SENATE [illegible] MENT
EXHIBIT NO. 1
DATE 4-23-2009
BILL NO. HJ 37

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

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DATE: April 17, 2008

TO: SJR 31 Subcommittee on Taxation and School Funding
Revenue and Transportation Interim Committee

FROM: Mary Craigle, Tax Policy Analyst, Department of Revenue
Judy Paynter, Assistant State Budget Director

SUBJECT: FY 2008 Property Taxes on TIF Increments

This report, as requested, shows the difference in FY 2008 local K-12 school property taxes levied, Guaranteed Tax Base aid (GTB), and state general fund revenue if taxes from state and local school mills on the increment of taxable value in Tax Increment Financing (TIF) districts were allocated to the taxing jurisdictions instead of the TIF.

This paper does not examine TIF district activities or the various reasons for changes in taxable value within TIF boundaries.

BACKGROUND

The Tax Increment Financing (TIF) district laws are in sections 7-15-4282 through 7-15-4299, MCA.

TIF districts are a broadly-used and widely accepted development tool utilized across the nation to provide funding for urban renewal (community) development and economic development by using property taxes on new property value within the TIF boundaries to pay for public infrastructure and other improvements within the district. As originally utilized in urban renewal, TIFs were designed to reverse downward economic and tax base trends that afflicted targeted areas.

In order for a TIF to be established by the local government under statute, it must meet certain requirements laid out in the law. In an urban renewal TIF, the most commonly used TIF which has generally been targeted to "downtown" development, a condition of "blight," as defined in the statutes, must be found to be present. In the case of a TIFID (Tax Increment Financing Industrial District), a condition of "infrastructure deficiency" must be met before the district can be formed. A well laid out legal process must be followed to form a TIF.

TIF districts have a defined boundary and can exist only for a fixed timeframe, after which the taxes resulting from new taxable value developed within the district begin to be distributed to all taxing jurisdictions. That timeframe can be extended under certain conditions found in the statutes, but is finite nonetheless.

When a TIF is created, a base taxable value for the district is established. The base taxable value is the taxable value of designated property within the TIF district boundary at the time the TIF is established.

In following years (the life of the district), the increase in taxable value within the boundary of the TIF is called the tax increment. This incremental taxable value for a TIF is the amount by which the current year taxable value exceeds the base taxable value. If the current year taxable value is less than the base taxable value, the increment is zero.

Property owners in the TIF pay the full amount of their regular property taxes (equal to the mill levies imposed by all taxing jurisdictions applied to the full taxable value of their property). Taxes on the base taxable value are distributed to taxing jurisdictions levying mills – city and county governments, school districts, special taxing districts, and the state. With the exception of the university system levy, taxes on the incremental taxable value are retained in the TIF to be used for development purposes outlined by law.

Under current law (7-15-4286 (2)(a), MCA), the 6-mill university system levy is the only levy distributed to the taxing jurisdiction which established the mill levy, the university system, rather than to the TIF. Thus the TIF does not obtain the property tax revenue on the incremental value from the 6-mill university levy.

A basic premise of TIF activity is that the growth in taxes in a TIF would not have occurred had the TIF not been present to provide the tools and the financial resources to stimulate the development that caused the increase in taxable value. This is generally, though not always, true. The taxing jurisdictions receive the growth in revenue eventually, but on a delayed basis, although the growth in revenue may not be available at all without the presence of the TIF and the retention of the tax increment within the TIF to use as a tool to stimulate the growth.

Table 1 shows an example of how the presence of a TIF affects taxing jurisdictions. Assume a school district has $1 million in total taxable value in TY 2007. To raise $20,000, the school district must levy 20 mills ($1 million X 20/1000). This is shown in the column labeled "Without TIF"

Now, suppose the school district contains a TIF district, and $500,000 of the $1 million in taxable value was the incremental taxable value of the TIF. To raise $20,000, the school district must levy 40 mills against the $1 million in taxable value. The 40 mills raises $40,000, with $20,000 ($500,000 X 40/1000) going to the school district and $20,000 ($500,000 X 40/1000) going to the TIF.

