HJ 18 STUDY OF TAX INCREMENT FINANCING *DRAFT* FINAL REPORT

July 2018

Revenue and Transportation Interim Committee

Megan Moore, Research Analyst

FINAL REPORT TO THE 66TH MONTANA LEGISLATURE

Revenue and Transportation Interim Committee Members

Before the close of each legislative session, the House and Senate leadership appoint lawmakers to interim committees. The members of the Revenue and Transportation Interim Committee, like most other interim committees, serve one 20-month term. Members who are reelected to the Legislature, subject to overall term limits and if appointed, may serve again on an interim committee. This information is included in order to comply with 2-15-155, MCA.

Senate Members

Senator Mark Blasdel, Vice Chair
P.O. Box 1493
Kalispell, MT 59903-1493
Ph.: (406) 261-3269
Email: Sen.Mark.Blasdel@mt.gov

Senator Duane Ankney
P.O. Box 2138
Colstrip, MT 59323-2138
Ph.: (406) 740-0629
Email: goodwind1.duane@gmail.com

Senator Dick Barrett
219 Agnes Ave.
Missoula, MT 59801-8730
Ph.: (406) 396-3256
Email: rnewbar@gmail.com

Senator Cyndie (Carlie) Boland
1215 6th Ave. N
Great Falls, MT 59401-1601
Ph.: (406) 868-1029
Email: Sen.Carlie.Boland@mt.gov

Senator Jill Cohenour
2610 Colt Dr.
East Helena, MT 59635-3442
Ph.: (406) 227-1144

Senator Brian Hoven
1501 Meadowlark Dr.
Great Falls, MT 59404-3325
Ph.: (406) 761-8533
Email: brian@hovenequipment.com

House Members

Representative Tom Jacobson, Chair
521 Riverview Dr. E
Great Falls, MT 59404-1634
Ph.: (406) 868-9814
Email: Rep.Tom.Jacobson@mt.gov

Representative Becky Beard
P.O. Box 85
Elliston, MT 59728-0085
Ph.: (406) 479-3048
Email: becky4hd80@blackfoot.net

Representative Jim Hamilton
155 Franklin Hills Dr.
Bozeman, MT 59715-1733
Ph.: (406) 570-7517
Email: Rep.Jim.Hamilton@mt.gov

Representative Greg Hertz
P.O. Box 1747
Polson, MT 59860-1747
Ph.: (406) 253-9505
Email: greghertz11@gmail.com

Representative Alan Redfield
538 Mill Creek Rd.
Livingston, MT 59047-8709
Ph.: (406) 220-1247
Email: Rep.Alan.Redfield@mt.gov

Representative Bridget Smith
516 Hill St.
Wolf Point, MT 59201-1245
Ph.: (406) 230-2268

P.O. Box 201706
Helena, MT 59620-1706
Phone: (406) 444-3064
Fax: (406) 444-3971
Website: http://leg.mt.gov/rtic

Revenue and Transportation Interim Committee Staff
Jaret Coles, Attorney | Megan Moore, Legislative Research Analyst | Laura Sherley, Secretary

This report is a summary of the work of the Revenue and Transportation Interim Committee, specific to the Revenue and Transportation Interim Committee's 2017-2018 study of tax increment financing as outlined in the Revenue and Transportation Interim Committee's 2017-18 work plan and House Joint Resolution 18 (2017). Members received additional information and public testimony on the subject, and this report is an effort to highlight key information and the processes followed by the Revenue and Transportation Interim Committee in reaching its conclusions. To review additional information, including audio minutes and exhibits, visit the Revenue and Transportation Interim Committee website: www.leg.mt.gov/rtic.

A full report including links to the documents referenced in this print report is available at the Revenue and Transportation Interim Committee website: http://www.leg.mt.gov/rtic.

TABLE OF CONTENTS

TAX INCREMENT FINANCING

BACKGROUND

House Joint Resolution No. 18 called for a study of tax increment financing and ranked 6th of 20 studies in the poll of legislative study resolutions. The 2015-2016 Revenue and Transportation Interim Committee studied tax increment financing, but the 2017 Legislature, which considered a number of bills to revise tax increment financing law, thought there was more to study.

With a performance audit of tax increment financing underway, the committee chose to focus its early work on items that would not be included in the audit and to consider next steps after hearing the audit results. In developing the tax increment financing (TIF) study plan, the committee excluded some items called for in the study resolution including:

- Consideration of developing guidelines for the ratio of public-private investment to be used in districts that use tax increment financing;
- Consideration of whether to revise the definition of "blight" or the allowable reasons for creating an urban renewal district;
- Consideration of whether a third party should confirm the presence of blight or the need for infrastructure improvements and approve district boundaries;
- Review of local government expenditures on purely public projects that may not increase the tax base, review expenditures for projects that use money to spur private investment, and consider whether to limit expenditures on purely public projects; and
- Review of programs that use tax increment financing for façade improvement programs and historical preservation programs.

The following sections of the report include the information provided to the committee as part of the study.

FINDINGS AND RECOMMENDATIONS

[Insert any findings and recommendations, including requested bill drafts.]

Tax Increment Financing Basics

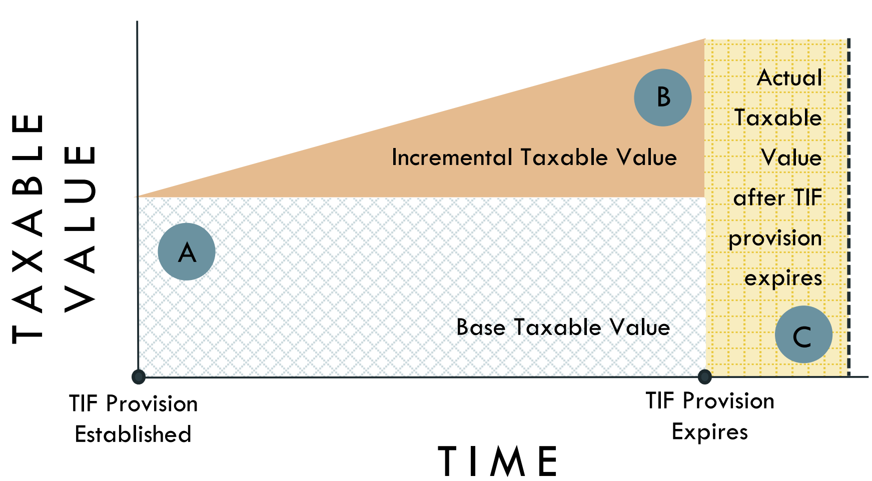
Title 7, chapter 15, parts 42 and 43, MCA, provide for the use of tax increment financing (TIF) for urban renewal and economic development projects. A city may create an urban renewal district (URD) and a city or a county may create a targeted economic development district (TEDD). The URD or TEDD plan may include a provision that allows the district to use tax increment financing. This document provides the basics of tax increment financing.

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 a district before the effective date of the tax increment financing provision
Incremental taxable value: the amount, if any, by which the actual taxable value exceeds the base taxable value of all taxable property within a 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 a district

Area A: Base Taxable Value

The 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 for all taxing bodies within the district is applied to the incremental taxable value to determine the tax increment available for urban renewal or economic development projects. The combined mill rate does not include the 6-

mill university levy and, for TIF provisions adopted after April 6, 2017, does not include the 1.5-mill vocational-technical education levy or a new mill levy approved by voters after adoption of the TIF provision.

