Tax Policy & Research
Sam W. Mitchell Building

Montana Department of
REVENUE

P. O. Box 5805
Helena, Montana 59604-5805

DATE: April 14, 2000

TO: Local Government Funding and Structure Committee

FROM: Brad Simshaw, Principal Tax Policy Analyst
Lawrence G. Allen, Attorney

RE: Tax Increment Financing Districts (TIF)

This report explains what tax increment financing districts (TIFs) are and the property tax impacts of TIFs. This paper will not include any discussion regarding the potential benefits of TIFs (such as job growth, etc.), or whether growth of property value in a TIF district is directly the result of the establishment of the TIF or if the property growth would have occurred anyway. Nor will this paper include discussion regarding the effectiveness of TIFs as an economic development tool. The purpose of this paper is to introduce the reader to the mechanics of TIFs, to present statistics on TIFs in Montana, and to identify policy issues surrounding TIFs.

TIF Background

The legislature enacted the Tax Increment Financing District (TIF) statutes in 1974. The statutes allow for a *municipality* to establish a TIF. A municipality is defined as any incorporated city or town, county, or city-county consolidated local government.

The purpose of a TIF is to fund infrastructure and other improvements in urban renewal areas and industrial districts. The costs of these improvements can be paid directly with TIF revenues or, in many cases, TIF revenues can be pledged to the payment of bonds issued to pay the costs of the improvements.

The following are commonly asked questions regarding Tax Increment Financing Districts. Each question is followed by a short response.

an appropriate mill levy that will generate $75,750. If the tax base is $1,010,000 (the tax base with the TIF), then the mill levy will be 75.00 mills ($75,750 / $1,010,000). If the tax base is $1,050,000 (the tax base if there were no TIF), then the mill levy will be 72.14 mills ($75,750 / $1,050,000). With the presence of the TIF, the city of Jonesville will generate the property tax revenue that they require by setting a mill levy of 75.00 mills. That same 75.00 mill levy also generates (and property taxpayers pay) an additional $3,000 in property taxes that will be distributed to the TIF.

With the presence of a TIF, to generate the same amount of revenue, local governments must set a mill levy at a higher level then if the TIF were not present. Table 5 compares the mill levies for taxing jurisdictions necessary to maintain a constant revenue with and without the presence of the TIF. Whether local governments have the ability to adjust mill levies is a factor of the budget process and revenue caps in law.

Table 5
Mill Levy Comparison

Jurisdiciton	Mill Levy With TIF	Mill Levy Without TIF	Difference Absolute	Difference Percent
State	95.00	95.00	0.00	0.0%
University	6.00	6.00	0.00	0.0%
County	85.00	83.33	-1.67	-2.0%
Local Schools	164.00	158.04	-5.96	-3.8%
City	75.00	72.14	-2.86	-4.0%
Total	425.00	414.51	-10.49	-2.5%

The impact of the TIF to the state is a reduction in revenue of $3,800. Unlike local governments however, the state mill levy of 95 mills cannot be increased to offset this loss.

Most taxpayers are probably unaware of any impact of a TIF on their tax bill. There is no distinction or indication of a TIF impact printed on their tax bills. The tax bill for and the treatment of a taxpayer within the TIF boundary are no different than the tax bill for and the treatment of a taxpayer in the city but outside the TIF boundary. Both taxpayers pay on the same total mill levy.

The impact of a TIF on a taxpayer is in the amount of mills applied to their property. As can be seen in our example, the tax base for the taxing jurisdictions would be higher if the TIF were not in place. The tax base would be $1,050,000 without the TIF, as opposed to $1,010,000 with the TIF. In the case for the county, city, and local schools, if the higher tax base were available, then the mill levies for these jurisdictions would be slightly lower. The mill levies for the county, city, and local schools would be a combined 10.49 mills (3.2%) lower without the TIF. Overall, the total mill levy for taxpayers would be 2.5% lower without the TIF.

OFFICE OF THE GOVERNOR
BUDGET AND PROGRAM PLANNING
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR

PO BOX 200802
HELENA, MONTANA 59620-0802

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.

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0114	Title:	Revise tax increment finance district remittance laws for schools
Primary Sponsor:	Miller, Mike	Status:	As Introduced

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
Net Impact-General Fund Balance:	$0	$0	$0	$0

Description of fiscal impact: HB 114 clarifies how tax increment remittances to school districts are to be utilized. This bill has no state fiscal impact.

