GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

# Fiscal Note 2025 Biennium

| **Bill information:** | |
|---|---|
| SB0523 - Generally revise tax increment financing laws (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 2024 Difference | FY 2025 Difference | FY 2026 Difference | FY 2027 Difference |
|---|---|---|---|---|
| **Expenditures:** | | | | |
| General Fund | $0 | $0 | $0 | $0 |
| State Special Revenue | $0 | $0 | $0 | $0 |
| **Revenue:** | | | | |
| General Fund | unknown | unknown | unknown | unknown |
| State Special Revenue | $0 | $0 | $0 | $0 |
| **Net Impact-General Fund Balance:** | $0 | $0 | $0 | $0 |

**Description of fiscal impact:** SB 523 makes several changes to laws related to the utilization of tax increment financing (TIF) by Urban Renewal Districts (URDs) and Targeted Economic Development Districts (TEDDs). SB 523 limits the period TIF can be used in a district to 20 years. Existing districts utilizing TIF that are older than 20 years must remit the tax increment (collections) that exceed bond principal and interest payments. SB 523 also excludes school mills from being included in tax increment unless that exclusion directly impacts the ability of the URD or TEDD to cover its bond payments. Both these changes apply retroactively to URDs and TEDDs organized before the effective date of SB 523. The Department of Revenue does not have data on bond payments of these TIF entities so it cannot estimate the fiscal impacts of SB 523.

## FISCAL ANALYSIS

**Assumptions:**

Department of Revenue

1. Tax increment financing works by establishing a base year taxable value in a geographic area and "locking in" that value. Any growth in the taxable value above that base amount in that geographic area is considered incremental taxable value.

2. When taxing jurisdictions levy 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 incremental taxable value, generate money for the purposes of the TIF district known as tax increment.
3. 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.
4. SB 523 requires districts that have been in existence for more than 20 years to not retain tax increment beyond what is necessary to pay the principal and interest on bonds.
5. Any tax increment greater than necessary for bond payments would be remitted to the taxing jurisdictions it originated from in proportion to their share of the consolidated mill levy.
6. There are several TIF districts that will have been in existence for more than 20 years as of January 1, 2024, as well as several more that will fall into that category over time. The table below summarizes the number of TIF districts affected by this change, the sum of the incremental taxable value in those districts in TY 2022, and the tax increment.

| Tax Year | Affected TIFs | Taxable Value Increment | Tax Increment ($) |
|---|---|---|---|
| 2024 | 7 | 20,229,624 | $15,425,770 |
| 2025 | 9 | 21,906,042 | $16,809,513 |
| 2026 | 12 | 22,601,629 | $17,309,889 |

7. The Department of Revenue does not have information regarding bond payments for TIF districts, so cannot estimate how much of the tax increment shown above is pledged to bond repayments.
8. It is likely that some amount of the tax increment above will be remitted to the general fund.
9. SB 523 also removes school mills from the consideration of the incremental taxable value available to the URB or TEDD.
10. In TY 2022, school mills were responsible for $15.425 million in tax increment for TIF districts.
11. It is likely that at least some portion of this $15.425 million will be a tax decrease to properties in school districts where these tax increments are not necessary for bond repayments. The department does not have information on how much of these dollars would be necessary for bond repayments.
12. Costs associated with implementation are anticipated to be minimal.

**Office of Public Instruction**

13. The amendments to 7-15-4286, MCA, in Section 12are understood by the OPI to mean that the Tax Increment Financing District (TIF) increment is to not include mills levied by a school district unless needed for the payment of bond debt.
14. In certain circumstances remittances to school districts allowed under 7-15-4291, MCA may increase. The OPI is not able to estimate the potential increase at this time, however if there are increases to remittances local property taxes would be reduced.
15. In review of SB 523 the OPI believes that there is no fiscal impact to schools and the agency.

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

**Department of Revenue**

1. The requirement of remittance for tax increment collected in excess of bond payments for TIFs over 20 years old could supplement regular property tax revenues in Chouteau, Gallatin, Lake, Lincoln, Missoula, Park, Big Horn, Cascade, and Flathead counties by TY 2026 assuming not all tax increment is pledged to bonds.
2. Not applying school mills for the benefit of the TEDD or URD in the calculation of tax increment could lower mills for school jurisdictions containing TIF districts since the tax base used for the calculation of millage would now include the taxable value increment of the TEDD or URD. If the TEDD or URD bond payments did not require the revenue from school mills.

**Technical Notes:**

1. The Department of Revenue currently certifies to school districts the total taxable value in the jurisdiction, as well as the incremental taxable value from TIF districts in the jurisdiction. The Department also submits information on taxable value and taxable value increments to the Office of Public Instruction (20-9-369 (3), MCA). The Department, however, does not have information from TIF districts regarding bond payments. It is unclear how the department should certify taxable value to a school district – inclusive of increment taxable value or excluding the TIF districts incremental taxable value. This also creates a lack of clarity of what DOR should report to OPI.

NO SPONSOR SIGNATURE 3.28.23

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| *Sponsor's Initials* | *Date* | *Budget Director's Initials* | *Date* |