Area C: Actual Taxable Value After TIF Provision Expires

After the 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. A TIF provision expires the later of the 15th year following its adoption or upon the payment or discharge of all bonds for which the tax increment has been pledged.

MSUB TIF Analysis Summary

The committee heard testimony at its interim organizational meeting suggesting that the committee review available analyses of the use of tax increment financing (TIF) in Montana as part of the study. The suggestion also included an indication that MSU Billings, the Department of Commerce, and the Department of Revenue have published such reports. Staff did not find reports published by the Departments of Commerce or Revenue so this summary focuses on the paper, "Analysis of the Performance and Potential of Tax Increment Financing Districts in Yellowstone County Montana" published by the Center for Applied Economic Research at MSU Billings.[1]

Summary of "Analysis of the Performance and Potential of Tax Increment Financing Districts in Yellowstone County Montana"

The Big Sky Economic Development Authority asked the MSU Billings Urban Institute to analyze the performance of TIF districts in Yellowstone County. The MSU Billings Center for Applied Economic Research (CAER) performed the analysis on behalf of the MSU Billings Urban Institute. This summary includes an overview of the research questions, methodology, assumptions, findings, and discussion sections within the report. In a few places labeled "Additional Considerations," staff comments are included to provide additional context.

[1] Scott Rickard, Ph.D. and Jonna Jones, "Analysis of the Performance and Potential of Tax Increment Financing Districts in Yellowstone County Montana," Center for Applied Economic Research, Montana State University Billings, January 2011.

Question 1: Are the TIF districts located within Yellowstone County producing more economic growth within these districts than they would have produced without the benefits of TIF designation?

Methodology

To answer the question of whether TIF districts generate economic growth at a greater rate than if TIF was not used, the authors estimated the growth in property values[2] inside and outside of the districts and used the change in property value as an estimate of the economic activity.

Assumptions

The analysis estimates average growth in property values between 1984 and 2008 at a rate of 3.8% per year for property within Billings but outside a TIF district.

Findings

Multiplying the 3.8% average annual growth rate by 15 years (the minimum time period after which a tax increment provision expires), the authors infer that the property values in TIF districts must grow by at least 57% to conclude that the TIF generated economic activity at a greater rate than if TIF was not used. For Laurel, the estimated average growth rate is 4.3% per year and the total growth required to show more economic activity in a TIF district is 64%.

The analysis concludes that, through 2010, the total growth in property values in four of the six Billings districts and in the Laurel district was greater than the growth in property values for property outside of the districts but within the respective city limits.

Additional Considerations

- The 3.8% average annual growth rate appears to be based on *market* value while the total growth of districts that use TIF is based on *taxable* value.
- The analysis arrives at a total growth rate required to determine whether the use of TIF resulted in more economic activity by multiplying the average annual growth rate by 15 years, which is the number of years a tax increment provision is in effect if the increment is not pledged to the repayment of bonds. If the increment is pledged to bond repayments, the tax increment provision is in effect until the bonds are

[2] The property values were estimated for years in which a reappraisal was not conducted because the analysis occurred when residential and commercial property was valued on a 6-year cycle.

repaid. The analysis does not take into account this longer timeframe, though none of the Yellowstone County districts had issued bonds when the analysis was published in 2011.

Question 2: Do TIF districts shift costs from residents and businesses located in TIF districts onto other taxpayers living within the same taxing jurisdiction but outside the boundaries of the district?

Methodology

The methodology for this question was to estimate the cost of providing services to a TIF district and to compare this cost with the tax revenue generated from the base taxable value of the district. If the cost of providing services is greater than the revenue generated from the district, the assumption is that costs are shifted to other taxpayers.

The analysis uses three models of the present value of the sum of future revenues and costs to estimate the net value or cost of each district. The three models vary in assumptions about growth in the cost of providing services:

1. Cost of services grow only at the 5.2% average annual growth rate
2. Cost of services grow proportionally to the value of TIF investments and at the 5.2% average annual growth rate
3. Cost of services grow proportionally to the value of TIF investments and at half the average annual growth rate

Assumptions

- Before creation of a TIF district, tax revenue from the district exactly covered the cost of services provided to the district.
- The cost of providing services in Billings grew at an average of 5.2% per year between 1992 and 2009. The 5.2% average growth rate is used to estimate expected growth in the cost of providing services between 2010 and 2025.
- City expenditures in Billings average 0.46% of the market value of Billings properties between 1992 and 2010. The cost of services in the first year of a TIF district is estimated at 0.46% of the total market value in Billings for that year.
- The market value of properties is assumed to grow at 3.8% per year, the same growth rate that was used for the first question.

- On average, property tax revenue accounts for 30% of total local tax revenue. The revenue derived from the base taxable value of a TIF district represents 30% of the tax revenue generated from properties within the district.

Findings

The following table from the analysis summarizes the findings from the three models comparing the present value of estimated cost of services to the present value of estimated revenues.

For Billings TIFs, the cost of services exceeds revenue in two of five districts if costs grow at the average annual rate, in all five districts if costs grow at the average annual rate and proportionally to the value of the TIF, and in 1 of 5 districts if costs grow at half the average annual rate and proportionally to the value of the TIF.

The estimated cost of services exceeds estimated revenues in the Laurel TIF only for the model using the average annual growth rate and increases in service costs proportional to the value of the TIF.

TABLE 11. COST OF SERVICE DIFFERENCES FOR VARIOUS RELAXED ASSUMPTIONS[3]

		Costs of Service Only Grow Due to Average Annual Growth Rates	Costs of Service Grow Due to Both Increase In TIF Investments and Average Annual Growth Rates	Costs of Service Grow Due to TIF Investments and at One-Half of the Average Annual Growth Rates
N. 27th 2T3	% Diff	33%	-29%	53%
	PV Deficit	$2,101,603	($3,371,931)	$2,877,269
N. 27th 2T3A	% Diff	2%	-31%	22%
	PV Deficit	$328,204	($4,531,443)	$1,817,699
EBURD 2T4	% Diff	-10%	-31%	6%
	PV Deficit	($360,899)	($1,552,212)	$192,972

[3] Rickard and Jones, p. 26.

SBBURD 2T5	% Diff	-5%	-30%	14%
	PV Deficit	($378,695)	($4,453,809)	$1,190,604
SBBURD 23T5	% Diff	-27%	-31%	-13%
	PV Deficit	($2,010,163)	($2,465,212)	($871,128)
Laurel 7TI	% Diff	5%	-32%	30%
	PV Deficit	$236,722	($1,758,141)	$917,469

Additional Considerations

- The assumption that a TIF district generates sufficient tax revenue to cover services provided to the district before the district is created may or may not be true. Urban renewal districts must include a finding of blight. A blighted area is likely to have stagnant or declining property values and may not generate enough revenue to cover the cost of services provided within the area.
- The assumption that TIF districts contribute revenue to the city in addition to the property tax revenue generated from the base taxable value may be overstated. A staff analysis of local government revenue sources supports the claim that 30% of Billings' revenue is generated from property taxes.[4] However, the analysis assumes that the 70% of revenue that Billings generates from other sources can be generated from TIF districts. This is likely true for revenue that comes from licenses and permits or charges for services but, in 2015, 26% of revenue was in the form of intergovernmental revenues such as entitlement share payments, shared state gas tax revenue, state and federal grants, and district court reimbursements. Increased economic activity in a TIF district may not generate additional intergovernmental revenue.
- The tables showing the results of the models refer to "Restricted Tax Revenues" and assume the same amount of revenue each year. Upon adoption of a tax increment provision, the base taxable value is established and mills are levied against this base. The amount of revenue collected from the base taxable value will fluctuate from year to year as mills are adjusted.

