Fiscal Note 2023 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	SB0388		**Title:**	Provide for infrastructure through tax increment financing
Primary Sponsor:	Hertz, Greg		**Status:**	As Amended in House Committee

☒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 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$0	$39,000	$40,000	$40,000
Net Impact-General Fund Balance:	$0	$39,000	$40,000	$40,000

Description of fiscal impact: SB 388, as in the House Taxation Committee, generally revises Targeted Economic Development Districts (TEDD) and Tax Increment Financing (TIF) provisions. SB 388 allows for and clarifies that value adding economic development is eligible to receive money from TEDDs that utilize TIFs and adds a definition of what value-adding means. SB 388, as amended, provides that only one-half of the 95 mills levied on increment value for the elementary, high school and statewide equalization can be used to calculate the TIF revenue and also allows that any portion of an existing mill levy designated by the local governing body can be excluded from calculating TIF revenues as well.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. When a TIF district is created, incremental taxable value, over the base level, is determined. Property tax revenue from the incremental value is diverted to the TEDD.
2. SB 388 limits the incremental revenue from mills levied by the state general fund from the 95 mills by 50%.
3. Using tax year (TY) 2020 data, the following table shows the number of new TIF districts that were created by year and the total incremental value of those districts in their first year.

Tax Year	TIFs	Incremental Value
2020	3	$118,000
2019	4	$447,000
2018	5	$2,142,000
2017	4	$623,000
2016	4	$811,000
Average	**4**	**$828,000**

4. Assuming the average incremental value from the last five years, the general fund is anticipated to receive an additional $39,000 per year in property tax revenue.
5. SB 388 would impact revenue from TIF's created after June 30, 2021, so TY 2022 (FY 2023) would be the first-year general fund revenues would be impacted.
6. The additional revenue is then grown by the estimated TIF growth rate contained in HJR 2, or 0.62%, per year for FY 2023 through FY 2025.
7. Any Department of Revenue costs associated with SB 388 changes would be absorbed as part of the normal annual business practices and updates.

Fiscal Impact:	**FY 2022 Difference**	**FY 2023 Difference**	**FY 2024 Difference**	**FY 2025 Difference**
Department of Revenue				
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Personal Services	$0	$0	$0	$0
TOTAL Expenditures	$0	$0	$0	$0
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$0	$0
Revenues:				
General Fund (01)	$0	$39,000	$40,000	$40,000
TOTAL Revenues	$0	$39,000	$40,000	$40,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$39,000	$40,000	$40,000
State Special Revenue (02)	$0	$0	$0	$0

Effect on County or Other Local Revenues or Expenditures:

1. SB 388 allows that any portion of an existing mill levy designated by the local governing body can be excluded from calculating TIF revenues. This could allow for fewer mills to be levied to generate the same amount of property tax revenue, and therefore mills have the potential to float down as a result. However, this increase in revenue to local taxing jurisdictions will be offset by a decrease in revenue that would have went to the TEDD.

Technical Notes:

1. There is a technical concern regarding section 3 and the language in section (2)(c)(iii) of the bill. TEDDs, and specifically a TEDD comprehensive development plan, can be amended during the existence of the TEDD. SB 388's amendment could be interpreted to include the amendment of a plan and the adoption of the amended plan to be an opportunity to adjust the mills that are included in the increment. It is unclear if this was the intent of the bill.
2. If there are mills that are excluded from an increment upon adoption of a TEDD, then the body that levies those mills cannot be the recipient of any remittance to the extent the mills are omitted from the increment. See 7-15-4286(2)(b), MCA.

NO SPONSOR SIGNATURE		KA	4-22-21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*