

Tax Increment Financing

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Governor's Property Tax Task Force
Local Government Subcommittee

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Five W's (and H) of TIF

Who?	City, county, consolidated-city county
What?	Retain certain property tax revenue within a district to fund projects
When?	15 years initially, up to 30 or 40 years with bonds
Where?	20 cities and 7 counties
Why?	Blight (URA), Infrastructure deficiency (TEDD)
How?	Governing body makes findings, creates a district and a plan, notifies DOR

District Creation Details

	Urban Renewal Area (URD)	Targeted Economic Development District (TEDD)
Creating entity	City or Consolidated City-County	City, County, or Consolidated City-County
Purpose	Address blight through rehabilitation and/or redevelopment of an area in the interest of the public health, safety, morals, or welfare of the residents of the municipality	Development of infrastructure to encourage the location and retention of value-adding projects in the state
District requirements	Existence of one or more blighted areas with at least three factors of blight in 7-15-4206	<ul style="list-style-type: none"> • Continuous area found to be deficient in infrastructure improvements • District can host diversified tenant base of multiple independent tenants • May not include existing district that uses TIF
Method of adopting TIF	Local government governing body: <ul style="list-style-type: none"> • adopts resolution of necessity finding blighted area • notifies property owners within district of required hearing • submits urban renewal plan to Planning Commission and allows 60 days for receipt of recommendations • holds hearing on urban renewal plan • adopts urban renewal plan that includes TIF provision 	Local government governing body: <ul style="list-style-type: none"> • adopts resolution of necessity finding infrastructure deficiency and necessity for infrastructure improvements • adopts comprehensive development plan that includes TIF provision

Defined Terms

Actual taxable value: the taxable value of all taxable property as calculated from the property tax record

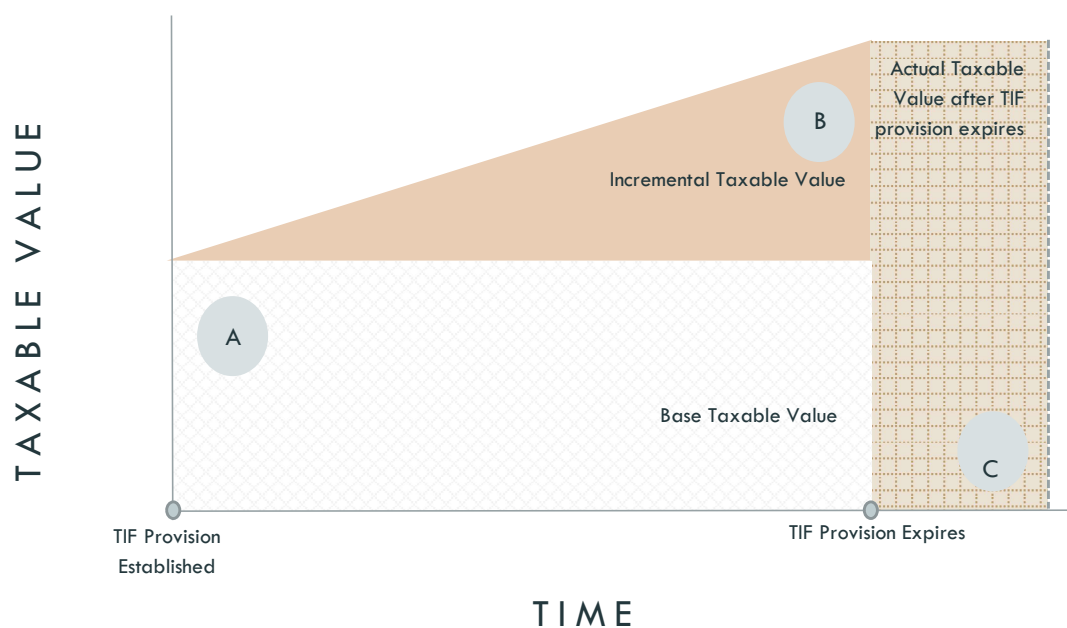
Base taxable value: the actual taxable value of all taxable property within an area or district before the effective date of the tax increment financing provision

