

EXECUTIVE SUMMARY

NORTHERN ISRAEL
TOURISM IMPROVEMENT DISTRICT

By Abed Assli

Koret-Milken Institute Fellow

KORET-MILKEN INSTITUTE FELLOWS PROGRAM



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About the Koret-Milken Institute Fellows Program

The Koret-Milken Institute Fellows Program accelerates Israel's economic growth through innovative, market-based solutions for long-term economic, social, and environmental issues. The program focuses on connecting government, philanthropic, and business resources that are vital to national growth and development.

Directed by the Milken Institute Israel Center, the Koret-Milken Institute Fellows Program awards annual fellowships to outstanding graduates of Israeli and international institutes of higher education. Fellows serve yearlong internships at the center of the nation's decision-making—the Knesset, government ministries, and other Israeli agencies—and aid policymakers by researching and developing solutions for various economic and social challenges.

In addition, fellows craft their own policy studies aimed at identifying barriers to economic and employment growth in Israel. The fellows' studies, carried out under the guidance of an experienced academic and professional staff, support legislators and regulators who shape the economic reality in Israel. The program offers the ultimate educational exercise, combining real-life work experience with applied research five days a week.

Throughout the year, fellows receive intensive training in economic policy, government processes, and research methods. They acquire tools for writing memorandums, presentations, and policy papers, and they develop management, marketing, and communication skills. The fellows participate in a weekly workshop, where they meet senior economic and government professionals, business leaders, and top academics from Israel and abroad. They also participate in an accredited MBA course that awards three graduate-level academic credits that are transferable to other universities in Israel. The course, which focuses on financial and economic innovations, is taught at the Hebrew University of Jerusalem's School of Business Administration by Professor Glenn Yago, Director of the Milken Institute Israel Center and Director of Capital Studies at the Milken Institute in California.

Fellows Program alumni can be found in senior positions in the public and private sectors. Some serve as advisers to government ministries while others work at private-sector companies or go on to advanced studies at leading universities in Israel, the United States, and Great Britain. Within the program's framework, more than 80 research papers have been published, catalyzing reforms, reducing barriers, bringing about economic growth, and improving the quality of life for Israeli citizens.

The Koret-Milken Institute Fellows Program is nonpolitical and nonpartisan. It is funded by the Koret Foundation, the Milken Institute, and other leading philanthropic organizations and individuals in the United States and Israel.

More about the program: [**www.kmifellows.org**](http://www.kmifellows.org)

Contact us: [**info@kmifellows.org**](mailto:info@kmifellows.org)



“Tourism is of great importance to the country, and we must view it as a privilege for the curious. Anyone who impedes the development of tourism brings about war, and anyone opening the gates of the country brings education, and, therefore, tourism in Israel is the antithesis to war.”

— President Shimon Peres on Dec. 20, 2006, at the Hebrew University

Introduction

Many tourist projects, both private and municipal initiatives, are awaiting investment in Israel’s northern district. Most of these projects were halted at the financing stage, and they suffer from fiscal hardships, a lack of funding sources, bureaucratic difficulties, and impediments emanating from land allotment policies and changes in intended land usage by the Israel Land Administration.

Tourism could be a primary growth engine, serving as fertile ground for action, enterprises, and employment. The potential is especially great in the north because of the variety of tourist attractions. In fact, more than 60 percent of Israelis say they vacation there. Tourism can strengthen the north’s unique advantages while accelerating the advance of high-tech and other modern industries.

To unleash these pent-up projects and the jobs that come with them, we recommend the northern district be defined as a tourism improvement district. A board of directors would choose the projects for investment and determine the conditions and regulations within the district. An investment fund would be established to raise money, issue bonds, and award loans to entrepreneurs.

The Issue

Many private and public institutions are trying to invest in tourist development in the northern district, the largest being the Ministry of Tourism. These projects would offer a variety of employment opportunities for northern residents, helping them escape unemployment and improve their socioeconomic status. However, most of these projects were halted at the funding stage because of the investment risk of such things as hotel construction. They also face bureaucratic problems caused by the land allocation policy and the difficulties of altering the intended purpose of property owned by the Israel Land Administration.



