



# Montana Legislative Services Division

## Office of Research and Policy Analysis

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TO: Sen. Greg Hertz

FROM: Megan Moore, Research Analyst

DATE: March 28, 2024

RE: Impact of Districts that Use Tax Increment Financing on Property Taxes

This memorandum is in response to your request for analysis of how districts that use tax increment financing affect residential property taxes.

### **Background: Theory of Tax Increment Financing**

Tax increment financing (TIF) allows a portion of property taxes generated within a district to be used to fund infrastructure projects within the district. In Montana, TIF may be used in blighted areas (urban renewal districts) or infrastructure-deficient areas (targeted economic development districts).

The theory is that TIF creates investment and increases property values within the district that would not otherwise occur. If that theory is correct, the impact of TIF 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). Property taxes on the base taxable value of the district continue to be collected by taxing jurisdictions in which the property is located. Taxes on the increment would not have been realized without the investment so there is no loss of revenue to the taxing jurisdictions.

However, if investment would have happened in the district without the use of TIF, allowing the increment to be retained within the district could be viewed as lowering tax collections for taxing jurisdictions that contain a TIF district.

### **Methodology, Assumptions, and Limitations**

This analysis attempts to determine the tax revenue and mill levy limitation for non-voted city and county levies and the impact on non-Basic Amount for School Equity (BASE) elementary and high school levies for tax year 2023 as if the districts using TIF did not exist.<sup>1</sup> The taxable value and the subtraction for the incremental taxable value are adjusted to reflect two different scenarios that you selected:

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

The analysis does not account for the likelihood that some of the incremental taxable value would be newly taxable property in the above scenarios. Not subtracting newly taxable property from total taxable value may overstate the possible impact of TIF on city and county levies.

A complete analysis would require recalculating mill levies for all city, county, and special district levies as well as all levies for local school districts and countywide schools. Due to the complexity involved, the

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<sup>1</sup> City and county calculations performed using Determination of Tax Revenue and Mill Levy Limitations worksheet, available from <https://www.mtcounties.org/resources-data/>. School district calculations performed by determining revenue from the non-BASE mills and adjusting mills to raise the same revenue under the two scenarios.

scope of this analysis is limited to non-voted city and county levies and non-BASE elementary and high school levies.<sup>2</sup> The requested analysis is for Fergus, Lake, and Missoula counties.

**Analysis for Fergus County**

The analysis for Fergus County identifies adjusted mill levies for Lewistown, Fergus County, Lewistown Elementary School District, and Fergus County High School District for the two identified scenarios. Lewistown has an urban renewal area created in 2014 and a targeted economic development district created in 2017.<sup>3</sup> The 2023 total incremental value of the two districts is \$987,577.

The following table shows the estimated impact under the two scenarios per \$100,000 of residential property value.

*Impact of Districts that Use TIF on Residential Property in Fergus County, 2023*

	<b>Lewistown</b>	<b>Fergus County</b>	<b>Lewistown Elementary -Non-BASE</b>	<b>Fergus County High - Non-BASE</b>	<b>Total<sup>4</sup></b>
<b>Current Law</b>					
<i>Total Taxable Value</i>	\$10,149,674	\$57,194,107	\$19,363,374	\$20,948,349	
<i>Total Incremental Value of TIFs</i>	\$987,577	\$987,577	\$987,577	\$987,577	
<i>Mill Levy</i>	176.09	105.37	207.39	66.46	
<i>Taxes per \$100,000 Residential Value</i>	\$237.72	\$142.25	\$279.98	\$89.72	\$749.67
<b>Scenario 1: No TIF, Same TV</b>					
<i>Mill Levy</i>	158.96	103.55	196.81	63.33	
<i>Taxes per \$100,000 Residential Value</i>	\$214.60	\$139.79	\$265.70	\$85.49	\$705.58
<i>Difference</i>	-\$23.13	-\$2.46	-\$14.28	-\$4.23	-\$44.10
<b>Scenario 2: No TIF, TV Reduction of Half Incremental Value</b>					
<i>Mill Levy</i>	167.08	104.45	201.96	64.86	
<i>Taxes per \$100,000 Residential Value</i>	\$225.56	\$141.01	\$272.65	\$87.56	\$726.78
<i>Difference</i>	-\$12.16	-\$1.24	-\$7.33	-\$2.17	-\$22.90

<sup>2</sup> Changes to BASE levies could have a statewide impact and would have to be calculated using the school funding formula.