FISCAL ANALYSIS

Assumptions:

1. HB 114 allows a school district to deposit any portion of the tax increment remittance received into the general fund, bus depreciation reserve fund, debt service fund, building reserve fund, or technology acquisition and depreciation fund. These funds are all school district budgeted funds so depositing the tax increment remittance into one of these funds should reduce local property taxes.
2. If a tax increment remittance was deposited into the district general fund, the district could potentially reduce the amount of guaranteed tax base aid (GTB) received by the district from the state. However, given that a district has options as to which fund to deposit the tax increment remittance, a district is unlikely to choose an option that will cause the district to receive less GTB state aid.

Yellowstone County, Montana

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Disclaimer: Not all fields are currently maintained. The accuracy of the data is not guaranteed. Please notify the Appraisal/Assessment Office of any inaccuracies.

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Owner Information

Please Note:* Owner information is supplied by the **Montana Department of Revenue. To request updates to addresses or other ownership information, please **contact the DOR office at 896-4000**. Records for the current year will **not** be updated after tax bills have been sent out, so changes requested after you receive your bill will appear only on next year's records.

Tax ID: D06449

Primary Party

Primary Owner Name: G2 PROPERTIES LLC

2016 Mailing Address: G2 PROPERTIES LLC
455 HIGHWAY 195, STE A
GEORGETOWN, TX 78633

Property Address: 3255 N FRONTAGE RD

Township: 01 N Range: 27 E Section: 20

Certificate of Survey: 3376 Parcel: 1

Full Legal: S20, T01 N, R27 E, C.O.S. 3376, PARCEL 1, (09)

GeoCode: 03-1034-20-2-11-04-0000

Show on Map *(May not work for some newer properties.)*

Property Assessment Information

Levy District: LOCKWOOD AREA

Levy District: STATE MANDATED LEVY

Assessed Value Summary

Assessed Land Value = $ 789,530.00

Assessed Building(s) Value = $ 3,972,170.00

Total Assessed Value = $ 4,761,700.00

Assessed Value Detail Tax Year: 2015

Class Code	Amount
2107 - Commercial Tract Land = $	789,530.00
3307 - Improvements on Commercial Tract Land = $	0.00
3808 - 2nd Year New Industry Improvements (50%) 15-24-1401 = $	3,972,170.00
Total = $	4,761,700.00

The values shown for the given tax year are for taxation purposes only. They are supplied by the Department of Revenue. For questions about these values, please contact the Montana Department of Revenue, Appraisal/Assessment Office at 406-896-4000.

Rural SID Payoff Information

Montana Code Annotated 2015

15-24-1401. Definitions. The following definitions apply to 15-24-1402 unless the context requires otherwise:

(1) "Expansion" means that the industry has added after July 1, 1987, at least $50,000 worth of qualifying improvements or modernized processes to its property within the same jurisdiction either in the first tax year in which the benefits provided for in 15-24-1402 are to be received or in the preceding tax year.

(2) "Industry" includes but is not limited to a firm that:

(a) engages in the mechanical or chemical transformation of materials or substances into products in the manner defined as manufacturing in the North American Industry Classification System Manual prepared by the United States office of management and budget;

(b) engages in the extraction or harvesting of minerals, ore, or forestry products;

(c) engages in the processing of Montana raw materials such as minerals, ore, agricultural products, and forestry products;

(d) engages in the transportation, warehousing, or distribution of commercial products or materials if 50% or more of the industry's gross sales or receipts are earned from outside the state;

(e) earns 50% or more of its annual gross income from out-of-state sales; or

(f) engages in the production of electrical energy in an amount of 1 megawatt or more by means of an alternative renewable energy source as defined in 15-6-225.

(3) "New" means that the firm is new to the jurisdiction approving the resolution provided for in 15-24-1402(2) and has invested after July 1, 1987, at least $125,000 worth of qualifying improvements or modernized processes in the jurisdiction either in the first tax year in which the benefits provided for in 15-24-1402 are to be received or in the preceding tax year. New industry does not include property treated as new industrial property under 15-6-135.

(4) "Qualifying" means meeting all the terms, conditions, and requirements for a reduction in taxable value under 15-24-1402 and this section.

