

Tax Increment Financing



**PRESENTED TO THE REVENUE AND
TRANSPORTATION INTERIM COMMITTEE OF
THE MONTANA STATE LEGISLATURE
NOVEMBER 30TH, 2015**

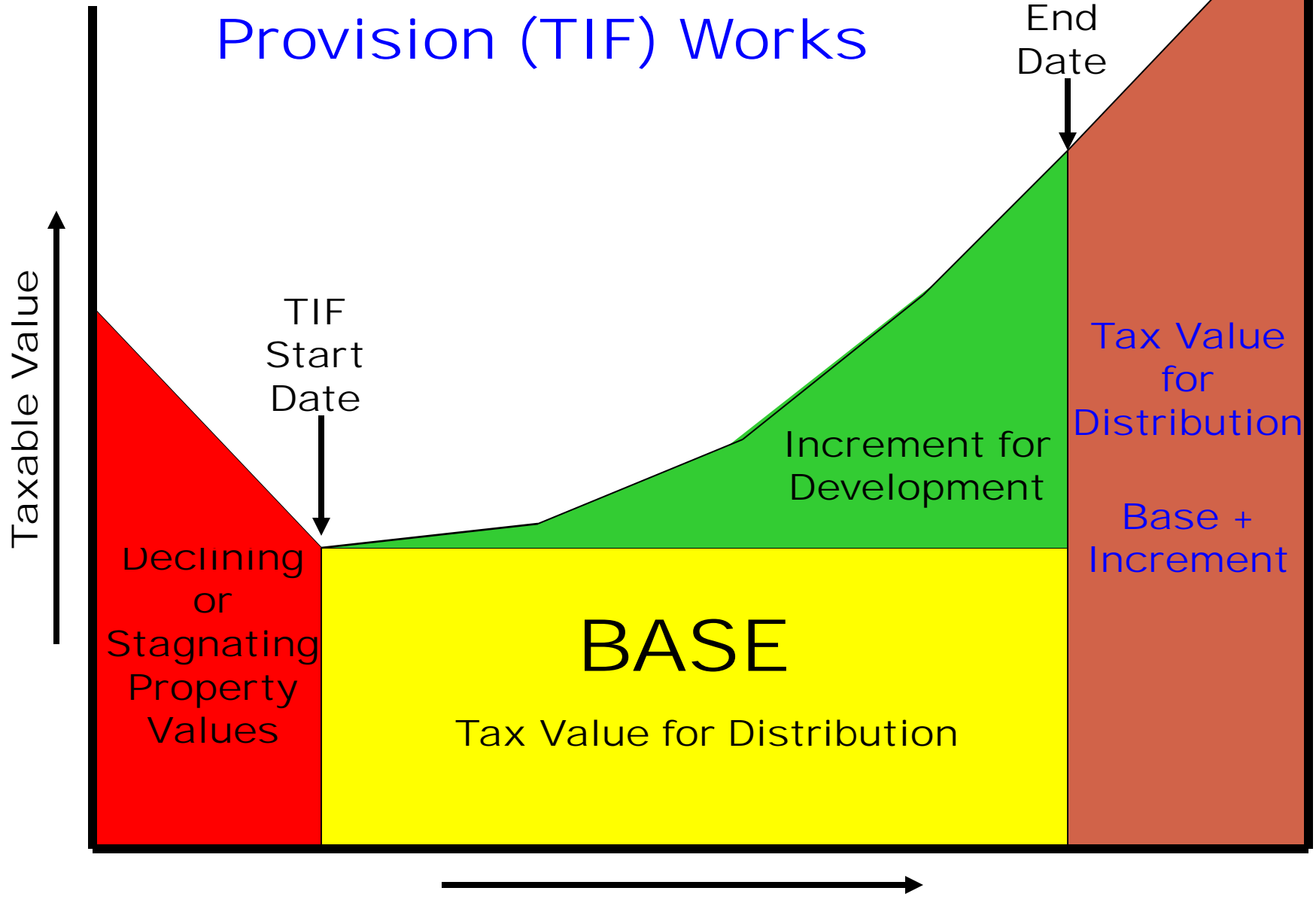
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CDS OF MONTANA**

What is TIF?