[4] Megan Moore, "Local Government Sources of Revenue," Legislative Services Division, May 2016, p. 14. See Rickard and Jones, p. 19.

Opportunity Costs of TIF Districts

The analysis also attempts to answer the question of how much property tax revenue the city would collect if the districts did not adopt tax increment provisions and to compare the revenue estimated to be generated if the district was not created with the cost of services.

Methodology

This question was answered using two different revenue growth models and then estimates the differences in revenue if the TIF did not exist under two scenarios: one in which TIF investments do not increase the cost of services and one in which TIF investment does increase the cost of services.

The first revenue growth model estimated tax revenues and cost of services assuming no tax increment provision and no tax increment funded capital investments and used the historic average annual growth in property values and cost of services. The second model used half the historic average annual growth rate in market value for properties within the TIF district boundaries and the average cost of services growth rate.

Findings

Both revenue growth models estimate that with the TIF district, property tax revenue will exceed service costs for the Billings districts as a whole and for the Laurel district.

The following table shows the present value of estimated net revenues with the tax increment provision compared to net revenues if the TIF did not exist and assumes no increase in cost of services due to the TIF district.

TABLE 14. PRESENT VALUE OF THE FUTURE NET REVENUES FROM TIF DISTRICTS COMPARED TO THOSE IF THE DISTRICT DID NOT EXIST, ASSUMING TIF INVESTMENT DID NOT INCREASE COSTS OF SERVICES[5]

TIF AREA ASSUMPTIONS	TIF INVESTMENTS DO NOT INCREASE COS, COSTS AND REVENUES GROW AT AVERAGE RATES	TIF INVESTMENTS DO NOT INCREASE COS, COSTS AND REVENUES GROW AT AVERAGE RATES
NO-TIF COMPARISON ASSUMPTIONS	**PROPERTY VALUES DO NOT CONTAIN TIF INCREMENT AND GROW AT AVERAGE RATES**	**PROPERTY VALUES DO NOT CONTAIN TIF INCREMENT AND GROW AT ONE-HALF AVERAGE RATES**
N. 27th 2T3	$2,270,216	$2,469,986
N. 27th 2T3A	$603,219	$932,073
EBURD 2T4	($272,001)	($168,817)
SBBURD 2T5	($108,392)	$214,828
SBBURD 23T5	($1,860,549)	($1,681,644)
Laurel 7TI	$335,954	$454,612
Total P.V.	$968,447	$2,221,039

In both models, the results suggest that Billings and Laurel will generate more revenue overall with the TIF districts than without them. For Billings, the model assuming that property values grow at average rates shows three Billings TIF districts with negative present values of future net revenue, while the model that uses growth at half the average rate results in negative present value of future net revenue for two Billings districts

The next table shows the present value of estimated net revenues with the tax increment provision compared to net revenues if the TIF district did not exist and assumes an increase in cost of services proportionally to the property value added.

[5] Rickard and Jones, p. 30.

Table 15. Present Value of the Future Net Revenues from TIF Districts Compared to Those if the District Did Not Exist, Assuming Cost of Services Grew Proportionally with TIF Investments[6]

TIF Area Assumptions	TIF Investments Increase COS, Costs and Revenues Grow at Average Rates	TIF Investments Increase COS, Costs and Revenues Grow at Average Rates
No-TIF Comparison Assumptions	Property Values Do Not Contain TIF Increment and Grow at Average Rates	Property Values Do Not Contain TIF Increment and Grow at One-Half Average Rates
N. 27th 2T3	($3,203,318)	($3,003,548)
N. 27th 2T3A	($4,256,428)	($3,927,574)
EBURD 2T4	($1,463,314)	($1,360,130)
SBBURD 2T5	($4,183,506)	($3,860,286)
SBBURD 23T5	($2,315,598)	($2,136,693)
Laurel 7TI	($1,658,909)	($1,540,251)
Total	($17,081,073)	($15,828,481)

The results of this model show negative present value of future net revenues for all districts assuming average growth rates and growth at half the average rate.

Effects on Other Taxing Jurisdictions

The analysis includes a discussion of effects on other taxing jurisdictions and offers the following conclusions:

- Counties and school districts rely more heavily on property taxes so adoption of a tax increment provision has a greater impact.
- Yellowstone County tax revenues have grown at an average rate of 3.7% per year between 1994 and 2009. Property taxes represent two-thirds of county tax revenues. Assuming that the county can collect non-property tax revenue on new economic activity in the TIF district, new revenue to the county is estimated to grow by 1.2% per year (one-third of the revenue that is not derived from property taxes multiplied by 3.7%). Over the same time period, Yellowstone County cost of services increased by 2.9% per year. This results in what the authors call a "built-in deficit of 1.7% of the cost of providing county services."[7]

[6] Rickard and Jones, p. 31.
[7] Rickard and Jones, p. 33.

- Additional Consideration: One would need to compare actual tax revenues and actual cost of services, not just their growth rates, to determine whether costs exceed revenues.

Additional Complicating Factors

The analysis includes a discussion of two factors complicating the analysis.

The first complication raised by the authors relates to the assumption that a TIF district results in *new* economic activity. If the economic activity is from relocation of businesses elsewhere in the city or new businesses that compete with existing businesses, the city could see a decrease in tax revenues in other parts of the city outside of the TIF district.

The other complication relates to the cost of services estimates. The model estimates that the cost of services grows proportionally to the value of the investment in the TIF district. If the cost of services in the TIF district grows faster (or slower), the findings about whether the district results in a service cost deficit would change. A TIF district with many residences may see cost of services grow disproportionally to the investment in the district because, according to "past research,"[8] residences collect more in services than they pay in property taxes while the reverse is true for businesses.

What Does This Analysis Miss?

The analysis uses the market value of property and the cost of services to determine whether a TIF district results in additional economic activity. The benefits of a TIF district could be undervalued if additional economic activity is not captured in the value of the property.

The authors also include survey results in Appendix A that include questions about whether and how TIF districts have impacted Yellowstone County.

After the meeting, the Montana League of Cities and Towns provided its response to the report.

Taxable Values of Districts That Use TIF

This section analyzes taxable values of districts that use tax increment financing as a share of local government taxable values. The 2017 Legislature considered House Bill No. 403 (HB 403), which would have required a municipality to remit incremental taxable value exceeding 5% of the total taxable value of a

[8] Rickard and Jones, p. 34.

municipality if the increment was not required to pay bonds. The House Taxation Committee tabled the bill but HJ 18 directs the interim committee to consider whether to establish a maximum allowable incremental taxable value and a maximum percentage of the tax base that may be placed into an urban renewal district or targeted economic development district.

This analysis uses tax year 2016 tax increment finance data and local government taxable value data from the Department of Revenue's Biennial Report[9] to inform the committee's consideration.

