

PERFORMANCE AUDIT

Tax Increment Financing Administration
and Impact

Department of Revenue

FEBRUARY 2018

17P-03

REPORT SUMMARY

Tax increment financing (TIF) is used by local governments for urban renewal and economic development purposes. While TIF districts are established at the local level, the Department of Revenue is responsible for administering TIF on a statewide basis. We determined the TIF approval process is unreliable, the certification of TIF district values is not always accurate, property tax revenues can be incorrectly distributed, and a lack of accurate data results in stakeholders not being informed of TIF activities. In addition, unclear statutes have contributed to uncertain TIF administration expectations. Although TIF can lead to increased taxable property value, this effect is not uniform and this financing mechanism may not be appropriate for all Montana communities.

Context

Since 1974, local governments in Montana have been able to create different types of economic development districts to fund projects using a statutory financing provision called tax increment financing, commonly referred to as tax increment financing (TIF) districts. The statutory goals for these districts are to combat blight or improve infrastructure in order to attract or retain value-adding industry. State law provides local governments flexibility in achieving their development goals using TIF. Prior to creating a TIF district, local governments must adopt an urban renewal or comprehensive development plan that identifies blighted conditions and infrastructure deficiencies within the district. This plan establishes goals, objectives, and strategies on how these conditions will be addressed.

When a TIF district is established, the original property value of the district is calculated and set as the “base value” to continue to be taxed normally by local taxing jurisdictions. Ideally, as development projects are completed in the district, property value will rise above the base value. This additional property value, which is called the “increment value,” is taxed at the same rate as the base value, but the generated

revenue (“tax increment”) is segregated to fund development projects in the TIF district. In cases where TIF revenue is not sufficient to pay for more costly improvements, debt, such as bonds, can be issued against future TIF revenue to fund projects. For example, a major local sewer and water system project may need long term financing to complete. Anticipated tax increment revenues can be used to secure a bond issued for up to 25 years. As of 2016, there were 55 active TIF districts in 24 local governments, which segregated approximately \$35.7 million dollars in tax revenue to the districts in tax year 2016.

Though TIF is primarily implemented at the local level, state government also plays a role in administering TIF districts. In particular, the Department of Revenue (DOR) is responsible for calculating the value of properties in these districts to determine how much taxable property value is available to the TIF districts. DOR also approves districts prior to providing property values and reports basic TIF information in its biennial report. Apart from valuation of property within these districts, DOR has historically had minimal processes in place for administering TIF activities.

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Results

We found local TIF districts use different management practices, debt financing, and project types to meet local development goals identified in their urban renewal or comprehensive development plans. Additionally, we found DOR has not developed TIF-related policies or processes to ensure its duties are consistently or accurately completed. Consequently, the TIF approval process is unreliable, the certification of district values are not always accurate, there are instances of district revenues being incorrectly distributed, district information is not being accurately maintained, and stakeholders are not informed of state expectations. Lastly, we assessed the impacts of TIF and found while it does effect the taxable value of property, the extent of the effect is dependent on complicated demographic features of the community using the provision.

Audit recommendations to DOR include:

- ◆ Updating TIF administrative rules to include necessary documentation to confirm districts are created according to statutory requirements.
- ◆ Creating a process to verify certified base and increment values for TIF districts and establishing formal lines of communication for local governments to address issues with values.
- ◆ Providing county treasurers with an alternative method for calculating the correct distribution of tax revenue in TIF districts.
- ◆ Establishing and implementing a process to coordinate the collection, entry, and maintenance of TIF district information.
- ◆ Developing a process to communicate TIF policy and statutory requirements to stakeholders.

Additionally, the audit recommends the legislature:

- ◆ Clarify TIF laws, including district qualifications, statutory goals, state and local administration, monitoring, and how tax increment financing is evaluated.

Recommendation Concurrence	
Concur	3
Partially Concur	3
Do Not Concur	0

Source: Agency audit response included in final report.

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