- Tax increment financing (TIF) is a state authorized, locally driven funding mechanism that allows cities and counties to direct property tax dollars that accrue from new development, within a specifically designated *district*, to community and economic development activities within that district.
- The laws governing TIF can be found in Montana's Urban Renewal Law, 7-15-4201 et. Seq. MCA

How a Tax Increment Finance Provision (TIF) Works

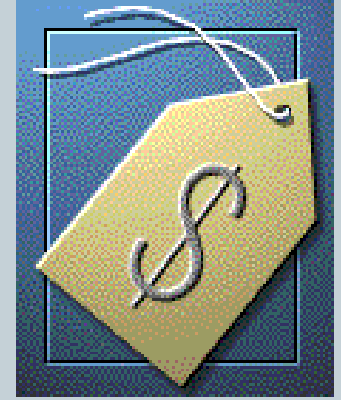


History of TIF in Montana



- TIF for urban renewal districts was first authorized in Montana in 1974
- Beginning in 1989, the use of TIF was expanded to Industrial Districts.
- Aerospace, Technology and Transportation Districts and Technology Districts were authorized to use TIF in 1999 and 2005 respectively.
- In 2013, the Legislature replaced all non-urban renewal districts types with one type – Targeted Economic Development Districts or “TEDDs”
- Today there are about 50 TIF Districts in the state, having a total incremental taxable value of over \$50,000,000
- To date about 10 districts have sunsetted with an incremental taxable value of \$15.3 million

What is the financial effect of TIF on individual property owners?



- TIF does not increase property taxes.
- TIF only affects the way that the incremental increases in taxes, once collected, are distributed.

The Calculation



- Assume: \$10,000,000 dollars of net New Appraised Value
- Assume: Class 4 commercial property valued at a tax rate of 1.89% (2015)
- Taxable Value = \$189,000
- Assume: 600 mills (total, less the six mill university levy)
- Tax Increment Increment = \$113,400

TIF may be used in...



Fort Benton, MT

- **Urban Renewal Districts-
URDs (authorized in
cities, towns and
consolidated city-county
jurisdictions)**
- **Targeted Economic
Development Districts -
TEDDs (authorized in
cities, towns, counties and
consolidated city-county
jurisdictions)**

Allowable Uses of TIF Funds

- Land Acquisition
- Rehabilitation and Renovation Activities
- Demolition and Removal of Structures
- Planning, Marketing and Analysis
- General Redevelopment Activities
- Constructing, improving and connecting to public infrastructure