Analysis of City TIF Taxable Values

The table below shows districts that use tax increment financing created by a city and the total incremental taxable value and total taxable value of the districts as a share of the city's 2016 total taxable value.

> The average incremental value as a share of city taxable value is 6.2% and the median is 3.7%.

Incremental Taxable Value

The Hardin Industrial District incremental taxable value is 31.9% of the city's total taxable value, the highest share for any city.[10] The average incremental value as a share of city taxable value is 6.2% and the median is 3.7%.

In 2016, six cities had incremental taxable values as a percentage of city taxable value greater than 5%, the level that may have required remittances if HB 403 became law, and three others were close to 5%. Those nine cities are: Hardin, Whitefish, Laurel, Shelby, Whitehall, Butte[11], Billings, Polson, and Bozeman.

Total Taxable Value

For most cities with districts that use tax increment financing, the total TIF taxable value was less than a quarter of the total city taxable value. The five exceptions are: Whitehall, 70.4%, Hardin, 41.9%, Whitefish, 41.6%, Columbia Falls, 31.9%, and Laurel, 25%. The average taxable value of districts that use tax increment financing as a share of city taxable value is 21.7% and the median is 17.5%. If the five cities with the highest TIF taxable value as a share of city taxable value are excluded, the average is 14.9% and the median is 15.8%.

[9] Montana Department of Revenue, "Biennial Report July 1, 2014- June 30, 2016," p. 166, 178-179, and 186-241.
[10] This report was updated Dec. 12, 2017, to correct the taxable value for Hardin, which was incorrect in the Biennial Report.
[11] Taxable value for Butte Silver-Bow Urban Services. Provided by Kristen Rosa, Butte-Silver Bow.

Total Taxable Value and Incremental Taxable Value for City TIF Districts, 2016

City	Number of Districts	2016 City Taxable Value	Total City TIF Taxable Value	TIF Taxable Value as % of City Taxable Value	Total City TIF Incremental Value	Incremental Value as % of City Taxable Value
Hardin	1	$4,649,987	$1,946,768	41.9%	$1,481,624	31.9%
Whitefish	1	$30,428,008	$12,671,897	41.6%	$8,486,545	27.9%
Laurel	1	$8,541,243	$2,134,320	25.0%	$965,097	11.3%
Shelby	1	$3,380,215	$303,632	9.0%	$228,168	6.8%
Whitehall	1	$1,139,339	$801,702	70.4%	$65,175	5.7%
Butte	2	$52,610,718	$6,539,389	12.4%	$2,665,513	5.1%
Billings	4	$194,300,748	$22,546,403	11.6%	$9,586,899	4.9%
Polson	1	$9,462,256	$1,893,802	20.0%	$457,800	4.8%
Bozeman	5	$93,669,979	$9,610,061	10.3%	$4,333,724	4.6%
Missoula	8	$117,220,060	$18,575,809	15.8%	$4,569,812	3.9%
Fort Benton	2	$1,895,635	$244,117	12.9%	$65,780	3.5%
Kalispell	4	$39,145,423	$9,598,211	24.5%	$1,211,165	3.1%
Eureka	1	$2,482,121	$420,265	16.9%	$72,337	2.9%
Anaconda	1	$4,810,227	$949,823	19.7%	$93,608	1.9%
Columbia Falls	2	$6,517,612	$2,079,681	31.9%	$123,219	1.9%
Livingston	1	$11,214,165	$1,780,557	15.9%	$176,284	1.6%
Great Falls	5	$91,319,996	$5,265,246	5.8%	$1,135,578	1.2%

City	Number of Districts	2016 City Taxable Value	Total City TIF Taxable Value	TIF Taxable Value as % of City Taxable Value	Total City TIF Incremental Value	Incremental Value as % of City Taxable Value
Lewistown	1	$6,438,644	$1,539,184	23.9%	$56,992	0.9%
Stevensville	2	$2,380,419	$164,939	6.9%	$11,641	0.5%
Miles City	1	$8,582,314	$1,548,212	18.0%	$0	0.0%

Analysis of County TIF Taxable Values

The table below shows districts that use tax increment financing created by a county and the total incremental taxable value and total taxable value of the districts as a share of the county's 2016 total taxable value.

Incremental Taxable Value

Deer Lodge and Silver Bow are the only counties with an incremental taxable value as a percentage of county taxable value greater than the 5%. The average incremental taxable value as a share of county taxable value is 6.6% and the median is 0.9%

> The average incremental value as a share of county taxable value is 6.6% and the median is 0.9%.

Deer Lodge's incremental value as a share of county taxable value is 39.3%, considerably higher than the other counties. If Deer Lodge is removed, the average incremental taxable value as a share of county taxable value is 1.9% and the median is 0.4%.

Total Taxable Value

Deer Lodge and Silver Bow also have the highest TIF taxable values as a share of county taxable value, 43.9% and 10.5%, respectively. Jefferson and Missoula are also above 1%, at 6% and 1.5%, respectively. The other four counties have TIF taxable values as a share of county taxable value below 1%.

Total Taxable Value and Incremental Taxable Value for County TIF Districts, 2016

County	Number of Districts	2016 County Taxable Value	Total County TIF Taxable Value	TIF Taxable Value as % of County Taxable Value	Total County TIF Incremental Value	Incremental Value as % of County Taxable Value
Deer Lodge	1	$19,934,774	$8,748,597	43.9%	$7,839,258	39.3%
Silver Bow	1	$65,459,390	$6,849,030	10.5%	$5,127,800	7.8%
Jefferson	2	$30,107,392	$1,794,339	6.0%	$1,038,415	3.4%
Missoula	5	$212,631,872	$3,178,794	1.5%	$2,879,365	1.4%
Park	1	$40,429,811	$162,919	0.4%	$162,791	0.4%
Cascade	2	$156,200,975	$97,862	0.1%	$94,264	0.1%
Ravalli	1	$74,809,503	$107,793	0.1%	$169	0.0%
Hill	1	$36,399,932	$993	0.0%	$81	0.0%

Bonds Secured With Tax Increment

This section provides information on the guarantee of bonds secured with tax increment.

Use of Bonds for Urban Renewal and Economic Development Projects

Title 7, chapter 15, parts 42 and 43, contain sections of law authorizing the issuance of bonds for urban renewal projects and targeted economic development district projects and providing for payment of the bonds. The sections of law addressing these topics are somewhat duplicative and may benefit from clarification.

Section 7-15-4289, MCA

The Legislature enacted this section in 1974 and it was split into multiple sections during the 1978 recodification of the Montana Code Annotated. The section is now one sentence allowing tax increment to be pledged for bond payments.

Section 7-15-4290, MCA

Section 7-15-4290 provides that tax increment may be pledged for the payment of revenue bonds issued for urban renewal projects or targeted economic development district projects or for general obligation bonds, revenue bonds, or special assessment bonds issued to pay urban renewal costs or targeted economic development district costs described in 7-15-4288 and 7-15-4289.

The section also allows a local government to pass a resolution pledging or appropriating other revenue to the bonds if tax increment is insufficient. Property taxes may not be pledged to bond payments, except for the tax increment derived from property within the district and collections from services provided to the local government by a project.

