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 Amended in Senate 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 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 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 925, as amended in the Senate Taxation Committee, imposes limits on the funds that may be retained by Urban Renewal Districts (URDs) and Targeted Economic Development Districts (TEDDs) that are created after the effective date of this bill. Districts may only retain tax increment sufficient to pay administrative costs, the principal and interest on issued bonds, and a reserve equal to 125% of the maximum principal and interest on bonds once the district has existed for 15 years. Any year the increment collected is more than this limitation is to be remitted to individual component taxing jurisdictions from which the increment originated proportionally to those jurisdictions share of the consolidated mill levy. Based on current relative mill shares, the general fund would receive roughly 13.7% of any tax remittance. The first year of likely effects from HB 925 is 2038.

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. Amended HB 925 creates new limitations on those TIF districts that issue bonds which extend the lifetime of the TIF district past the initial 15-year term of the district.
6. HB 925, as amended, limits the amount of tax increment that can be retained by a TIF in any given year to the amounts needed for the payment of administrative costs, cost of issuing bonds, 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.
7. 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.
8. There are no revenue changes likely before 2038. See long-term impacts for more detail.
9. There are no costs to the Department of Revenue for bill implementation.

Office of Public Instruction

10. The Senate Taxation Committee amendments specific to schools and the Office of Public Instruction (OPI), effectively restore current law. The changes future to collections would be similar to other taxing jurisdictions and are unlikely to have effects until after FY 2037.

Effect on County or Other Local Revenues or Expenditures:

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. There are not expected to be changes to remittances required under HB 925 until 2038.

Long-Term Impacts:

1. If an URD or TEDD is adopted after HB 925's effective date of, that issue bonds extending the life of the TIF beyond the initial 15 years term are unlikely to occur before the 15th year of such a a TIF, due to the changes from HB 925. Therefore, the first year where TIF component taxing jurisdictions would see a difference in tax remittances is after 2037.
2. Total tax increment collections in TY 2022 were roughly $51.0 million from all TIF's, of which $7.0 million was state tax dollars. This represents about 13.7% of TIF increment dollars.

		[signature]	4-20-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*