Table 1 Example of Property Tax Allocation With and Without a TIF		
	Without TIF	With TIF
Total Taxable Value of the School District	$1,000,000	$1,000,000
Taxable Value within TIF Boundaries	$0	$500,000
Taxable Value for the School District	$1,000,000	$500,000
School Mills Necessary to Raise $20,000	X 20	X 40
Revenue to School District	$20,000	$20,000
Revenue to TIF District	- 0 -	$20,000
Total Property Tax Revenue	**$20,000**	**$40,000**

The remainder of this paper examines the difference in revenue and the revenue allocation if school mill levy property tax revenue on the incremental taxable value in TIFs were allocated to the taxing jurisdictions, like the university system levy, rather than to the TIF.

TIFS AND CURRENT K-12 SCHOOL REVENUE AND EXPENDITURES

Table 2 shows the magnitude of K-12 school-related revenue and the guaranteed tax base (GTB) expenditures that are affected by the allocation of property taxes on the incremental value to TIFs.

Table 2 FY 2008 Difference in Local Property Taxes, GTB, and the State General Fund Due to TIF Districts	
Revenue or Expenditure	**Difference**
Local Property Tax Savings[1]	$ 6,494,426
State GTB Payment Savings	$ (448,043)
General Fund Revenue Increase	$ 2,861,434

The first row shows the amount of local property taxes levied for schools due to TIF districts. Given school district budgets, the total amount of revenue that each school district must raise from mill levies is fixed. Mill levies must be set to raise the revenue required by the school district, taking into account the revenue going to the TIF. Therefore, the amount of revenue from school mills that goes to a TIF is made up through higher mills on all property in the taxing jurisdiction, including the base value in the TIF.

The second row shows the FY 2008 additional state Guaranteed Tax Base aid (GTB) payments to school districts due to TIF districts. GTB guarantees a minimum revenue per mill for property tax levies in all school districts. Because taxes on the incremental value in TIFs go to the TIF, school districts' revenue per mill is lower in districts with a TIF. These districts, therefore, receive larger GTB payments from the state. The statewide average mills per ANB are higher without TIFs used in calculating GTB, which changes payments to <u>all</u> schools receiving GTB not just those in TIF areas. The amount in the second row combines the higher GTB payments to districts with TIFs and the net of changes to other districts.

The third row shows the amount of revenue raised by the statewide 95 mill school levy on the incremental value in TIFs. This amount currently goes to the TIFs rather than to the state general fund.

FINANCIAL IMPACT of ALLOCATING SCHOOL MILLS LIKE THE UNIVERSITY MILLS

Table 3, on the next page, shows the difference in local school property taxes by county and levy type if taxes on the incremental value in TIFs were allocated to school funds rather than the TIFs. These changes are due to lower mill levies and changes in state GTB payments. It should be noted that Table 3 does not include the financial impacts related to the debt service fund. The impacts to the debt fund are not part of the current school funding model.

The first column shows the difference in property taxes from changes in school district mills for district general fund budgets. Taxes would be different in almost every county because GTB payments would change in almost every county.

The second column shows the difference in property taxes from county-wide school retirement mills. The state pays GTB to support county-wide retirement levies. County-wide retirement levies would be lower in all counties with a TIF. Some other counties would have different county-wide retirement levies because of changes in GTB.

The third column shows differences in property taxes from county-wide transportation levies and other budgeted funds that do not receive GTB. Only counties with a TIF would have lower mills for these funds.

The statewide total for this difference in property taxes is the same as the total on the first line of Table 2.

Table 3
Property Tax Reduction by County Due to TIF Districts Did Receiving Local School District Mill Levy Dollars