Incremental taxable value: the amount by which the actual taxable value exceeds the base taxable value of all taxable property within an area or district

Tax increment: the collections realized from extending the tax levies of all taxing bodies in which the district is located against the incremental taxable value

Taxing body: any incorporated city or town, county, city-county consolidated local government, school district, or other political subdivision or governmental unit of the state, including the state, that levies taxes against property within an area or district

How does TIF work?



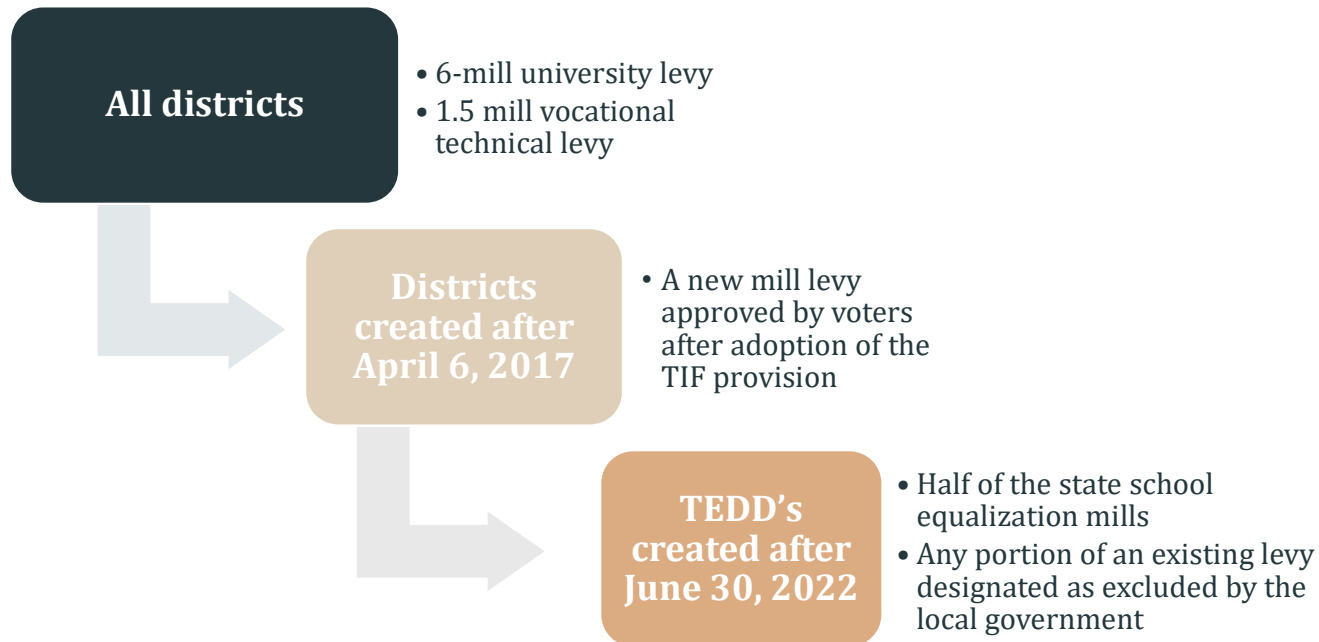
Area A: Base taxable value: Revenue generated from the application of mill levies to the base taxable value continues to flow to taxing bodies as it did before adoption of the tax increment provision.

Area B: Incremental taxable Value: The combined mill rate within the district is applied to the incremental taxable value to determine the tax increment. The tax increment is used for district purposes.

Area C: Actual taxable value after TIF provision expires: The incremental taxable value is no longer separated from the base taxable value and taxing bodies again collect revenue from the total actual taxable value.