Section 7-15-4301, MCA

The previous two sections allow a local government to pledge tax increment to bond payments. The authority for a local government to issue bonds to finance an urban renewal project or a targeted economic development district project is contained in section 7-15-4301. Subsection (2) of the section states that the bonds may not pledge the general credit of the local government and must be made payable from income derived from or held in connection with urban renewal projects or targeted economic development district projects, including tax increment pledged by the local government.

The subsection also includes a provision allowing a local government to pledge other revenue to bond payments if the tax increment and income from the projects is insufficient. Additionally, the bonds may be further secured with a loan, grant, or contribution from the federal government or other source in aid or by a mortgage on a project.

The section requires bonds issued under this section to be authorized by resolution or ordinance.

Exception to Prohibition on General Obligation Bonds

While section 7-15-4301 prohibits pledging the general credit of the local government to bond payments, there is an exception for bonds issued pursuant to section 7-15-4302. That section allows a local government to issue and sell general obligation bonds for an urban renewal project or targeted economic development project.

Section 7-15-4218 includes additional detail about the process for issuing general obligation bonds for an urban renewal project. The question of approving a modification to the urban renewal plan to allow for the issuance of general obligation bonds must be submitted to the voters as provided in Title 7, chapter 7, part 42.

There is no corresponding section of law outlining this process for issuing general obligation bonds for a targeted economic development project but section 7-15-4302 requires that bonds issued pursuant to that section "be issued in the manner and within the limitation prescribed by the laws of this state for the issuance and authorization of bonds by the local government or municipality for public purposes generally." Title 7, chapter 7, part 22, contains laws about county general obligation bonds.

Conclusion

The laws authorizing the issuance of bonds for urban renewal projects and targeted economic development district projects clearly prohibit pledging the general credit of the local government. Tax increment may be pledged to bond payments, and if the tax increment is insufficient, the local government may pledge other revenue or appropriate other funds, but not property tax revenue unless the property tax revenue is derived from services provided by the project.

A local government may issue general obligation bonds for an urban renewal project or a targeted economic development district project under the processes established in Title 7, chapter 7, which includes submission to and approval by the voters.

PERFORMANCE AUDIT: TAX INCREMENT FINANCING

The Legislative Audit Division conducted a performance audit of tax increment financing entitled, "Performance Audit: Tax Increment Financing Administration and Impact". The audit included six recommendations and Department of Revenue responses to the recommendations.

Recommendation Made to:	Recommendation	Department of Revenue Response
Department of Revenue	• Update tax increment financing administrative rules to require local governments to submit documentation that demonstrates they met statutory requirements when creating TIF districts; and • Develop and implement policies and procedures to accurately communicate deadline requirements to local governments.	• Partially concur. The Department can only require local governments to submit documentation to the extent the statute allows. The department will work to improve the current rules so they are more clear and concise. • Partially concur: The Department routinely communicates with local governments about our policies and procedures. We will work to include TIF district personnel in communications with local governments. As part of this process, we will develop a timeline with key dates for current and proposed TIF districts. This will be placed in the TIF section we are developing on our website.
Department of Revenue	Improve certification of tax increment financing taxable values by: • Developing and implementing a process to verify certified base and increment values for TIF districts before sending them to local taxing jurisdictions; and • Defining formal lines of communication between local governments and the Department for questions relating to TIF district values.	• Partially concur. The Department has detailed procedures and processes to verify certified values of all taxing jurisdictions. We will work to improve the process of certifying values for not just the 55 TIF districts, but the thousands of other taxing jurisdictions. • Concur. The Department agrees that communications can be improved. The department will review the best methods for communicating with local governments. As well, a list of key contacts for each county will be included as part of the TIF section we are adding to the Department's website.

Recommendation Made to:	Recommendation	Department of Revenue Response
Department of Revenue	Guide and support county treasurers by developing an alternative method to calculate tax increment revenue according to the district-wide increment and base values of tax increment financing districts.	Concur. The department will continue to provide training and work with county treasurers to ensure the calculation of tax increment revenue is correct. We will put the formula on our website and encourage local governments to require their software vendors accurately calculate the distribution of property tax revenue to TIF districts. The department believes the distribution of revenue is based on the sum of the total property tax collected for each taxing jurisdiction in the TIF district. The total revenue is then allocated based on the ratio of taxable value of the increment divided by the total taxable value of the TIF district. These percentages are applied to the total property tax collected in the district less the 6-mill revenue.
Department of Revenue	Coordinate the collection, entry, and maintenance of tax increment financing district information by defining formal job duties and processes.	Concur. The Department currently has well-defined procedures and processes, but will continue to fine tune the processes and clarify staff responsibilities.
Department of Revenue	• Further develop tax increment financing policies and procedures; and • Communicate these policies and procedures to stakeholders by providing, at minimum: o A description of how TIF works; o A summary of legal requirements; o Answers to frequently asked questions; o Requirements to create or modify a TIF district; and o Points of contact for assistance.	• Concur. The Department currently has well-defined procedures and processes, but will continue to fine tune the processes and clarify staff responsibilities. • Concur. The Department will work to improve both our internal and external communications. The Department believes the TIF section being developed on our website will address this recommendation.

Recommendation Made to:	Recommendation	Department of Revenue Response
Legislature	• Define what criteria the Department of Revenue should review to approve qualified tax increment provisions as described in 7-15-4285, MCA; and • Clarify tax increment financing laws, including statutory goals, state and local administration, monitoring, and how TIF should be evaluated.	• Concur. The Department agrees that the Legislature needs to provide stronger and clearer criteria for the approval of a TIF district. • Partially concur. Although this is a recommendation for the Legislature, the Department strongly agrees that the Legislature provide explicit authority contained in this recommendation and the resources necessary to implement any new statutory requirements.

During the public comment period after presentation of the audit, local government representatives offered a section-by-section commentary of the audit that can be accessed in the audio minutes for March 14, 2018. The Montana League of Cities also provided a brochure about tax increment financing.

Tax Increment Financing in Neighboring States

The Legislative Audit Division also provided the committee with information on tax increment financing in neighboring states. Tables on the following pages summarize basic properties of TIFs, initiation of TIF, and use and implementation of TIF.

TABLE 1
Basic Properties Influencing Tax Increment Financing in Montana and Neighboring States

State	Entity Responsible for Property Assessment	2016 Property Tax Collected by State	Type of Tax Collect for Increment	Creating Entity	Types of Districts	Lifespan	Lifespan (Extended with Bonds)
Montana	State	10.6%	Property Tax Only	Municipality or County	Urban Renewal & Targeted Economic Development	15	40
Idaho	County	None	Property Tax Only	Municipality or County	Revenue Allocation Areas: Urban Renewal & Competitively Disadvantaged Border Areas	20	40
North Dakota	County	0.1%	Property Tax Only	Municipality	Development or Renewal Area	25-30*	N/A
South Dakota	County	None	Property Tax Only	Municipality or County	Tax incremental district (economic development, industrial, or "local")	20	N/A
Wyoming	County	18% (School Foundation Program)	Property or Sales Tax (Municipality's portion ONLY)	Downtown Development District (upon approval of municipality)	Only Downtown Development Districts	25	N/A

Source: **Compiled by the Legislative Audit Division.**
*North Dakota allows TIF use to be extended by five additional years, but the base must be reset in order to do so.