<sup>3</sup> The Lewistown Targeted Economic Development District (TEDD) [was created](#) after April 6, 2017, which means levies voted after creation of the district must be excluded from the tax increment calculation. There may be school levies included in this analysis that were voted after creation of the TEDD. The inclusion of voted levies would overstate the impact of the TEDD on residential property taxes.

<sup>4</sup> An earlier version of this memorandum included incorrect totals for this table.

**Analysis for Lake County**

The analysis for Lake County identifies adjusted mill levies for Polson, Lake County, Polson Elementary School District, and Polson High School District for the two identified scenarios. There is one district that uses TIF in Lake County, an urban renewal area in Polson. The 2023 total incremental value of the district is \$917,091.

The following table shows the estimated impact under the two scenarios per \$100,000 of residential property value.

*Impact of Districts that Use TIF on Residential Property in Lake County, 2023*

	<b>Polson</b>	<b>Lake County</b>	<b>Polson Elementary -Non-BASE</b>	<b>Polson High - Non-BASE</b>	<b>Total</b>
<b>Current Law</b>					
<i>Total Taxable Value</i>	\$15,498,592	\$110,505,143	\$52,030,480	\$65,301,559	
<i>Total Incremental Value of TIFs</i>	\$917,091	\$917,091	\$917,091	\$917,091	
<i>Mill Levy</i>	108.99	70.86	68.46	31.23	
<i>Taxes per \$100,000 Residential Value</i>	\$147.14	\$95.66	\$92.42	\$42.16	\$377.38
<b>Scenario 1: No TIF, Same TV</b>					
<i>Mill Levy</i>	102.41	70.26	67.25	30.79	
<i>Taxes per \$100,000 Residential Value</i>	\$138.25	\$94.85	\$90.79	\$41.57	\$365.46
<i>Difference</i>	<b>-\$8.88</b>	<b>-\$0.81</b>	<b>-\$1.63</b>	<b>-\$0.59</b>	<b>-\$11.91</b>
<b>Scenario 2: No TIF, TV Reduction of Half Incremental Value</b>					
<i>Mill Levy</i>	105.6	70.56	67.85	31.01	
<i>Taxes per \$100,000 Residential Value</i>	\$142.56	\$95.26	\$91.60	\$41.86	\$371.28
<i>Difference</i>	<b>-\$4.58</b>	<b>-\$0.41</b>	<b>-\$0.82</b>	<b>-\$0.30</b>	<b>-\$6.11</b>

**Analysis for Missoula County**

The analysis for Missoula County identifies adjusted mill levies for the city of Missoula, Missoula County, Missoula Elementary School District, and Missoula County High School District for the two identified scenarios. There are 10 districts that use TIF in Missoula County: six urban renewal districts in the city and four districts within the county. The 2023 total incremental value of districts within the city is \$22.2 million.

The following table shows the estimated impact under the two scenarios per \$100,000 of residential property value.

Impact of Districts that Use TIF on Residential Property in Missoula County, 2023

	<b>City of Missoula</b>	<b>Missoula County</b>	<b>Missoula Elementary – Non-BASE</b>	<b>Missoula County High – Non-BASE</b>	<b>Total</b>
<b>Current Law</b>					
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	
Taxes per \$100,000 Residential Value	\$207.13	\$185.13	\$178.48	\$67.20	\$637.94
<b>Scenario 1: No TIF, Same TV</b>					
Mill Levy	138.34	128.29	119.40	46.32	
Taxes per \$100,000 Residential Value	\$186.76	\$173.19	\$161.19	\$62.54	\$583.68
Difference	<b>-\$20.37</b>	<b>-\$11.93</b>	<b>-\$17.29</b>	<b>-\$4.67</b>	<b>-\$54.26</b>
<b>Scenario 2: No TIF, TV Reduction of Half Incremental Value</b>					
Mill Levy	145.50	132.56	125.48	47.99	
Taxes per \$100,000 Residential Value	\$196.43	\$178.96	\$169.40	\$64.79	\$609.58
Difference	<b>-\$10.71</b>	<b>-\$6.17</b>	<b>-\$9.09</b>	<b>-\$2.42</b>	<b>-\$28.39</b>