	Reduction in Property Taxes Generated by School Mills			
County	Local School Levies	Countywide School Retirement Levies	Countywide Transportaion $ Other Budget Funds Levies	Total Property Tax by county
Beaverhead	$ (14,661)	$ (9,626)	$ -	$ (24,287)
Big Horn	$ (10,428)	$ (1,826)	$ -	$ (12,253)
Blaine	$ (5,629)	$ (6,924)	$ -	$ (12,553)
Broadwater	$ (8,669)	$ (5,327)	$ -	$ (13,995)
Carbon	$ (21,421)	$ -	$ -	$ (21,421)
Carter	$ (1,785)	$ -	$ -	$ (1,785)
Cascade	$ (535,743)	$ (66,555)	$ (83,620)	$ (685,918)
Chouteau	$ (8,593)	$ (400)	$ -	$ (8,993)
Custer	$ (12,015)	$ (8,144)	$ -	$ (20,159)
Daniels	$ (3,213)	$ (3,240)	$ -	$ (6,453)
Dawson	$ (11,183)	$ (12,467)	$ -	$ (23,650)
Deer Lodge	$ (21,342)	$ (5,535)	$ (1,733)	$ (28,611)
Fallon	$ -	$ -	$ -	$ -
Fergus	$ (17,025)	$ (16,023)	$ -	$ (33,048)
Flathead	$ (520,122)	$ (107,289)	$ (258,684)	$ (886,095)
Gallatin	$ (225,487)	$ (32,741)	$ (67,636)	$ (325,864)
Garfield	$ (2,273)	$ -	$ -	$ (2,273)
Glacier	$ (13,484)	$ (9,314)	$ -	$ (22,799)
Golden Valley	$ (5,170)	$ -	$ -	$ (5,170)
Granite	$ (8,406)	$ -	$ -	$ (8,406)
Hill	$ (11,829)	$ (15,957)	$ -	$ (27,785)
Jefferson	$ (19,730)	$ (12,146)	$ -	$ (31,877)
Judith Basin	$ (6,734)	$ -	$ -	$ (6,734)
Lake	$ (48,050)	$ (38,619)	$ -	$ (86,669)
Lewis & Clark	$ (96,802)	$ (53,586)	$ -	$ (150,389)
Liberty	$ (2,785)	$ -	$ -	$ (2,785)
Lincoln	$ (26,119)	$ (10,528)	$ -	$ (36,647)
Madison	$ (9,435)	$ -	$ -	$ (9,435)
McCone	$ (3,745)	$ -	$ -	$ (3,745)
Meagher	$ (5,255)	$ -	$ -	$ (5,255)
Mineral	$ (9,686)	$ (4,330)	$ -	$ (14,016)
Missoula	$ (489,865)	$ (116,463)	$ (213,285)	$ (819,613)
Musselshell	$ (5,228)	$ (4,149)	$ -	$ (9,377)
Park	$ (28,090)	$ (20,530)	$ -	$ (48,620)
Petroleum	$ (751)	$ (503)	$ -	$ (1,253)
Phillips	$ (7,108)	$ (4,289)	$ -	$ (11,396)
Pondera	$ (9,001)	$ (7,182)	$ -	$ (16,183)
Powder River	$ (2,897)	$ (1,838)	$ -	$ (4,735)
Powell	$ (10,141)	$ (6,805)	$ -	$ (16,946)
Prairie	$ (1,417)	$ -	$ -	$ (1,417)
Ravalli	$ (72,383)	$ (31,591)	$ -	$ (103,974)
Richland	$ (4,579)	$ 19,004	$ -	$ 14,424
Roosevelt	$ (19,171)	$ (17,007)	$ -	$ (36,177)
Rosebud	$ (5,021)	$ -	$ -	$ (5,021)
Sanders	$ (18,742)	$ (7,590)	$ -	$ (26,331)
Sheridan	$ (3,322)	$ (2,474)	$ -	$ (5,797)
Silver Bow	$ (1,286,739)	$ (34,674)	$ (485,965)	$ (1,807,379)
Stillwater	$ (23,870)	$ -	$ -	$ (23,870)
Sweet Grass	$ (11,366)	$ -	$ -	$ (11,366)
Teton	$ (15,810)	$ (8,819)	$ -	$ (24,629)
Toole	$ (4,403)	$ (3,702)	$ -	$ (8,104)
Treasure	$ (3,209)	$ -	$ -	$ (3,209)
Valley	$ (16,689)	$ -	$ -	$ (16,689)
Wheatland	$ (8,415)	$ -	$ -	$ (8,415)
Wibaux	$ -	$ -	$ -	$ -
Yellowstone	$ (691,990)	$ (154,963)	$ (132,323)	$ (979,276)
Statewide Total	**$ (4,427,029)**	**$ (824,150)**	**$ (1,243,246)**	**$ (6,494,426)**

Table 4, shows the $448,043 difference in FY 2008 state GTB payments if the taxable value within the TIF increment was allocated to the county-wide school and school district levies.

Table 4
State General Fund GTB Payment Differences - FY 2008

GTB Payments	Current GTB Expenditures	GTB Expend. if School have Total Taxable Value	Reduction In State GF Expenditures
School General Fund	$ 127,415,105	$ 127,333,525	$ (81,580)
Countywide School Retirement	$ 21,975,322	$ 21,608,859	$ (366,463)
Total State GTB Payments	$ 149,390,427	$ 148,942,384	**$ (448,043)**

State GTB payments guarantee revenue per mill for some school levies. TIF districts affect GTB since, as illustrated in Table 1, local schools could raise more revenue per mill if taxes on the incremental value in TIFs were allocated to schools instead of the TIFs. Table 5 shows the $2.861 million from the 95 mills that were allocated to TIF districts in FY 2008. Without TIFs this revenue would go to the state general fund.