Table 2
Initiation of TIF in Montana and Neighboring States

State	Approval Process	Statement of Necessity?	"But For" Requirement*	District Value Certification	Restrictions on Creation
Montana	Creating entity sends documentation to DOR Documentation reviewed by DOR prior to calculating values	Statement that area meets statutory blight requirements and contains at least three of fifteen indicators of blight, or Statement of infrastructure deficiency	No	Department of Revenue calculates base and increment values and annually reports	Districts using TIF cannot overlap with each other Counties cannot have districts overlapping with city boundaries
Idaho	Submit some documentation to State Tax Commission No approval required	Resolution of Necessity stating area is deteriorated or dilapidated	No	County assessor calculates values and distribute increment	Some restrictions on including agricultural or forest land Base value of TIF areas cannot exceed 10% of current assessed valuation of all taxable property within the municipality
North Dakota	Submit renewal or development plan to Department of Commerce No approval required	Resolution finding that there are blighted areas or industrial or commercial properties Resolution the development is necessary in the interests of the public	No	County auditor and treasurer calculate, certify and divert tax increment.	Cannot include land assessed as agricultural property within last ten years unless already located for ten years in the interior boundaries of a city
South Dakota	Apply in writing to the Department of Revenue Department also determines district-type classification	Must indicate >25% of real property is blighted, **or,** >50% of real property will promote and advance industrial, commercial, manufacturing, agriculture, or natural resources, **and,** Area improvement likely to enhance significantly value of all other real property in district	No	Department of Revenue calculates base and increment Statute does not allow changes in statute to lower taxation rate of property in a TIF district	Districts allowed to overlap Base value of TIF areas cannot meet or exceed 10% of current assessed valuation of all taxable property within the municipality Valuation excludes recently leased property by the municipality from the base unless municipality proves it was not acquired to reduce the value
Wyoming	All handled at the municipality level	No	No	County assessors determine property value	Increment and base are proportionately adjusted if there are changes in taxable property valuations or sales tax percentage

Source: Compiled by the Legislative Audit Division.
*A "but for" requirement requires local governments show that development in the area would not occur without the investment of TIF. In 2015, 32 states included this requirement.

Table 3
Use and Implementation of TIF in Montana and Neighboring States

State	Allowed Costs/Projects	Debt	Reporting/Monitoring	Miscellaneous
Montana	Urban Renewal District – Broadly able to use TIF to pay for any projects in URD plan and within boundaries of district TEDD – Infrastructure related costs	Many types of debt allowed, including revenue bonds and development agreements Additional increment accrued during extended TIF lifetime can be used for	Local governments are required to notify DOR when they issue bonds & file a copy of each plan, ordinance or amendment with each affected taxing body (currently not monitored)	Costs can be paid outside the district if used to connect the district to external infrastructure
Idaho	Costs must be detailed and estimated in a plan Specifically allowed costs are similar to Montana's Not allowed to pay for more than 51% of municipal buildings without voter approval	Many types of debt allowed, including bonds After 20 years, increment can only be used to pay bonds or be returned to affected taxing jurisdictions	Districts must report plan modifications and other data annually or the state can withhold funds or issue fines State hosts a central registry of administrative and financial information of URDs	Boundaries cannot be adjusted to extend the district more than 10% of the original district District base value is reset any time there is a modification to the urban renewal plan
North Dakota	Any expenditure made to carry out the plan of the district Expenditures are reimbursed from the TIF fund	Many types of debt allowed, including GO bonds and special improvement warrants When costs and debt are all paid off, balance on hand is distributed proportionately to all taxing jurisdictions	Required to submit annually the name of each district, total outstanding debt, and balance of funds on hand.	Can also have "increment" tax exemption to private developers of commercial and industrial property.
South Dakota	Must be detailed in the project plan Specifically allowed costs are similar to Montana's Broad additional costs allowed Cannot be used on residential structures	District projects are funded with debt, such as bonds, from the initiation of the district, and end in 20 years, or earlier, after project expenses are repaid After debt paid, increment is paid out proportionately to each tax levying entity	Issue report as part of annual certification, includes project descriptions and timelines, financial information, and fiscal impact analysis on the state-aid to education formula. Submitted to Governor and Legislature, and posted on website Governor has directed DOR develop guidelines for local authorities	If project costs amended more than 35% above original amount approved, base is recalculated and adjusted up Allowed to have overlapping districts Plans have a lot of specific requirements including feasibility studies, estimated project costs, and fiscal impact statements For "local" TIF districts, the county is required to impose an additional levy on property in a school district, resulting in slightly higher property taxes during life of a district
Wyoming	Costs allowed include development costs in the district, as well as additional costs including landscaping of public areas, promotion of public events, and capital improvements	Municipality can pledge TIF revenue to bonds or other debt only after approval at an election	None required to the state	School districts which include all or any part of the development area are permitted to participate in an advisory capacity

Source: Compiled by the Legislative Audit Division.

Expired Tax Increment Financing Districts

The Legislative Audit Division prepared a memorandum, including the table below, for a committee request on expired districts that use tax increment financing.

Known Development Districts With Sunset TIF Provisions

County	District	Base Year	Sunset Year	Age	Base Value	Increment Value	Total Growth	Average Annual Growth Rate
Cascade	Great Falls Pasta	1997	2004	7	$381,071	$700,009	184%	26%
Cascade	Great Falls Downtown	1977	2008	31	$5,060,148*	$4,064,883	80%	3%
Deer Lodge	TID 2 & 2A	1996	2011	15	$57,427	$46,164	80%	5%
Deer Lodge	TID 1	1996	2011	15	$431,346	$97,476	23%	2%
Flathead	Kalispell A	1979	2002	23	$4,564,171	$1,374,847	30%	1%
Gallatin County	Mandeville	2006	2017	9	$12,059	$87,633	727%	81%
Lewis & Clark	Helena #1 & #2	1981	2005	24	$894,952	$1,626,629	182%	8%
Lincoln	Lincoln County Industrial	2005	2015	10	$85,666	$71,487	83%	8%
Missoula	URD I	1978	2004	26	$5,973,987	$2,709,824	45%	2%
Silver Bow	TIFID #1	1989	2002	13	$5,027	$105,330	2,095%	161%
Silver Bow	Butte Uptown	1980	2013	33	$1,634,853	$1,667,006	102%	3%
Yellowstone	Billings Downtown	1976	2008	32	$4,630,534	$4,300,539	93%	3%

Source: Compiled by the Legislative Audit Division.

*This district had the original base value readjusted downward several times due to changes in the assessment of property taxes. This is no longer allowed under current statute.

Legislative Findings Related to Tax Increment Financing

After the presentation of the performance audit on tax increment financing in March 2018, the Revenue and Transportation Interim Committee (RTIC) and the Local Government Interim Committee held a joint work session to discuss next steps for RTIC's study of tax increment financing (TIF). One topic of interest was review and consideration of legislative goals for districts that use tax increment financing. Goals of TIF are not addressed explicitly in statute but the Legislature did include some findings in related laws.

The 1959 Legislature adopted Ch. 195, which provides the general outline for urban renewal laws that still exists today. That legislation included legislative findings, currently codified in sections 7-15-4202, 7-15-4203, and 7-15-4204. The 1974 Legislature enacted laws authorizing the use of tax increment financing in urban renewal districts. The 1974 legislation did not include legislative findings or statements of policy specific to TIF.

