LOCAL GOVERNMENT
ECONOMIC IMPACTS DEFINED
WITH INDICATORS AND MEASURMENT CRITERIA

A Report Prepared for the

Legislative Finance Committee

By

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LFD
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Introduction

At the March Legislative Finance Committee (LFC) meeting, the committee requested the construction of a definition for an economically impacted local government and provision of a list of criteria (indicators) that could be incorporated into the definition. This report provides the requested materials in light of the objective to create a framework for legislators who may want to develop a program to assist in funding the capital and service costs of economically stressed local governments.

Definition and Indicators of Economically Impacted Local Government

As a starting point for the LFC work, staff proposes the following:

An economically impacted local government is a local government, as defined in Article XI, Section 1 of the ***Montana*** *Constitution, where a significant change in economic factors within the area is causing negative impacts to capital infrastructure and delivery of necessary governmental services and the revenue base that supports the local government is inadequate to address these needs. Indicators of economic impacts include:*

- Population and population characteristics;
- Financial status and tax burden;
- Property valuation;
- Availability and affordability of housing;
- Public safety;
- Public health;
- Labor force dynamics; and
- Infrastructure condition and capacity.

Measurement Criteria for Indicators

The following table provides a list of items that could be considered in developing measurement criteria. This list is provided as a starting point for the work of the LFC. These items were developed with the assistance of local government partners and staff research. Measurement of impacts could take the form of a quantitative formula or a process involving the assessment of written descriptions.

Measurment Criteria for Indicators		
Population and population characteristics	Property valuation	Number of applicants to CHIP and HMK
In and out migration	Real property value	Labor force dynamics
Size of average household	Personal property value	Business addition/decline
Average age of population	Business property value	Employment/unemployment rate
Average personal income	Availability and affordability of housing	Local business hiring
Average household income	Availability of housing	Local business retention
Size of transient population	Availability of lodging	Number of job seekers
Size of disabled population	Area rental cost	Inability to fill positions
Use of social entitlements	Housing demand	Infrastructure condition and capacity
Financial status and tax burden	New construction permits	Water, wastewater, solid waste
Revenue gap (revenue - expenditures)	Public safety	Proximity to life expectancy
Amount of debt	Number of police to population	Operational condition
Plans for debt financing	Traffic citations	Proximity to capacity
Per capita mill value	EMT calls	Target rates
Mills levied	Domestic abuse citations	Roads and bridges
Federal and state assistance	Illicit drug citations	Bridge and pavement condition measures
Per capita tax revenue	Public health	Traffic counts and types
Economic base	Number of individuals seeking TANF	Condition measures: pavement and structure
Use of all available tax options	Number of individuals seeking SNAP	

Conclusion

The definition, indicators, and indicator measures are provided as a starting point for the work of the LFC in providing a framework for a local government economic impact measures and funding proposals. Staff requests direction from the committee in finalizing this work. The committee may wish to entertain discussion on this topic, including the following questions:

1) Does the definition follow the thinking of the committee, and if not how could it be changed?
2) Are there other "indicators" that might be included in or removed from the list shown above?
3) Are there indicator measurement criteria that should be included in or removed from the list above?

ATTACHMENT

Local Government Impact Measure and Funding Concepts

With the goal of compiling a comprehensive list of local government funding concepts, this section provides various funding and impact measurement examples in a summarized form. These concepts offer guidance in developing a framework for legislators who may want to develop a program to assist in funding the capital and service costs of economically stressed local governments. Items below are summarized with a focus on the scope of the LFC work. If you are interested in any of these concepts, more information is available through the Legislative Fiscal Division on request.

Past and Present Local Government Funding Concepts in Montana

- Hard-Rock Mining Impact Board (90-6-301 through 405): This program, currently in use in the state, provides funding to "provide a system to assist local government units in meeting the initial financial impact of large-scale mineral development."[1] When applying for a permit, large mining developers are required to submit an impact plan to the affected counties and the board which describes the economic impact on the local government units, which includes:
  - a timetable for development, including the opening date of the development and the estimated closing date;
  - the estimated number of persons coming into the impacted area as a result of the development;
  - the increased capital and operating cost to local government units for providing services that can be expected as a result of the development;
  - the financial or other assistance that the developer will give to local government units to meet the increased need for services.

  In the impact plan, the developer shall commit to pay all of the increased capital and net operating cost to local government units that will be a result of the development. The developer may make payments as specified in the approved impact plan directly to a local government unit or to the board.