Table 5
General Fund Revenue Allocated to TIF Districts due to 95 Mill Levy - FY 2008

County	TIF Identification	Base Year	Base Taxable Value	TY 2007 Taxable Value	Incremental Taxable Value *	95 Mill Levy Revenue
Big Horn	Hardin Industrial Infrastructure	2004	$465,144	$280,072	$0	$0
Cascade	GF Downtown TID	1977	$5,060,148	$9,125,031	$4,064,883	$386,164
Cascade	INT'L MALTING TID	2005	$332,810	$558,286	$225,476	$21,420
Chouteau	TIFD		$23,773		$0	$0
Deer Lodge	TID1	1996	$426,304	$493,831	$67,527	$6,415
Deer Lodge	TID2	1996	$39,274	$55,407	$16,133	$1,533
Deer Lodge	TID2A	1996	$18,153	$16,838	$0	$0
Flathead	Kalispell b		$453,612	$1,007,787	$554,175	$52,647
Flathead	Kalispell c		$3,222,347	$3,563,623	$341,276	$32,421
Flathead	Kalispell g		$390	$17,725	$17,335	$1,647
Flathead	Kalispell h		$128	$10,787	$10,659	$1,013
Flathead	Whitefish a		$4,185,352	$8,699,710	$4,514,358	$428,864
Gallatin	Boz Downtown TID	1995	$1,858,491	$2,789,521	$931,030	$88,448
Gallatin	N 7th Corridor Urb R	2006	$2,886,997	$2,942,529	$55,532	$5,276
Gallatin	NE Urban Renewal Dist	2006	$423,054	$471,844	$48,790	$4,635
Lake	Polson		$1,383,251	$1,381,465	$0	$0
Lincoln	Lincoln County Industrial	2005	$83,275	$84,096	$821	$78
Lincoln	Lincoln County Industrial	2005	$982	$978	$0	$0
Lincoln	Lincoln County Industrial	2005	$1,409	$1,403	$0	$0
Lincoln	Lincoln Riverside	2001	$347,928	$375,928	$28,000	$2,660
Missoula	Renewal Dist II	1991	$313,637	$625,286	$311,649	$29,607
Missoula	Renewal Dist II	1991	$1,546,186	$2,436,018	$889,832	$84,534
Missoula	Renewal Dist III	2001	$7,004,346	$7,708,599	$704,253	$66,904
Missoula	Airport	1991	$176,605	$1,950,576	$1,773,971	$168,527
Missoula	Technology	2005	$0	$262,179	$262,179	$24,907
Park	Livingston West End	2004	$128	$94,836	$94,708	$8,997
Park	Livingston Urban Renewal	2003	$1,604,273	$1,673,158	$68,885	$6,544
Silver Bow	TIFID #2	1994	$1,721,382	$9,312,975	$7,591,593	$721,201
Silver Bow	East Butte	2005	$286,251	$304,925	$18,674	$1,774
Silver Bow	TID Uptown	1980	$1,634,853	$4,703,929	$3,069,076	$291,562
Yellowstone	2T1	1976	$4,630,534	$8,931,073	$4,300,539	$408,551
Yellowstone	2T2	2005	$133,049	$200,723	$67,674	$6,429
Yellowstone	2T3	2005	$783,431	$874,766	$91,335	$8,677
Yellowstone	2T4	2007	$1,800,794	$1,785,857	$0	$0
	Totals		$42,848,291	$72,741,761	$30,120,363	$2,861,434

95 Mill Levy Property Tax Revenue Allocated to TIF Districts **$2,861,434**

* When the calculated incremental taxable value is negative, it is set at zero.

