Montana State Legislature

Exhibit Number: 4

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Montana Department of Revenue

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SENATE TAXATION
EXHIBIT NO. 4
DATE 2-16-05
BILL NO. NA

Date: February 16, 2005

To: Senate Taxation Committee

From: Department of Revenue
Property Assessment Division

Subject: Tax Increment Financing Districts

This is in response to your request for an overview of Tax Increment Financing Districts.

How a Tax Increment Financing District (TIF) is created

A municipality (defined as incorporated city or town, county or city-county consolidated local government) establishes a TIF by resolution. The district can only be created after having public hearings.

Allowable districts:

Aerospace transportation and technology district.
Industrial District
Urban Renewal District

7-15-4282. Authorization for tax increment financing. Any urban renewal plan, as defined in 7-15-4206, or industrial district ordinance, adopted pursuant to 7-15-4299, may contain a provision or be amended to contain a provision for the segregation and application of tax increments, as provided in 7-15-4282 through 7-15-4292.

7-15-4296. Aerospace transportation and technology districts. (1) A local governing body, by ordinance and following a public hearing, may authorize the creation of an aerospace transportation and technology district for aerospace transportation and technology infrastructure development projects if the proposed aerospace transportation and technology district: ...

(2) An aerospace transportation and technology district may use tax increment financing pursuant to the provisions of 7-15-4282 through 7-15-4293.

7-15-4299. Industrial districts. (1) A local governing body, by ordinance and following a public hearing, may authorize the creation of an industrial district for industrial infrastructure development projects if the proposed industrial district:

(a) consists of a continuous area with an accurately described boundary;

(b) is zoned for light or heavy industrial use in accordance with the area master planning document;

(c) does not include any property included within an existing urban renewal area district created pursuant to this part;

(d) is found to be deficient in infrastructure improvements for industrial development; and

(e) has as its purpose the development of infrastructure to encourage the growth and retention of secondary, value-adding industries.

(2) An industrial district may use tax increment financing pursuant to the provisions of 7-15-4282 through 7-15-4293.

What tax increment districts do

Tax Increment Financing Districts are created to fund infrastructure and other improvements to the district. The costs of the improvements can be paid directly from the tax increment fund, or the fund may be used to issue bonds to pay the cost of the improvements.

7-15-4288. Costs that may be paid by tax increment financing. The tax increments may be used by the municipality to pay the following costs of or incurred in connection with an urban renewal project, industrial infrastructure development project, or aerospace transportation and technology infrastructure development project:

(1) land acquisition;

(2) demolition and removal of structures;

(3) relocation of occupants;

(4) the acquisition, construction, and improvement of infrastructure, industrial infrastructure, or aerospace transportation and technology infrastructure that includes streets, roads, curbs, gutters, sidewalks, pedestrian malls, alleys, parking lots and offstreet parking facilities, sewers, sewer lines, sewage treatment facilities, storm sewers, waterlines, waterways, water treatment facilities, natural gas lines, electrical lines, telecommunications lines, rail lines, rail spurs, bridges, spaceports for reusable launch vehicles with associated runways and launch, recovery, fuel manufacturing, and cargo holding facilities, publicly owned buildings, and any public improvements authorized by parts 41 through 45 of chapter 12, parts 42 and 43 of chapter 13, and part 47 of chapter 14 and items of personal property to be used in connection with improvements for which the foregoing costs may be incurred;

(5) costs incurred in connection with the redevelopment activities allowed under 7-15-4233;

(6) acquisition of infrastructure-deficient areas or portions of areas;

(7) administrative costs associated with the management of the industrial district or the aerospace transportation and technology district;

(8) assemblage of land for development or redevelopment by private enterprise or public agencies, including sale, initial leasing, or retention by the municipality itself at its fair value;

(9) the compilation and analysis of pertinent information required to adequately determine the infrastructure needs of secondary, value-adding industries in the industrial district or the needs of an aerospace transportation and technology infrastructure development project in the aerospace transportation and technology district;

(10) the connection of the industrial district or the aerospace transportation and technology district to existing infrastructure outside the industrial district or the aerospace transportation and technology district;

(11) the provision of direct assistance, through industrial infrastructure development projects or aerospace transportation and technology infrastructure development projects, to secondary, value-adding industries to assist in meeting their infrastructure and land needs within the industrial district or the aerospace transportation and technology district; and

(12) the acquisition, construction, or improvement of facilities or equipment for reducing, preventing, abating, or eliminating pollution.

7-15-4289. Use of tax increments for bond payments. The tax increment may be pledged to the payment of the principal of premiums, if any, and interest on bonds which the municipality may issue for the purpose of providing funds to pay such costs.