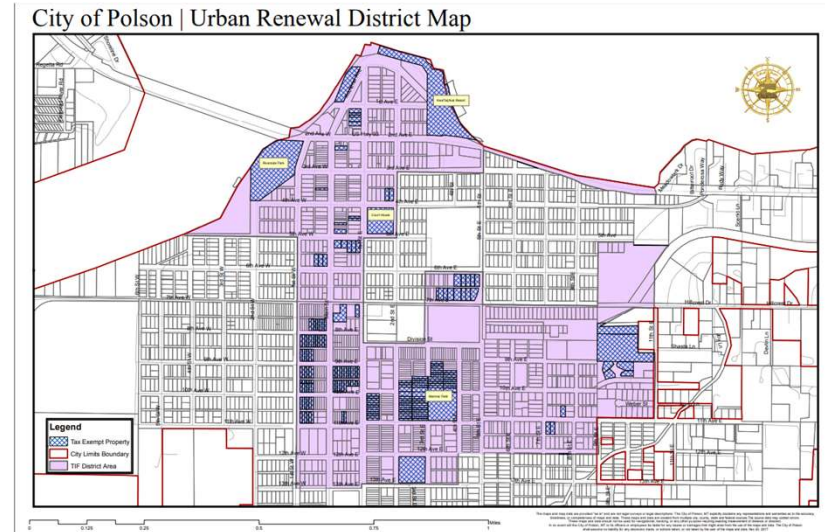
Levies Excluded from Tax Increment

Certain levies are excluded from the combined mill rate used to calculate the tax increment.



Example: Polson URD

\$2,350,541	Total Taxable Value
<u>-\$1,433,450</u>	<u>Base Taxable Value</u>
\$917,091	Incremental Taxable Value
X .550	Combined Mill Rate
<u>\$504,400</u>	<u>Tax Increment</u>

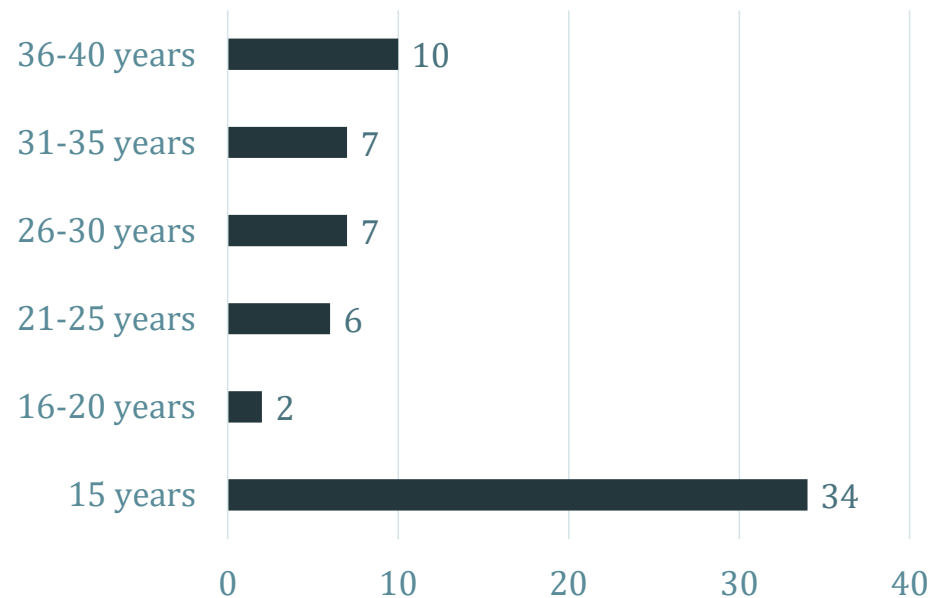


Lake County	114.60
City of Polson	137.45
School equalization	95.00
Local schools	139.93
County retirement (school)	36.03
County transportation (school)	3.44
Special district	23.55
Total	550