  As an extension of the board's activities, 90-6-401 through 405 provide hard-rock impact property tax base sharing provisions to address the revenue disparities felt in adjacent local governments experiencing costly impacts related to the mineral development (concentric circles concept). In this program, the local government where the ore or mineral development occurs shares the increase in taxable value with other affected counties, municipalities, and school districts. The sharing of increased taxable value is distributed using a formula that considers where the employees of the mineral development live.

- HB 218 – 2013 Session: The Oil and Gas Infrastructure Impact Assistance Act was developed as a short term program to provide state funds to local governments for infrastructure purposes. The legislation was not passed and approved. The program would have provided $15.0 million for grants in FY 2013. Subsequent grant funding would have been funded with 25% or $10 million per year, whichever is greater, of total U.S. mineral royalty revenue through the life of the program. The funds were to be statutorily appropriated for deposit in new special revenue fund and could have been used for program administration and matching grants. The program would have sunset on December 31, 2020.

- HB 645 – 2009 Session: In 2009, the legislature made use of general fund dollars freed up by the federal government's economic stimulus actions through ARRA. The funding was a one-time-only occurrence. The legislation provided additions of funds to several of the grant programs analyzed in

[1] This program addresses similar conditions currently experienced in the Bakken oil and natural gas region. However, a significant difference exists those areas where the most of the production and tax benefits are in North Dakota and would make a duplicate of the program less effective.

this report (expanding state funding for water/waste water infrastructure projects). The legislation also provided grant funds to all cities/towns ($10 million), counties ($10 million), and tribal governments ($5 million). Distributions were based on a set amount for each local government plus a proportional amount of the remaining funds. Use of the local government distributions were designated in the bill, and some latitude was given for changes in the project type. Most of the distributions were used on infrastructure projects varying from county roads to park improvements.

- HB 600 – 1983 Session: In 1983, the legislature created a short lived (repealed in 1987) block grant program making use of a 33.3% of the oil and natural gas tax revenues. The program was developed to provide assistance to local government for two purposes: 1) reimbursement for revenue changes experienced when motor vehicle registration laws were amended and 2) general financial assistance to local governments. The program was developed during a period of unusually high oil prices. However, after the initial spike, the price of oil fell and the legislature repealed the program.

Local Government Impact Measure and Funding Concepts Used in other States

- Connecticut – Local Capital Improvement Program (LoCIP). The program, funded through the issuance of bonds, provides grants to municipalities upon request based on a statutory formula. The program requires an accompanying capital improvement plan with each grant request, suggesting the state values adequate planning by the municipalities.

- North Dakota – The 2011 North Dakota (ND) Legislature provided $100 million in oil impact grant funds to address impacts from the rapidly growing oil and gas industry in the western portion of the state. In the following special session, the Legislature provided an additional funding $30 million in additional impact grant funds for cities, counties and other political subdivisions and $5 million for counties in the early stages of oil and gas production.

  Before the 2015 biennium, the state of ND distributed only 8% of the oil and natural gas tax revenues to local governments.[2] In the 2013 session, ND changed the local government allocations providing 100% of the first $5.0 million in annual revenue and 25% of all revenue in excess of $5.0 million to the "political subdivisions". This action is expected to increase local government revenues by $300.6 million. The ND Legislature also provided $240.0 million of oil and gas impact grant funding for needs-based grants to political subdivisions negatively impacted by oil and gas development.

- Colorado – In 1977, the Energy and Mineral Impact Assistance program was created to provide funds and technical assistance to communities impacted by the boom and bust cycles of the state's extraction industries. Federal mineral lease royalties and the state severance tax provide the program funding. Local governments benefit from the program in three ways: discretionary grants and loans, direct distributions, and severance tax credits.

  For the grants and loans program, recipients are defined as municipalities, counties, school districts, and most special districts experiencing social or economic impacts from the development, processing or energy conversion of fuels and minerals. Grants are provided in a three tiered approach, with the highest grant (Tier III) consideration ranging between $1 million and $10 million. The grants program requires a local match of at least 25% of the total project cost. Criteria used in project ranking are demonstration of need, measurable outcomes, relationship to community goals, local commitment, ability to pay, readiness to go, and energy/mineral impact.