History: En. Sec. 2, Ch. 564, L. 1981; amd. Sec. 1, Ch. 574, L. 1987; amd. Sec. 2, Ch. 694, L. 1991; amd. Sec. 29, Ch. 51, L. 1999; amd. Sec. 7, Ch. 591, L. 2001; amd. Sec. 2, Ch. 405, L. 2003.

Provided by Montana Legislative Services

The Impact of Tax Increment Financing Reform on School District Funding

Ohio | Department of Taxation

Richard A. Levin
Tax Commissioner

Tax Research Series
Number Three
Updated January 2009

The Impact of Tax Increment Financing Reform on School District Funding

This paper is intended to help school district treasurers and taxpayers when debating the merits of TIF incentive districts and other economic development agreements. First, this paper attempts to help identify agreements impacted by recent reforms. Secondly, reporting requirements are described in relation to education funding. In conclusion, examples of the impact of TIF incentive districts and other compensation agreements on formula aid are provided. Examples are provided for a typical formula district with a PILOT, a formula district where the PILOT attempts to make-up for lost revenue, and a guarantee district.

Introduction

Tax increment financing (TIF) districts are economic incentive tools for local governments which allow future taxes generated from increases in value due to reappraisals and from new development to fund related infrastructure and public improvements. A TIF agreement grants a property tax exemption to incremental increases in the valuation of designated parcels. Value and tax liability increase as property is improved; the difference between property values before and after improvement is the exempt increment.

Owners of exempt property generally provide service payments equal to taxes which otherwise would have been due on the exempted improvements. Service payments fund infrastructure and public improvements. As a result, TIF districts create a flow of revenue to the local government that granted the tax exemption. The local government then applies the service payment to the agreed upon improvements.

TIF districts reduce school district tax revenue and impact state education aid. School district approval is required for the creation of some TIF districts and school districts are typically compensated to offset reduced tax revenues. Such compensation, prior to enactment of HB 66 in 2005, was not considered local revenue when calculating state education aid (more precisely, the values underlying such compensation were not counted as part of the district's local revenue-raising capacity). The 2006-07 biennium budget and subsequent budget corrections bill, House Bills 66 and 530, altered the school funding base-cost formula to partially account for compensation payments to school districts. The adjusted computation for the local contribution to school funding, the local charge-off, is now a more accurate reflection of school district local revenue-raising capacity.

Project TIFs

The most common type of TIF in Ohio is a project, or parcel, TIF. TIF agreements are declarations that private improvements to real property are for a public purpose and related increases in value are tax exempt. For project TIFs, there is a further restriction, namely that the public infrastructure improvements must directly benefit the exempted parcels. Municipalities meeting certain economic criteria may also exempt increases in residential value in a project TIF. Project TIF agreements fund infrastructure improvements which directly benefit the exempted improvement. Infrastructure improvements include public roads and highways, water and sewer lines, environmental remediation, and demolition. Land acquisition in aid of industry, commerce, distribution, or research also qualifies as infrastructure improvement. Project TIFs are created by municipalities, townships, and counties as authorized by Ohio Revised Code sections 5709.40(B), 5709.73(B), and 5709.78(A). Polaris Fashion Place in Columbus is an example of a project TIF where service payments were utilized to improve highway interchanges, road extensions,

MONTANA STATE LEGISLATURE

House of Representatives

Big Sky Country

Kevin Nelson
P.O. Box 23107
Billings MT 59104

Dear Mr. Nelson,

I received your letter dated December 28, 2015. I remember your comments from the September 23rd School Funding Interim Commission. From those comments, I understand that you have a long-standing concern about abatement of taxes as a method of encouraging the expansion of existing businesses or as a way to bring new businesses to Billings. This is not a subject that the School Funding Interim Commission will be discussing. Our charge is to look at whether the state's formula for funding public schools provides an equal opportunity for a quality basic education for all Montana's children.

The issues that concern you are in the purview of the Department of Revenue. If you have still not heard from Ms. Michele Crepeau, please let me know and I will try to ensure that someone who is knowledgeable about TIFF issues responds to you.

Thank you for writing.

Yours truly,

Kathy Kelker

Rep. Kathy Kelker

Rep. Kathy Kelker – House District 47 - Rep.kathy.kelker@mt.gov - P.O. Box 20301 - Billings, MT 59102 – 406-698-5610