county taxes and fees. When authorized by law, cities, towns or counties can put these taxes and fees to use in three ways. The first use is specific public investments. The second use is aid in development financing. The third use is an income source for other public bodies in the area.

The Legislature can direct the apportionment of these fees and taxes among or between these uses. The amendment allows these apportionments to be prospective. The amendment permits these apportionments to continue from year to year.

The amendment permits cities, towns, and counties to pledge taxes and fees beyond the current fiscal year. The amendment allows cities, towns and counties to pledge taxes and fees to repay the debts of other public entities.

These issue briefs are intended to help Oklahoma voters make informed decisions on the issues before them. For more information, contact Monica Barczak at (918) 382-3354 or [mbarczak@captc.org](mailto:mbarczak@captc.org)

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Community Action Project (CAP) is a comprehensive anti-poverty agency whose mission is to help individuals and families achieve economic self-sufficiency. CAP’s public policy department aims to promote policies that will benefit low-income Oklahomans through research, education, and advocacy.