Tax Increment District is established in 2003

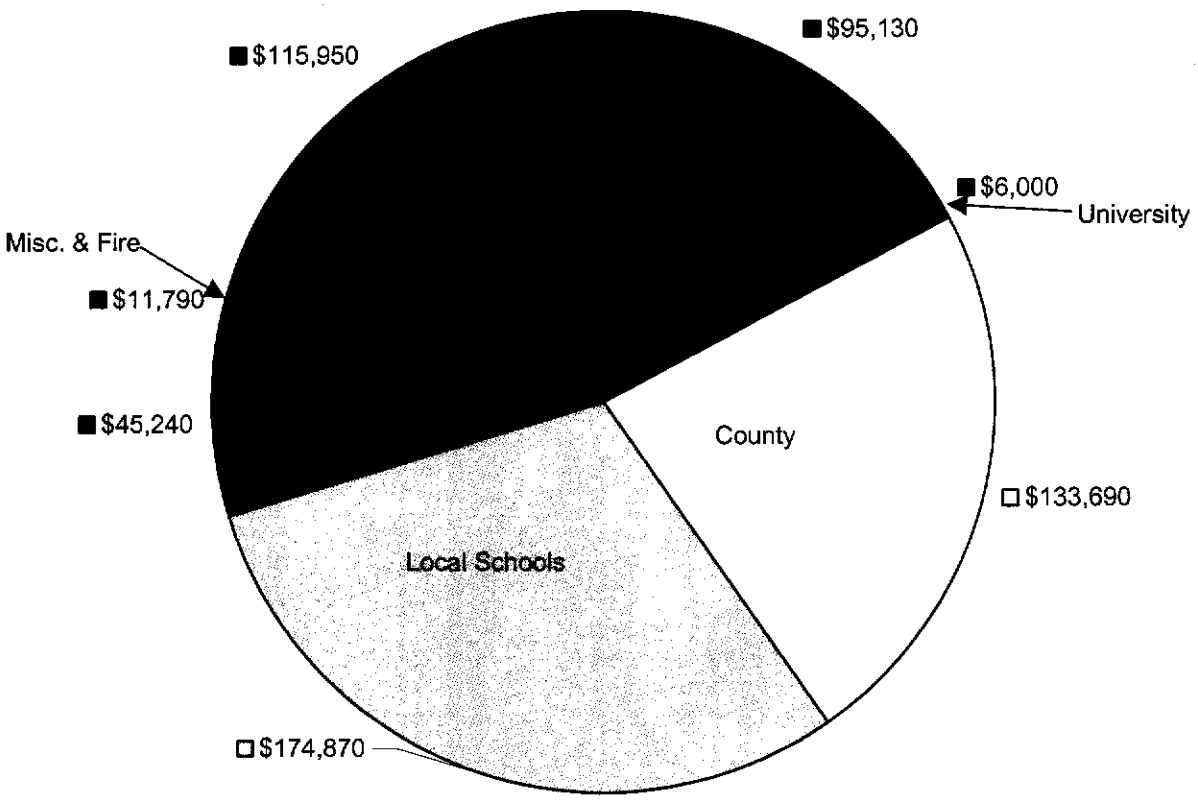
The following is an example of how, once a tax increment district is established, the total taxable values, the base taxable value and the incremental taxable values are identified.

The City of Jonesville establishes a tax increment financing district in tax year 2003. The taxable values of the properties inside the TIF boundary sets the base taxable value of the TIF at $100,000. The City of Jonesville's total taxable valuation = $1,000,000. The tax dollars levied on the base taxable value of the tax increment are distributed to the various taxing jurisdictions.

- "Actual taxable value" means the taxable value of taxable property at any time, as calculated from the assessment roll last equalized.
- "Base taxable value" means the actual taxable value of all taxable property within an urban renewal area, industrial district, or aerospace transportation and technology district prior to the effective date of a tax increment financing provision.
- "Incremental taxable value" means the amount, if any, by which the actual taxable value at any time exceeds the base taxable value of all property within an urban renewal area, industrial district, or aerospace transportation and technology district subject to taxation.

For 2003 taxes are calculated, collected, and distributed as normal. The chart illustrates the distribution of the 2003 taxes.

2003 Tax Distribution based on a taxable value of 1,000,000 Chart #1



Base value of increment district is established in 2003, base value tax dollars are distributed to the various districts.