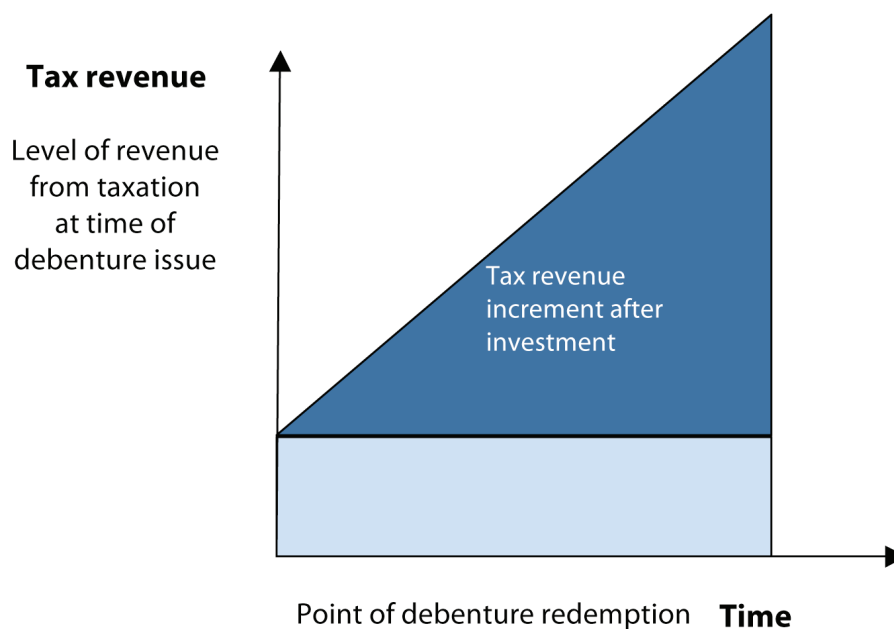
The Solution

A tourism improvement district, together with tax increment financing (TIF), could resolve many of the financial issues hindering these projects.

Improvement districts generally act as public-private partnerships in which the beneficiaries pay an additional tax to finance improvements or pay for special services within the district's boundaries. In this case, the improvement district would allow hotels and businesses to combine their efforts to increase tourism. Business owners participating in the improvement district would pay a certain percentage of their earnings to reinvest in the district. Bonds are then issued, and the proceeds are used for specific improvements to the district. The improvements encourage more private investment, and as a result, property values rise along with tax revenue from those properties. This increase in tax revenue is used to repay the debt.

This process has no effect on income tax rates. As figure 1 reflects, the assumption is that investing in the district will raise property values, increasing tax revenue over time. The additional tax revenue, up to the point when the bonds are redeemed, is considered the yield for the bonds that were issued to make improvements.