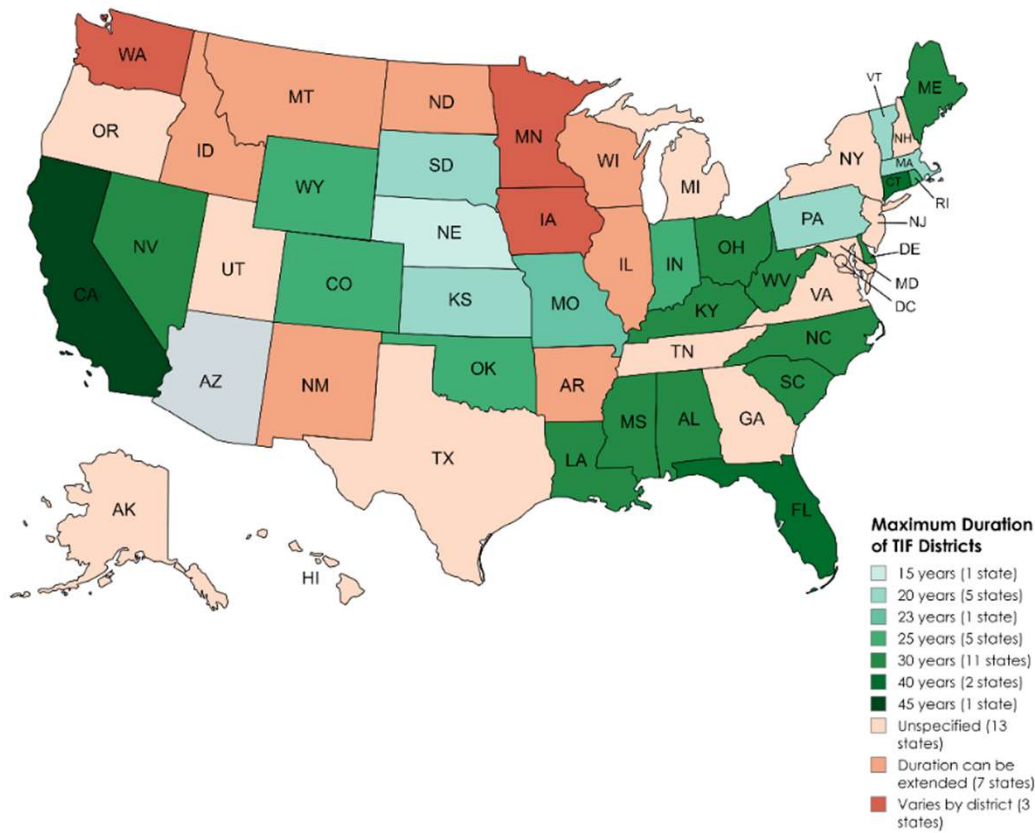
Montana TIF Duration

- Districts terminate the later of:
 - 15th year after adoption of TIF provision; or
 - Payment of bonds
- Bonds may not mature more than 25 years after issue date
- Max duration of 40 years
 - TEDD's created after June 2022: limited to 30 years

Number of Districts by Expected Termination



Half of States Limit TIF to Number of Years



Other Methods of Setting Duration

Duration not specified in state law

- Based on completion of projects: Georgia, Hawaii, Michigan, New Hampshire, Oregon, Virginia
- Specified in district plan: Alaska, DC, Maryland, New Jersey, New York, Tennessee, Texas, Utah

Duration can be extended

- Extended by bonding: Arkansas, Idaho, Montana, New Mexico
- Other extensions: Illinois (requires General Assembly approval), North Dakota (base must be reset), Wisconsin (various types)