- New York – The New York state Comptroller oversees a monitoring system that evaluates the fiscal health of local governments based on 23 financial and environmental indicators and creates an overall fiscal condition score. Indicators include cash-on-hand and patterns of operating deficits, together with

[2] *Benefiting from Unconventional Oil, State Fiscal Policy is Unprepared for the Heightened Community Impacts of Unconventional Oil Plays*, Headwaters Economics, Stanford University, pp. 2.

broader demographic information like population trends and tax assessment growth. The scores are used to classify whether a community is in significant fiscal stress, moderate fiscal stress, susceptible to fiscal stress, or is not in stress (no designation). The hope is that monitoring will provide information to local officials to identify needs and elicit actions by local governments that change their financial trends for the better, with the least disruption and pain to citizens.

- Virginia – The state of Virginia (VA) uses an index that measures the financial condition of the state's local governments and provides a measure for the allocation of state aid. The fiscal stress index illustrates a locality's ability to generate additional local revenues from its current tax base relative to the rest of the state. The index considers three components: revenue capacity per capita (the theoretical ability of a locality to raise revenue), revenue effort (the amount of the theoretical revenue capacity that the locality actually collects through taxes and fees), and median household income.

Local Government Taxing Authority

While local government taxing authority may be outside of the scope of the LFC project, the provision of taxing authority to can be an important tool in the ability for counties and cities to react quickly in addressing the infrastructure and services cost increases of economic expansion or contraction. The following examples of local government taxing authority are summarized as models for legislative consideration. Generally, these examples shift a portion of the tax burden from the resident population (property taxes) towards the visitor (excise taxes) and require voter approval. The legislature might consider the provision of "impacts" taxing authority as an additional funding concept.

- Local Option Fuel Excise Tax (7-14-301 through 304) – Counties have the authority, with a vote of the residents, to assess a local motor fuel excise tax. The tax may be imposed in one cent increments not to exceed two cents per gallon. Monies derived from the tax may only be used for the construction, reconstruction, maintenance, and repair of public streets and roads. The tax receipts are allocated between the county and cities by population, road miles, or by agreement. There has been at least one attempt by the legislature to expand the local option fuel tax to urban areas (urban transportation districts). At this time, no counties use the local option fuel excise tax.

- Resort Tax (7-6-1501 through 1551) - The Montana resort tax is a local option sales tax that provides areas with high numbers of visitors, but relatively few residents, a tool to fund capital projects and services without overburdening local citizens. Montana local governments may apply for the designation of either a resort community (an incorporated municipality with a population < 5,500) or area (an unincorporated area with a population < 2,500). To designate a resort community or area, the Department of Commerce must have concluded that the major portion of the local government's economic base is derived from businesses catering to non-business travelers. The tax is limited to 3% and at least 5% of the tax revenues must offset municipal property taxes. Upon approval of the voters, the tax may be imposed on items used by area visitors including lodging, food services, served liquor, destination recreation, and luxury items. There are currently four resort communities and four resort areas in Montana. Past legislatures have tried to modify the provisions of the resort tax, focusing on the size limitations and the designation requirements.

- Local option sales tax – The concept of a local option sales tax has been proposed in Montana legislatures a number of times, but never passed. The last attempt occurred in the 2007 session in HB 685. The provisions of this legislation were similar to the resort tax described above, but without the population limitations and the need for a resort community/area designation.

- Local option tourism tax – The concept of a tourism tax was introduced in the 2009 session HB 506, but the legislation was not passed by the legislature. Once approved by the voters, the local government could impose a 4% tourism tax on lodging, prepared meals, alcoholic beverages sold by the drink, vehicle rentals, and recreational services. The proceeds of the tax would offset existing levies, decrease the need for future levy increases, and provide a new source of funding for local governments. The legislation also provided for revenue sharing between jurisdictions.

- Local Government Impact Fees to Fund Capital Improvements (7-6-1601 through 7-6-1604) – Local governments (cities/towns, counties, or consolidated governments) are provided with the authority to create impact fees for capital improvements. An impact fee may be approved either by ordinance of the respective council or resolution by a vote of the residents. The proceeds of the fee may be used for improvements, land, and equipment with a useful life of 10 years or more. The concept of a capital improvement impact fee is focused on improvements needed due to new development in the given area and are not to be used for the costs of correcting existing deficiencies in a public facilities. The new development may not be held to a higher level of service than existing users unless there is a mechanism in place for the existing users to make improvements to the existing system to match the higher level of service. The local government is required to document and report on the condition of the existing facility, level of service standards, additional needs for service in a defined period of time, necessary capital improvements for future needs, a determination of sufficiency of a single service area or the need for multiple service areas, and costs of the capital improvements. Reports must cover a five-year span and be updated every two years.

Note: This list of local government funding concepts is not fully inclusive of all the concepts in existence and is a work-in-progress of the Montana Legislative Fiscal Division.