Figure 1: Tax increment financing



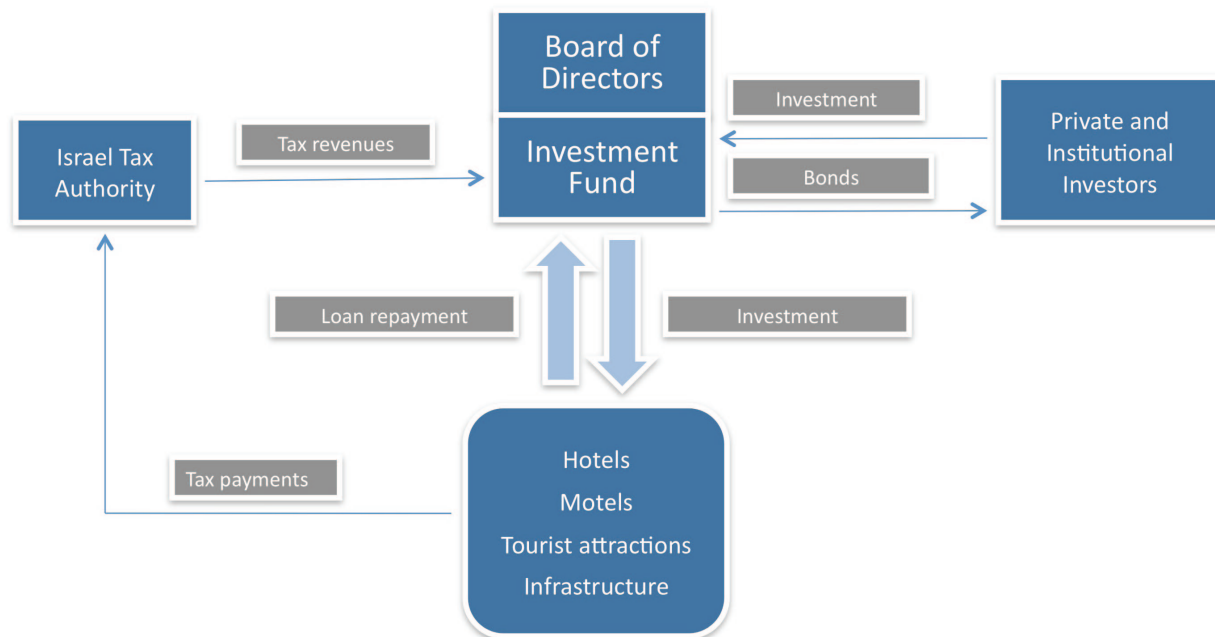


Defining the District

We would define the northern district as a tourism improvement district based on the district division used by the Ministry of Tourism for investments (development areas with national priority). We have identified three investment areas – hotels, motels, and tourist attractions – in addition to investments in infrastructure and other tourism-related businesses on a general district level.

The northern district would operate as a tourism improvement district for 10 years, the accepted period for an investment fund. The year before the district is established would serve as the base year for calculating the growth in normal revenue and tax increment revenue. Once the amount of normal growth is determined, the amount above that would be used to finance the district's development. A list that prioritizes the potential tourism projects from public and private initiatives would be prepared.

Figure 2: Structure of tourism improvement district





Who is in Charge

A northern super administration would be responsible for supervising the district, choosing the investment projects, and determining regulations such as the percentage of tax increment revenue that goes to the investment fund. The purpose of the super administration is to overcome the bureaucracy surrounding investments, land allotment, and the district investment and collection process. The administration should include representatives from such agencies as the Ministry of Tourism, Ministry of Finance, Israel Land Administration, Galilee Development Authority, and Israel Tax Authority as well as from such private entities as the Israel Hotel Association and the Manufacturers Association of Israel. This administration will make decisions by an absolute majority, thereby obligating all parties.

Establishing an Investment Fund

The investment fund, governed by a professional body of investors, entrepreneurs, and government authorities, would issue tax-exempt bonds to finance investments in the district. The money would be collected for hotels, motels, tourist attractions, infrastructure, and other tourist businesses and would be invested in the nationally prioritized investment regions within the tourism improvement district.

Entrepreneurs would receive two types of funding: a loan that must be repaid independent of the project's situation, and a percentage of the expected tax increment revenue. The fund would be responsible for collecting money from the entrepreneurs and the government and for disbursing the money and its yield.

Recommendations

To implement a tourism improvement district with TIF, several steps would be required on a national level, such as amending the investment law, the Encouragement of Capital Investments Law, and various regulations in the district itself. We recommend the following measures:

- Define the northern district as a tourism improvement district through either legislation or a government decision.
- Set up the northern super administration as part of the Galilee Development Authority. This eliminates the need for creating a new body and establishes the super administration within a veteran and experienced agency.
- Establish the number of administration members (nine or eleven) and which government ministries, municipal bodies and private industries will be represented.
- Determine that the administration will have clear and defined powers in tourism district legislation and that its decisions will obligate all parties.



- Determine a differential percentage of return as a loan at nominal interest, in accordance with the field of investment in the district, to raise investment efficiency and profitability.
- Issue tax-exempt bonds to attract as many investors as possible and make investment in the tourism improvement district attractive to institutional and private investors.
- Make legislative changes to the Ministry of Tourism's Encouragement of Capital Investments Law, and transfer the northern district's investment activities to the tourism improvement district for a defined period. In addition, use the Encouragement of Capital Investments Law as part of the program to improve tourism in the north.

Timeline

Day 1	Appoint a board of directors as a northern super administration that includes representatives of the relevant government ministries. Define the northern district as a tourism improvement district with TIF, in accordance with local legislation, and begin the search for entrepreneurs and investors for projects in the tourism district.
Day 30	Set a date for public discussion with representatives from the private market, municipalities, and government ministries and for responding to comments.
Day 75	Public discussion.
Day 100	The northern district development program is approved through legislation or government decision. The district is defined as a tourism improvement district with TIF, and the required funding is approved.
Day 190	Sign the agreement defining the northern district as a tourism improvement district with TIF. Establish an investment fund and issue bonds.
After day 190	The development work begins and continues until completion. The additional growth in tax revenue is collected each year with the entrepreneurs' debt payment and paid to bondholders via the investment fund.
10 years after day 190	The improvement district dissolves.



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