TIF SCHOOL DISTRICT REVENUE ALLOCATION - REPORTED BY THE COUNTIES

Every year, counties with TIF districts provide the Department a report on the TIF's base and incremental taxable value, and the mills by taxing jurisdiction. Table 6 provides information compiled from these reports

Table 6
Tax Incremental Financing Districts (TIF) - Increment Taxable Value and Revenue
Tax Year 2007 (FY 2008)

#	County	District	Year Created	Incremental Taxable Value	Countywide Schools Transportation & Retirement	Local Schools	Total Revenue
		Industrial Tax Increment Financing Districts					
1	Big Horn	Hardin Industrial	2004	- 0 -	- 0 -	- 0 -	- 0 -
2	Cascade	Great Falls-IMC	2005	$225,476	$10,681	$41,564	$52,245
3	Deer Lodge	TID2	1996	$16,133	$683	$3,584	$4,267
4	Deer Lodge	TID2A	1996	- 0 -	- 0 -	- 0 -	- 0 -
5	Flathead	Kalispell H (Old School Industrial)	2005	$10,659	$490	$2,066	$2,556
6	Missoula	Missoula 20-3A & 5A Airport	1991	$1,773,971	$84,335	$308,210	$392,544
7	Lincoln	Lincoln Industrial	2001	$821	$25	$138	$162
8	Park	Livingston T-2 West End	2004	$94,708	$10,303	$17,194	$27,498
9	Silver Bow	TIFID #2 (Ramsey)	1994	$7,591,593	$328,716	$1,441,795	$1,770,511
		Technology Tax Increment Financing Districts					
10	Flathead	Kalispell G (Old School Technology)	2005	$17,335	$798	$3,359	$4,157
11	Missoula	Missoula- 20-3E Technology	2006	$262,179	$12,464	$45,551	$58,015
		Urban Renewal Tax Increment Financing Districts					
12	Cascade	Great Falls-Downtown	1977	$4,064,883	$192,554	$749,321	$941,874
13	Chouteau	TIFD1 (Fort Benton)	1998	- 0 -	- 0 -	- 0 -	- 0 -
14	Deer Lodge	TID1	1996	$67,527	$2,860	$15,000	$17,860
15	Flathead	Kalispell-B (2)	1995	$554,175	$25,498	$130,270	$155,768
16	Flathead	Kalispell-C (3)	1997	$341,276	$15,702	$80,224	$95,926
17	Flathead	Whitefish	1987	$4,514,358	$194,569	$700,583	$895,152
18	Gallatin	Bozeman Downtown	1995	$931,030	$39,150	$171,170	$210,320
19	Gallatin	N 7th Corridor Urb R	2006	$55,532	$2,335	$10,210	$12,545
20	Gallatin	NE Urban Renewal Dist	2006	$48,790	$2,052	$8,970	$11,022
21	Lake	Polson DT	2002	- 0 -	- 0 -	- 0 -	- 0 -
22	Lincoln	Riverside (Eureka)	2005	$28,000	$846	$5,290	$6,137
23	Missoula	Missoula-1-1d Renewal Dst III	2001	$704,253	$33,480	$156,696	$190,176
24	Missoula	Missoula-1-1C Renewal Dst II	1991	$889,832	$42,303	$197,988	$240,290
25	Missoula	Missoula-4-1c Renewal Dst II	1991	$311,649	$14,816	$63,947	$78,763
26	Missoula	Missoula- 20-5A Airport	1991	- 0 -	- 0 -	- 0 -	- 0 -
27	Park	Livingston T-1 Urban Renewal	2003	$68,885	$7,494	$12,506	$20,000
28	Silver Bow	Butte-Up Town	2005	$3,069,076	$132,891	$711,565	$844,456
29	Silver Bow	Butte-East	2005	$18,674	$809	$4,330	$5,138
30	Yellowstone	Billings 2T2 Extended	1976	$67,674	$3,324	$13,735	$17,059
31	Yellowstone	Billings 2T3 - North 27th	2006	$91,335	$4,486	$18,537	$23,024
32	Yellowstone	Billings 2T4- East Billings	2006	- 0 -		- 0 -	- 0 -
33	Yellowstone	Billings 2TI	1976	$4,300,539	$211,242	$872,837	$1,084,080
	TOTAL			$ 30,120,363	**$1,374,905**	**$ 5,786,639**	**$7,161,545**

In calendar year 2007, there were 33 approved TIFs in Montana; six TIFs have no incremental value.

Table 6 summarizes information for the countywide school retirement and transportation and local mill revenues compiled from the 2007 taxes levied reports for TIF districts submitted by the counties. The report shows slightly more than $7 million in revenue from local school mills going to TIFs for FY 2008. This helps to confirm the estimate from the school funding model in Table 1 of $6.494 million.

The Office of Public Instruction provided the GTB impacts and the mill levy changes for the schools that would occur if the K-12 schools received the taxable value that is currently allocated to TIFs.