Varies by district type

- Iowa, Minnesota, Montana, Washington

TIF Reporting in Montana

Reporting Entity	Receiving Entity	Statutory Requirement	Description of Information Included	Usefulness of Information
All districts	DOA	<ul style="list-style-type: none"> • Include in annual financial report (AFR) • Financial activities related to the TIF provision 	<ul style="list-style-type: none"> • Financial statements for accounts that hold tax increment • Bond information 	<p>Advantages: Required for all districts, includes basic information</p> <p>Shortcomings: Availability of reports not widely known, PDF format (some not searchable), small portion of lengthy report, lack of specificity about what information is required to be reported</p>
Urban renewal agency	Local governing body that created agency	<ul style="list-style-type: none"> • Complete financial statements • Amount of tax increment • How expenditures comply with urban renewal plan 	<ul style="list-style-type: none"> • Financial statements (same as AFR) and detailed bond information • Amount of tax increment • Detailed expenditure and project information 	<p>Advantages: Detailed information about projects</p> <p>Shortcomings: Only required for urban renewal agencies</p>
Department of Revenue	Governor	Statutory requirement for report does not specifically require TIF information	<ul style="list-style-type: none"> • District name and county • Year created and year of expected termination • Taxable values: current year, base, incremental • Estimated revenue collected for district by levy type 	<p>Advantages: Detailed property tax information</p> <p>Shortcomings: Not statutorily required, does not account for law changes for new districts that must remove some levies from increment calculation</p>

Nationwide Lack of TIF Transparency

Reporting Findings

“In the most transparent cases, TIF authorities make publicly available the TIF plan and a record of annual TIF district receipts and expenditures, sometimes with a great deal of detail, perhaps even including account balances and fund transfers.”

-- [“Improving Tax Increment Financing \(TIF\) for Economic Development”](#) by David Merriman, Lincoln Institute of Land Policy

Montana

- URD and TEDD plans approved in public meetings
 - Generally available on local government websites
- AFR’s: district receipts, expenditures, account balances, and fund transfers
- DOR Biennial Report: district taxable values and estimated revenue

Neighboring States TIF Reporting

State	State Reporting Requirements	Information Included
Idaho	File annually current plans, including amendments or modifications, with Idaho State Tax Commission	<ul style="list-style-type: none"> Adopted district plan, with modifications Does not include current financial information
Montana	Include information about financial activities related to TIF in annual financial report filed with Department of Administration	<ul style="list-style-type: none"> Financial statements for accounts that hold tax increment: assets and liabilities; revenues and expenditures; schedule of cash receipts and disbursements Bond information: issue amount, maturity date, outstanding balance, interest rate, payment amount
North Dakota	File annual report with Department of Commerce	<ul style="list-style-type: none"> Total of outstanding indebtedness Balance of funds on hand Name of district
South Dakota	Any information requested by Department of Revenue to compile an annual report on each TIF district in the state	<ul style="list-style-type: none"> Aggregate information on number and type of districts and their aggregate value Creation and termination years Location of district and district type Taxable values: current, base, increment General project descriptions and costs Estimated jobs created
Wyoming	No reporting to state	

Impact of TIF Districts on Property Taxes

Theory of TIF

- TIF creates investment and increases property values within the district that would not otherwise occur
- TIF impact on property taxes is neutral in the short term (*or positive to the extent that property values may have declined without investment in the district*)
 - **Taxes on the base** continue to be collected by overlapping taxing jurisdictions
 - **Taxes on the increment** would not have been realized without the TIF so there is no loss of revenue to overlapping taxing jurisdictions

Alternative Scenario

If investment would have happened in the district without the use of TIF, allowing revenue from the increment to be retained within the district may increase mills or lower tax collections for overlapping taxing jurisdictions

Impact of TIF Districts on Property Taxes

Scenarios

- Scenario 1: Taxable value is unchanged
- Scenario 2: Taxable value is reduced by half of the total incremental value

