GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	SB0388		**Title:**	Provide for infrastructure through tax increment financing
Primary Sponsor:	Hertz, Greg		**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 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$0	$39,000	$78,500	$118,500
Net Impact-General Fund Balance:	$0	$39,000	$78,500	$118,500

Description of fiscal impact: SB 388 revises targeted economic development districts (TEDD) and tax increment financing (TIF) provisions. SB 388 includes value-added economic development as an eligible TEDD district activity for which tax increment financing may be used. SB 388 provides that in new districts using tax increment financing, only one-half of the statewide school equalizations mills (currently 95 mills) levied on the incremental taxable can be used to calculate TIF revenue. SB 388 allows for the exclusion of any portion of an existing mill levy, designated by the local jurisdiction governing body, can be excluded when calculating TIF revenue. Finally, SB 388 limits the duration for which a TIF district may be extended through bonding to no more than 20 years (down from the 25 years).

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under current law districts utilizing TIF retain the mill levies (excluding the university system 6 mills) levied on the taxable value (increment) exceeding the value of property in the district at formation (base value). Property tax revenue from the incremental value is directed to the TEDD.
2. SB 388 limits the revenue TEDD formed after June 30, 2021 may retain from the statewide equalization mills levied on the incremental value to one-half (50%) of equalization mill generated revenue.

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	Number of 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 annual new incremental value over the last five years, the general fund is anticipated to receive an additional $39,000 in property tax revenue under SB 388 in the first year.
5. SB 388 would impact revenue from TIFs created after June 30, 2021, so TY 2022 (FY 2023) would be the first-year general fund revenue would be impacted.
6. The additional first year revenue is then grown by the estimated TIF growth rate contained in HJR 2, 0.62% per year to calculate first year revenue in the future. These amounts are then accumulated for each year's new cohort of TIF's (FY 2024 is FY 2023 increment plus the FY 2024 increment, etc.). The value would continue to increase until TIF districts formed after June 30, 2021 began to expire and release their full incremental value back to the state. The revenue impact of future TIF terminations (beginning roughly 20 years in the future) would be roughly half of what it would have been under present law.
7. Any department costs associated with SB 388 would be absorbed as part of normal annual updates.

Fiscal Impact: **Department of Revenue**	**FY 2022 Difference**	**FY 2023 Difference**	**FY 2024 Difference**	**FY 2025 Difference**
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	$78,500	$118,500
TOTAL Revenues	$0	$39,000	$78,500	$118,500
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$39,000	$78,500	$118,500

Effect on County or Other Local Revenues or Expenditures:

1. The changes to tax increment financing for districts formed after June 20, 2021 will reduce the funds available to new districts utilizing such financing. The reduction in maximum TIF extension through bonding from 25 to 20 years may reduce the value of projects financed.

Long-Term Impacts:

1. State general fund state equalization revenue will increase relative to present law in the 20 years from FY 2023. Increase in revenue would stabilize as districts formed after June 30, 2021 begin to expire. Using the assumptions in this fiscal note, and a 20-year TIF life cycle, the revenue increase would stabilize around $885,000 per year relative to current law. Reductions in released TIF taxable value revenue would erode that increase over the following 20 years.

		KA	3-29-21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*