2004 Tax Increment District Base Taxable Value and Incremental Value Reported

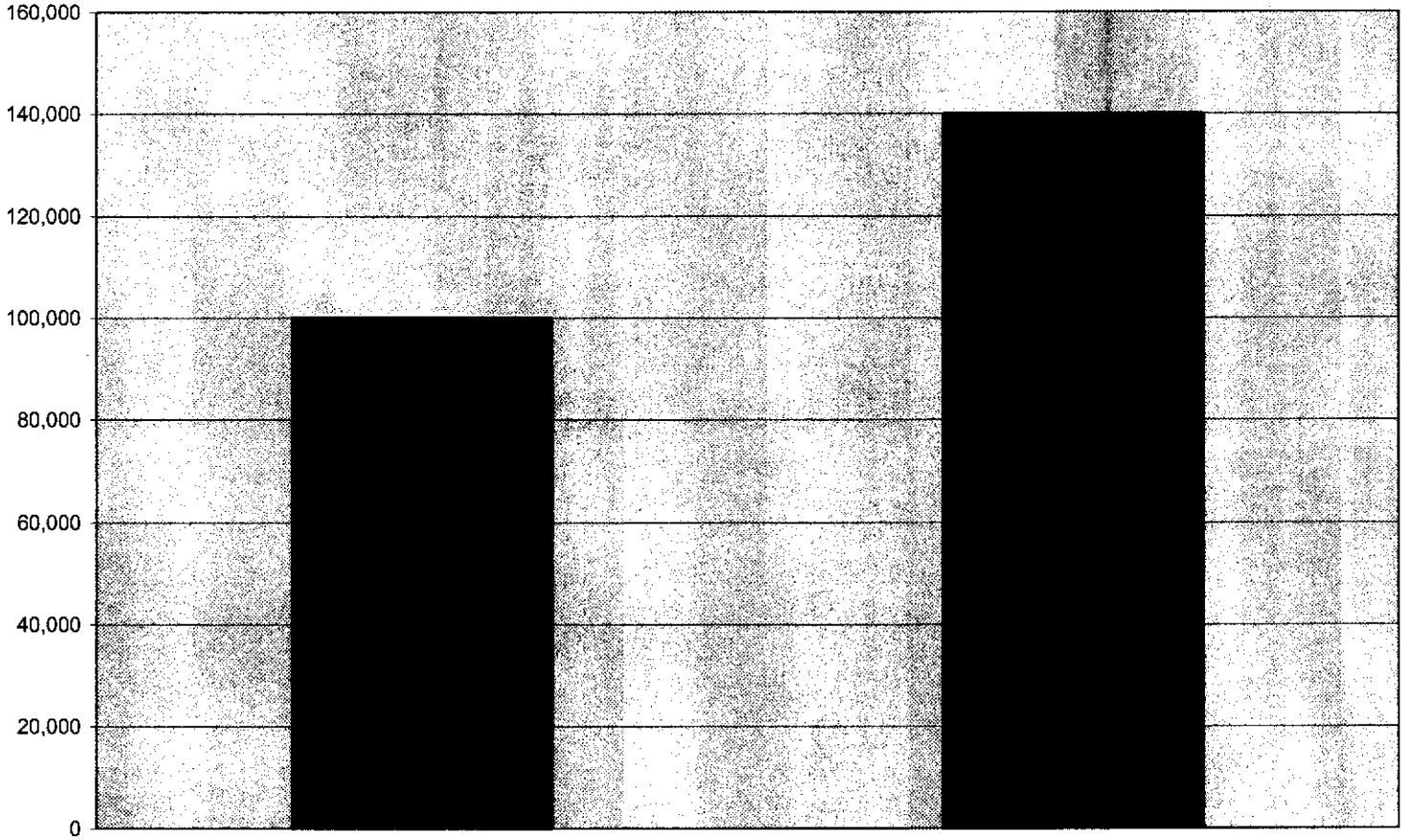
The Dept. of Revenue is responsible for reporting the certified values for the City of Jonesville and the tax increment district that was established in 2003.

- 2004 City Jonesville Taxable Value (includes the taxable value of the tax increment district) = $1,050,000
- 2004 Jonesville Tax Increment District Base Taxable Value = $ 100,000
- 2004 Jonesville Tax Increment District Incremental Value = $ 40,000

Chart #2 provides a comparison of the 2003 and 2004 tax increment values.

The base taxable value is included in the overall taxable value of the City of Jonesville.

2004 Tax Increment District Base Taxable Value and Incremental Value Reported Chart #2



Applicable laws for reporting taxable values and the definitions.

7-15-4285. Determination and report of original, actual, and incremental taxable values. The officer or officers responsible for assessing and determining the taxable value of the taxable property located within the urban renewal area or industrial district shall, immediately upon receipt of the tax increment provision and each year thereafter, calculate and report to the municipality and to any other affected taxing body the base, actual, and incremental taxable values of such property.

For Tax Increment Financing Districts, the definition of actual taxable value, base taxable value and incremental taxable value in relationship to the tax increment district are defined in statute.