Tax Increment Financing in Montana

2017 LEGISLATIVE CHANGES
A presentation to MEDA
by Janet Comish, CDS of Montana and Lanette Windemarker, AICP
MAY 2ND 2017 • GREAT FALLS MONTANA
Presentation Overview

- A Quick Primer on TIF
- 2017 Bills Signed by the Governor
  - House Bill 30 – Mills Exempted from the TIF Calculation
  - House Bill 76 – Proportionality of Remittances
  - House Bill 396 – Consultation with Affected Taxing Jurisdictions
- House Resolution 18
- 2017 Pending Legislation
  - Senate Bill 27 – TIF Reporting and Public Meeting Requirements
- 2017 Bills Presumed Dead – What have we learned?
- Questions and Discussion
Tax Increment Financing – A quick overview
Key points

- Tax increment financing (TIF) is a state authorized, locally driven funding mechanism that allows cities and counties to direct property tax dollars that accrue from new development, within a specifically designated district, to community and economic development activities within that district.

- TIF is not a special taxing district; it does not add any new taxes. Rather it affects the way that incremental increases in property taxes are distributed once collected.

- Projects and programs that are funded by TIF dollars must serve a public purpose.
The TIF Calculation

1. Current Taxable Value − Base Taxable Value of the District = Incremental Taxable Value (Must be greater than 0)

2. Incremental Taxable Value × Total Number of Mills levied (less exempt mills*) = The Increment

*Exempt Mills:
  6-Mill University Levy
  Mills levied as provided in 15-10-425 MCA, after the adoption of a TIF provision
How a Tax Increment Finance Provision (TIF) Works

- **TIF Start Date**
- **Increment for Development**
- **Tax Value for Distribution**
- **Base + Increment**

**Base**
- Tax Value for Distribution to Other Taxing Jurisdictions

**Declining or Stagnating Property Values**

Time

Taxable Value
Types of Districts Authorized to Use TIF

- Districts authorized under 7-15-42 and 43, MCA - Urban Renewal
- Urban Renewal Districts (URDs)
  - To address conditions of blight
  - May only be used in incorporated cities or towns or consolidated city-counties
- Targeted Economic Development Districts (TEDDs)
  - To address infrastructure deficiencies in support of value-adding economic development projects
  - May be used in incorporated cities or towns, counties or consolidated city-counties
- Historically authorized districts - Industrial, TECH and Aerospace
Allowable Uses of TIF Funds

- Land Acquisition
- Rehabilitation and Renovation Activities
- Demolition and Removal of Structures
- Planning, Marketing and Analysis
- General Redevelopment Activities
- Constructing, improving and connecting to public infrastructure
Potential Funding Strategies

TIF dollars can be used to:
- Directly fund projects and programs
- Retire debt
- Leverage other funding sources, both public and private.

Funds may be used to establish a revolving loan fund to provide financing to property owners within the district to make improvements to private infrastructure.
- Interest rates can be set based on project feasibility
- The revolving fund may continue in perpetuity, even after the district has “sunsetted”.
Sunset Provisions

- The TIF provision sunsets in the 15th year following the adoption of the TIF provision.
- Bonds sold during this 15 year period may extend the TIF provision for up to an additional 25 years.
- Bonds sold after the 15th year must be retired within the period of time established by bonds sold within the first 15 years.
- Districts themselves are not time-limited – only the TIF provision sunsets.
- New TIF programs may be established on the same footprint, but must have a new base year.
2017 Bills Signed by the Governor
House Bill 30 – Mills Exempted from the TIF Calculation

- Maintains the exemption of the 6-mill University levy when calculating the increment.
- Adds a new exemption for mill levies voted on and passed AFTER the adoption of a TIF provision, under §15-10-425 MCA, which states: “A county, consolidated government, incorporated city, incorporated town, school district, or other taxing entity may impose a new mill levy, increase a mill levy that is required to be submitted to the electors, or exceed the mill levy limit provided for in §15-10-420 MCA by conducting an election as provided in this section.”
House Bill 76 – Proportionality of Remittances

- If a local government enters into an agreement to remit (return) any portion of the annual tax increment, all taxing jurisdictions must receive a share of the remittance in proportion to the number of mills it levies in the TEDD or URD.

- While many local governments interpreted the law in this manner prior to the passage of HB 76, the language in the statute is now clear.

- It is our interpretation that the same applies if a local government elects to remit without entering into an agreement.
HB 396 – Consultation with Affected Taxing Jurisdictions

Before the adoption of a tax increment financing provision as part of an urban renewal plan or a TEDD comprehensive development plan, a municipality shall provide notice to the county and school district and provide for an opportunity to:

- Meet and consult in a public meeting
- Receive public comment on the proposed TIF provision and its effect on the county or school district

Before the adoption of a tax increment provision as part of a TEDD comprehensive development plan, a county shall provide notice to the school district and provide for an opportunity to:

- Meet and consult in a public meeting
- Receive public comment on the proposed TIF provision and its effect on the school district
Before modifying an urban renewal plan to include a TIF provision or to use TIF Bonds, the municipality shall provide notice to the county and school district and provide for an opportunity to:

- Meet and consult in a public meeting
- Receive public comment on the effect of the proposal on the county or school district

We believe this applies to modification of a municipal or county TEDD and the sale of TIF bonds for improvements within a municipal or county TEDD as well.
HJ 18 – TIF Study Bill – Revenue and Transportation Interim Committee

Calls for the review of:

- The legislative audit of the districts using TIF with attention to:
  - Administrative costs
  - District life
  - District oversight
- Administrative costs as a percentage of TIF revenues
- Public-private investment ratios
- The potential for setting a maximum allowable incremental taxable value as a percentage of the local government’s tax base
- The definition of blight or allowable reasons for creation
Potential third party evaluation of:
- Blight in proposed URDs
- Infrastructure deficiencies in proposed TEDDs
- District boundaries
- Expenditures of TIF on “purely” public projects and expenditures of TIF on projects that spur private investment
- The limitation of local government expenditures of TIF on “purely” public projects that may not increase the tax base,
- Remittance of any increment not needed for bond payments after the 15th year
- Impacts to affected taxing jurisdictions
- The use of TIF for façade restoration and other historic preservation programs
- The taxation of centrally assessed property within a TIF district
2017 Pending Legislation
Local governments must include a report of any TIF financial activities in their reports required under § 2-7-503 MCA.

The procedure for modification of an urban renewal plan (or TEDD comprehensive development plan) must include a public hearing, and in accordance with § 7-15-4221(2) MCA be by ordinance.

Meetings of urban renewal agencies must be open to the public and an opportunity provided for public comment.

The annual report of an urban renewal or a TEDD district must include TIF expenditure information and how expenditures comply with the approved plan for the district.
2017 Bills Presumed Dead
Let’s Learn from this History

- HB 134 – Eliminates 95 mills from the TIF calculation
- HB 250 – Require school district and county approval for a TIF provision
- HB 359 – Limit increment to municipality mills
- HB 403 – Remittance required for increment in excess of 5% of taxable value
- HB 411 – Prohibit Façade improvements
- HB 413 – Recapture of premature profits (5 years)
- HB 549 – Unlimited liquor licenses in urban renewal districts
- HB 573 – Eliminate the 95 mills after 15 years
- SB 34 – School and county representatives on URA Board
Questions and Discussion