The 2013 Legislature passed Senate Bill No. 239, providing for the creation of targeted economic development districts and allowing the use of TIF in these districts. The legislation included a section of legislative findings, codified as section 7-15-4278.

The table beginning on the next page includes a summary of the sections of law in Title 7, chapter 15, parts 42 and 43, that include legislative findings.[12] The table also attempts to match the legislative findings with survey results[13] included in the audit ranking the importance of benefits of districts that use TIF. The committee may wish to consider whether the survey responses align with legislative findings included in statute.

[12] The full text of the cited statutes is included beginning on page 3.
[13] Legislative Audit Division, "Tax Increment Financing Administration and Impact," p. 45.

<table>
<tr><th>MCA Section</th><th>Year Enacted</th><th>Summary of Legislative Findings</th><th>TIF Benefits Included in Audit Survey (Average Rank in Parentheses, 5=Extremely Important)</th></tr>
<tr><td>7-15-4202</td><td>1959</td><td>The Legislature finds and declares that:

Blighted areas exist in municipalities and their existence:

contributes to disease, crime, and property value depreciation;
is an economic and social liability;
impairs growth of cities;
slows provision of housing; and
aggravates traffic problems.

Prevention and elimination of blighted areas is a matter of state concern:

so the state and cities are not endangered by disease, juvenile delinquency, fires, and areas difficult to police; and
because these areas contribute little tax revenue and consume an excessive proportion of police, fire, accident, hospitalization, and other public services.

</td><td>
Maintain or improve dilapidated buildings (4.5)
Provide necessary services that are otherwise unaffordable due to statutory local government budgetary restrictions (4.4)
Increase the property tax base (4.4)
Encouraging infill development to decrease future burden on local government budgets (4.2)
Pay for development with the taxes of properties benefiting from the development (4.2)
Improving traffic or pedestrian access (4.2)
City beautification (4.1)
</td></tr>
</table>

MCA Section	Year Enacted	Summary of Legislative Findings	TIF Benefits Included in Audit Survey (Average Rank in Parentheses, 5=Extremely Important)
7-15-4203	1959	The Legislature further finds and declares: • Some blighted areas may require acquisition, clearance, and disposition because of decay. • Rehabilitation may be sufficient in other blighted areas. • To the extent feasible, salvable blighted areas should be rehabilitated through voluntary action and the regulatory process.	• Able to focus development on most needy neighborhoods (4.3) • Use funds to provide local control over development (3.5)
7-15-4204	1959	Urban renewal laws in parts 42 and 43 are in the public interest. • The powers included in these parts are for public uses for which public money may be expended and the power of eminent domain may be used. • A city may not serve as a pass-through by using eminent domain to obtain property and sell or lease it to a private entity.	
7-15-4278	2013	The Legislature finds and declares that: • Infrastructure-deficient areas exist and are a serious impediment to value-adding economic development.	• Maintain or improve dilapidated infrastructure (4.7) • Increase jobs by bringing in business that would otherwise no build in the TIF city or county (4.5)

MCA Section	Year Enacted	Summary of Legislative Findings	TIF Benefits Included in Audit Survey (Average Rank in Parentheses, 5=Extremely Important)
		• Local governments lack capital to address infrastructure shortages. • This is a matter of state policy because the state will continue to suffer economic dislocation from lack of value-adding industries. • TIF laws should be used to develop infrastructure.	• Pay for development with the taxes of properties benefiting from the development (4.2)

Bond Payments in Districts That Use Tax Increment Financing

The following table compares estimated bond payments with estimated tax increment in districts that use tax increment financing for tax year 2017. The estimated tax increment is from Department of Revenue data to be published in the forthcoming Biennial Report. Unless otherwise noted, the estimated bond payment information is from bond offer statements available from the Electronic Municipal Market Access website. Districts may have issued additional bonds in a private sale and that information may not be included in the table.

Estimated Bond Payments Compared With Estimated Increments for Districts That Use TIF, 2017

County	District	Year Created	Year of Expected Expiration	2017 Total Taxable Value	Base Taxable Value	2017 Incremental Taxable Value	2017 Estimated Tax Increment	2017 Estimated Bond Payment	2017 Estimated Increment Less Estimated Bond Payment
Big Horn	Hardin Industrial	2004	2031	$1,776,290	$465,144	$1,311,146	$827,612	$1,967,500	-$1,139,888 (see additional detail below)
Cascade	Great Falls West Bank	2007	2034	$946,789	$292,536	$654,253	$442,167	$211,461[14]	$230,706 (see additional detail below)
Chouteau	Fort Benton 1TID	1998	2029	$218,255	$160,843	$57,412	$42,845	$15,362[15]	$27,483
Deer Lodge	Mill Creek	2008	2032	$8,394,371	$909,339	$7,485,032	$4,753,854	$138,950	$4,614,904[16]
Flathead	Kalispell B	1995	2020	$1,191,058	$453,612	$737,446	$569,213	$178,133	$391,080

---

[14] City of Great Falls, Commission Agenda Report, Agenda #18, Aug. 2, 2016, p. 5.
[15] City of Fort Benton, Resolution No. 1207, Dec. 2, 2013.
[16] Excess tax increment from the Mill Creek district is remitted. In fiscal year 2016, $2,032,330 was distributed to the state of Montana and Anaconda School District #10 and $2,213,712 was transferred to Anaconda-Deer Lodge County to "help offset losses due to reduced property tax payments and set up capital reserves for future projects." Anaconda-Deer Lodge County Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2016.

County	District	Year Created	Year of Expected Expiration	2017 Total Taxable Value	Base Taxable Value	2017 Incremental Taxable Value	2017 Estimated Tax Increment	2017 Estimated Bond Payment	2017 Estimated Increment Less Estimated Bond Payment
Flathead	Kalispell C	1997	2037	$8,211,209	$7,932,918	$278,291	$215,793	$33,039[17]	$182,754
Flathead	Kalispell G	2005	2026	$107,277	$390	$106,887	$73,919	$347,758[18]	-$260,864 (see additional detail below)
Flathead	Kalispell H	2005	2026	$18,877	$126	$18,751	$12,975		
Flathead	Whitefish A	1987	2020	$14,358,289	$4,185,352	$10,172,937	$6,049,411	$1,812,386	$4,237,025
Gallatin	Bozeman Downtown	1995	2032	$5,098,612	$1,328,695	$3,769,917	$2,611,400	$425,488	$2,185,912
Lake	Polson	2002	2025	$1,706,868	$1,436,002	$270,866	$184,938	$79,817[19]	$105,121
Lincoln	Riverside (Eureka)	2001	2035	$470,092	$347,928	$122,164	$76,921	$40,243[20]	$36,678

[17] City of Kalispell Comprehensive Annual Financial Report, Fiscal Year 2016, p. 121.
[18] City of Kalispell Comprehensive Annual Financial Report, Fiscal Year 2016, p. 106.
[19] City of Polson Comprehensive Annual Financial Report, Fiscal Year 2016, p. 59.
[20] Amount is maximum principal and interest on bonds. Eureka Town Council, Resolution No. 2015-718, Oct. 21, 2015, p. 7.

