GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0925 - Revise laws related to tax increment pledged to payment of bonds (Brewster, Larry)	
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 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	unknown	unknown	unknown	unknown
Net Impact-General Fund Balance:	unknown	unknown	unknown	unknown

Description of fiscal impact: HB 925 imposes limits on the money that may be retained by Urban Renewal Districts (URDs) and Targeted Economic Development Districts (TEDDs). Districts may only retain tax increment sufficient to pay the principal and interest on issued bonds and a reserve equal to 125% of the maximum principal and interest on bonds. Any increment collected in a year in excess of this limitation will be remitted to the taxing jurisdictions from which the increment originated in proportion to that jurisdiction's share of the consolidated mill levy. The general fund will receive roughly 13.7% of any tax remittance but the Department of Revenue does not have data on expected remittance.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Tax increment financing (TIF) works by establishing a base year taxable value in a geographic area and "locking in" that value.
2. Any growth in the tax base of that geographic area is considered incremental taxable value.

3. When a taxing jurisdiction levies mills to satisfy its budget, it excludes the incremental taxable value of the district (URD or TEDD) utilizing TIF in its jurisdiction. The calculated mills, when applied to that increment, generate money for the purposes of the TIF district known as tax increment.
4. These districts usually engage in upfront bonding for capital improvements in their district. The revenue generated from the incremental taxable value is then used to make payments on these bonds. However, the increment may be spent on things besides bond payments.
5. HB 925 limits the amount of tax increment that can be retained by a TIF in any given year to the amount necessary to pay the principal and interest on issued bonds, plus a reserve fund equal to 125% of the maximum principal and interest on issued bonds.
6. Any revenue collected in excess of this limitation would be remitted back to the taxing jurisdiction that the increment originated from, in proportion to that jurisdiction's share of the consolidated mill levy.
7. The Department of Revenue does not have data on the bonds issued by TIFs so does not have a way to anticipate how much tax increment is likely to be remitted.
8. Total tax increment collections in TY 2022 were roughly $51.0 million across all TIF's, of which $7.0 million was state tax dollars. This represents about 13.7% of TIF increment dollars.
9. There are no costs to the Department of Revenue for bill implementation.

Office of Public Instruction

10. Specific to schools and the Office of Public Instruction (OPI), section 7-15-4291, MCA, is amended by removing the availability to remit portions of funds pledged to the payment of the principal of premiums, if any, and interest on the bonds referred to in 7-15-4289, MCA, through agreement to located school districts.
11. In FY 2022, there were four known reported voluntary agreements to remit unused portion of urban renewal district tax increments as described in section 7-15-4291, MCA. It is unknown if these agreements include voluntary remittance of funds pledged to the payment of principal of premiums or interest on bonds.
12. Based on the data available to the OPI it is determined that reductions to TIF remittances would not be significant and at this time are immeasurable.

<u>Effect on County or Other Local Revenues or Expenditures:</u>

Department of Revenue

1. Of the $51.0 million collected in tax increment in TY 2022, $12.5 million was from county levies, $18.1 million was from school levies, $11.4 million was from city and town levies, and $2 million was from miscellaneous sources such as fire districts. In percentage terms this equates to 24.6% from county mills, 35.5% from school mills, 22.3% from city and town mills, and 3.9% from miscellaneous mills.
2. Remittances required under HB 925 will be paid to jurisdictions whose mills created the increment in proportion to the jurisdictions share of the consolidated mill, which should roughly mirror the distribution listed above.

[signature]	3-30-23	[signature]	3-29-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*