Methodology

- Adjust mill levies using two scenarios:
 - Non-voted city and county levies - determination of tax revenue and mill levy limitations worksheet
 - Non-Basic Amount for School Equity (BASE) levies for elementary and high school
- Limitations
 - Exclusions:
 - Voted levies (poor data)
 - SID's (complicated overlapping)
 - School BASE levies and county retirements (requires adjustment to school funding formula)
 - School equalization, county transportation mills
 - Newly taxable overstates impact (city/county)

TIF District Impacts - Fergus County

	Lewistown	Fergus County	Lewistown Elementary - Non-BASE	Fergus County High - Non- BASE	Total
<u>Current Law</u>					
Total Taxable Value	\$10,149,674	\$57,194,107	\$19,363,374	\$20,948,349	
Total Incremental Value of TIFs	\$987,577	\$987,577	\$987,577	\$987,577	
Mill Levy	176.09	105.37	207.39	66.46	555.31
Taxes per \$100,000 Residential Value	\$238	\$142	\$280	\$90	\$750
<u>Scenario 1: No TIF, Same TV</u>					
Mill Levy	158.96	103.55	196.81	63.33	522.65
Taxes per \$100,000 Residential Value	\$215	\$140	\$266	\$85	\$706
Difference	-\$23	-\$2	-\$14	-\$4	-\$44
<u>Scenario 2: No TIF, TV Reduced by Half of Incremental Value</u>					
Mill Levy	167.08	104.45	201.96	64.86	538.35
Taxes per \$100,000 Residential Value	\$226	\$141	\$273	\$88	\$727
Difference	-\$12	-\$1	-\$7	-\$2	-\$23

TIF District Impacts - Lake County

	Polson	Lake County	Polson Elementary - Non-BASE	Polson High - Non-BASE	Total
<u>Current Law</u>					
Total Taxable Value	\$15,498,592	\$110,505,143	\$52,030,480	\$65,301,559	
Total Incremental Value of TIFs	\$917,091	\$917,091	\$917,091	\$917,091	
Mill Levy	108.99	70.86	68.46	31.23	279.54
Taxes per \$100,000 Residential Value	\$147	\$96	\$92	\$42	\$377
<u>Scenario 1: No TIF, Same TV</u>					
Mill Levy	102.41	70.26	67.25	30.79	270.71
Taxes per \$100,000 Residential Value	\$138	\$95	\$91	\$42	\$365
Difference	-\$9	-\$1	-\$2	-\$1	-\$12
<u>Scenario 2: No TIF, TV Reduced by Half of Incremental Value</u>					
Mill Levy	105.6	70.56	67.85	31.01	275.02
Taxes per \$100,000 Residential Value	\$143	\$95	\$92	\$42	\$371
Difference	-\$5	-\$0.41	-\$1	-\$0.30	-\$6

TIF District Impacts - Missoula County

	Missoula	Missoula County	Missoula Elementary - Non-BASE	Missoula County High - Non-BASE	Total
<u>Current Law</u>					
Total Taxable Value	\$227,107,781	\$382,614,897	\$199,407,670	\$354,669,300	
Total Incremental Value of TIFs	\$22,193,918	\$24,638,408	\$19,318,925	\$24,625,484	
Mill Levy	153.43	137.13	132.21	49.78	472.55
Taxes per \$100,000 Residential Value	\$207	\$185	\$178	\$67	\$638
<u>Scenario 1: No TIF, Same TV</u>					
Mill Levy	138.34	128.29	119.40	46.32	432.35
Taxes per \$100,000 Residential Value	\$187	\$173	\$161	\$63	\$584
Difference	-\$20	-\$12	-\$17	-\$5	-\$54
<u>Scenario 2: No TIF, TV Reduced by Half of Incremental Value</u>					
Mill Levy	145.50	132.56	125.48	47.99	451.53
Taxes per \$100,000 Residential Value	\$196	\$179	\$169	\$65	\$610
Difference	-\$11	-\$6	-\$9	-\$2	-\$28