County	District	Year Created	Year of Expected Expiration	2017 Total Taxable Value	Base Taxable Value	2017 Incremental Taxable Value	2017 Estimated Tax Increment	2017 Estimated Bond Payment	2017 Estimated Increment Less Estimated Bond Payment
Missoula	Airport Industrial	1991	2027	$2,889,101	$176,605	$2,712,496	$1,837,354	$524,400[21]	$1,312,954
Missoula	Front St URD	2007	2041	$1,915,446	$1,413,035	$502,411	$450,219	$515,975	-$65,756 (see additional detail below)
Missoula	North Reserve – Scott St. URD	2015	2035	$2,337,126	$1,491,205	$845,921	$736,093	$35,197[22]	$700,896
Missoula	Technology District	2005	2027	$298,444	$0	$298,444	$202,156	$98,516[23]	$103,640

[21] "Aggregate Debt Service," D.A. Davidson & Co.
[22] For 2019-2035, estimated principal and interest payments are about $114,000 per year. Missoula City Council, Resolution No. 8031, Dec. 14, 2005, p. A-9.
[23] "Debt Service Schedule," D.A. Davidson & Co.

County	District	Year Created	Year of Expected Expiration	2017 Total Taxable Value	Base Taxable Value	2017 Incremental Taxable Value	2017 Estimated Tax Increment	2017 Estimated Bond Payment	2017 Estimated Increment Less Estimated Bond Payment
Missoula	URD II	1991	2031	$4,742,939	$1,859,823	$2,883,116	$2,570,297	$676,428[24]	$1,893,869
Missoula	URD III	2000	2040	$11,202,692	$8,172,844	$3,029,848	$2,715,096	$834,771[25]	$1,880,325
Park	West End Industrial	2004	2024	$151,160	$128	$151,032	$109,099	$65,070[26]	$44,029
Silver Bow	Butte Uptown	2014	2034	$5,460,890	$3,587,625	$1,873,265	$1,396,706	$482,474[27]	$914,232
Silver Bow	Ramsey TIFID	1994	2031	$5,952,858	$1,721,230	$4,231,628	$2,756,567	$1,938,500	$818,067

[24] City of Missoula Annual Comprehensive Annual Report and Audit For the Fiscal Year Ended June 30, 2016, p. 302.
[25] Total of maximum annual debt service for bonds issued for South Reserve Street Pedestrian Bridge and May Avenue East Infrastructure Projects. Missoula Redevelopment Agency Financial Report, June 30, 2016, p. 12-12.
[26] City of Livingston Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2016, p. II-42.
[27] City-County of Butte-Silver Bow Council Resolution No. 16-33, July 20, 2016, p. A-1-1.

County	District	Year Created	Year of Expected Expiration	2017 Total Taxable Value	Base Taxable Value	2017 Incremental Taxable Value	2017 Estimated Tax Increment	2017 Estimated Bond Payment	2017 Estimated Increment Less Estimated Bond Payment
Toole	Shelby Industrial	2013	2055	$305,388	$75,464	$229,924	$177,036	$32,074[28]	$144,962
Yellowstone	2008 Expanded N 27th St	2008	2038	$7,978,142	$4,112,238	$3,865,904	$2,678,476	$340,556	$2,337,920

Hardin Industrial

The city of Hardin issued about $12 million in bonds in 2006 to build infrastructure for a coal-fired power plant owned by Rocky Mountain Power. The agreement included a tax abatement for the power plant for 8 years but the power plant's parent company filed for bankruptcy during the abatement period. The value of the power plant dropped after the parent company emerged from bankruptcy and the tax increment in the district is not sufficient to cover bond payments. The problem is compounded because the power plant owes more than $2 million in unpaid 2014 and 2016 property taxes.[29]

Great Falls West Bank District

The city of Great Falls also entered into a development agreement with a developer within the West Bank District. The agreement provides that the developer will pay the costs of a project up front and the district will bond after the tax increment increases sufficiently to issue $3 million in bonds and

[28] City of Shelby Annual Financial Report Part 2 of 2 Fiscal Year Ended June 30, 2016, p. 12-13.
[29] Matt Hudson, "Hardin Coal Plant Owes $2M in Taxes, Leaving Schools, Government Short," July 20, 2017.

provide coverage of 140% of the annual debt service requirements. The revenue from the bonds will reimburse the developer for costs including demolition, asbestos remediation, public infrastructure improvements, petroleum products remediation, and environmental consultants. These additional bonds will not (and may not under state law) extend the life of the district.

Kalispell G and Kalispell H

The tax increment does not appear to cover the bond payments because the city of Kalispell created Special Improvement District (SID) 344 encompassing Kalispell G and Kalispell H and pledged to the bond payments: special assessments payable by taxpayers in SID 344, tax increment from Kalispell G and Kalispell H, revenue in a bond reserve account, and revenue in the debt service revolving fund.[30]

Missoula Front Street URD

The Missoula Parking Commission issued bonds to refund the Commission's outstanding Parking Facilities Revenue Bonds. The bonds are payable from parking revenue and from the Front Street Urban Renewal District tax increment, which is why the tax increment does not appear to be sufficient to cover the bond payments.

[30] City of Kalispell Comprehensive Annual Financial Report, Fiscal Year 2016, p. 53.

DOR and TIF Stakeholder Bill Draft: LCtif1

Former Department of Revenue Director Kadas recommended that the committee request a bill draft to require one entity within a taxing jurisdiction to exercise urban renewal and targeted economic development district powers and to limit the base taxable value of all districts within a taxing jurisdiction to some percentage of the taxing jurisdiction's certified taxable value. The committee directed staff to work with the Department of Revenue and stakeholders, including the Montana League of Cities, the Montana Association of Counties, and the Montana Infrastructure Coalition, to provide a bill draft for the committee's consideration.

The draft provided, LCtif1, is different from then-Director Kadas' recommendations but was suggested by a working group of tax increment financing professionals coordinated by the Montana League of Cities and agreed to by the other stakeholders and the Department of Revenue. The draft clarifies that the governing body of the urban renewal district or targeted economic development district has final decision-making authority for urban renewal or targeted economic development activities and requires an impact analysis if adoption or expansion of a tax increment financing provision would result in a total base taxable value of all districts in the taxing jurisdiction in excess of 35% of the total certified taxable value in the taxing jurisdiction.

Remittance of Increment in Excess of Bond Payment: LCtif2

The study plan for the study of tax increment financing called for the committee to consider whether to require remittance of increment not necessary to make bond payments. After receiving a snapshot of 2017 bond payments compared with increment, the committee requested a bill draft that requires a district to remit after some period of time. The draft, LCtif2, provided at the July meeting, requires the district to remit revenue in excess of the bond payment and a reserve amount after the 15th year after adoption of the tax increment provision. As requested by the committee, the bill also includes language allowing a district to continue spending increment on other projects if a new finding of blight or infrastructure deficiency is made.

Access to Private Property Draft: LCtif3

The committee heard public comment from a citizen concerned about section 7-15-4257, MCA, which allows a municipality to obtain a court order to enter a property within an urban renewal are to make surveys and appraisals. To address the concerns raised, the committee requested a bill draft to provide that such entry is only allowed for the purposes of making a public safety assessment.

CONCLUSION

[Expand on action on bill drafts and any findings and recommendations.]