Potential Funding Strategies

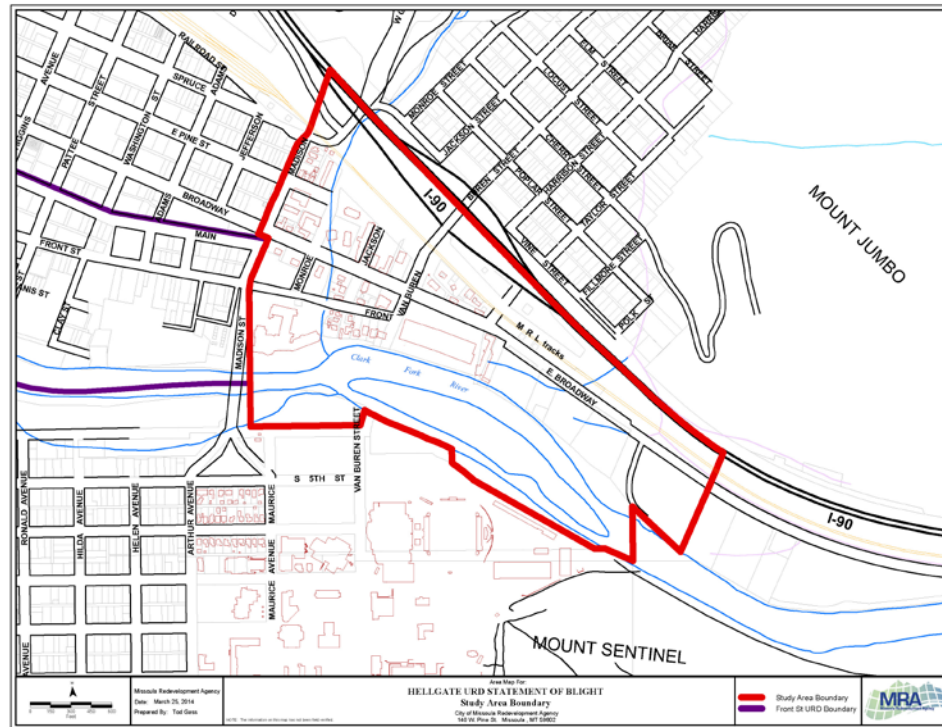


- TIF dollars can be used to:
 - Directly fund projects and programs
 - Retire debt
 - Leverage other funding sources, both public and private.
- Funds may be used to establish a revolving loan fund to provide financing to property owners within the district to make improvements to private infrastructure.
 - Interest rates can be set based on project feasibility
 - The revolving fund may continue in perpetuity, even after the district has “sunsetting”.

Steps in Creating a TIF (TEDD or URD)



Establish a Reasonable Boundary



Establish a Reasonable Boundary



The area must have the following characteristics:

- **Is blighted and/or infrastructure deficient**
- **Does not overlap another TIF District**
- **Is zoned in accordance with the Growth Policy for the Jurisdiction**
- **Be located entirely within one jurisdiction**
- **Include entire parcels**

What does the law say about size?



- **Montana Statute does not establish a minimum or maximum size for a TIF District.**
- **A district must, however, be contiguous**
- **TEDDs, in particular, however, “must be large enough to host a diversified tenant base of multiple independent tenants” - 7-15-4279 (2) (b) MCA**

Property Information Required



- A Map of the District showing the boundaries
- A legal description of the district
- A list of geocodes for all the properties within the district
- A list of assessor codes for personal property and mobile homes not attached to real property
- A list (and description) of centrally assessed properties
- Names and addresses of persons owning property in the district

Determination of Blight or Infrastructure Deficiencies



Adopt Resolution of Necessity



- **Must be adopted by the governing body prior to embarking on the creation of an urban renewal or TEDD program.**
- **The resolution is accompanied by a statement of:**
 - Infrastructure Deficiency (TEDDs)
 - Blight (URDs)
- **Urban Renewal must identify at least three blighted conditions as listed in 7-15-4206 MCA**

A Sampling of Blight Criteria



- The substantial physical dilapidation, deterioration, age obsolescence, or defective construction, material, and arrangement of buildings or improvements, whether residential or nonresidential
- Inadequate provision for ventilation, light, proper sanitary facilities, or open spaces
- Defective or inadequate street layout
- Faulty lot layout in relation to size, adequacy, accessibility, or usefulness or improper subdivision or obsolete platting
- Conditions that endanger life or property by fire or other causes
- Any combination of these factors



November, 2015

A Sampling of Infrastructure Deficiencies



- Absence of streets, curbs and gutters
- Inadequate lighting
- Little or no access to utilities
 - Electrical service
 - Rail service
 - Natural Gas
 - Broadband
- Lack of water and sewer services
- Faulty lot layout

The Plan



URBAN RENEWAL PLANS TEDD COMPREHENSIVE DEVELOPMENT PLANS



TIF District Plans



- **Contents**
 - a description of blighted and/or infrastructure deficient conditions
 - a plan for addressing these conditions
 - a map and legal description
 - references/linkages to the jurisdiction's growth policy and zoning, and other related plans as appropriate (economic development, historic preservation, transportation, public health)
 - a management strategy
 - a statement of intent to use TIF and an associated base year.

Planning Board Review



Planning Board Role



- **Reviews the proposed plan for the district**
- **Makes a determination of conformance of the plan with the growth policy and whether the district is zoned in accordance with the growth policy**
- **Provides the governing body with its findings of conformance in writing within 60 days of receipt of the plan**

Public Hearing on the Plan



Hearing Notice Requirements for District Plans

...The notice must:



- describe the time, date, place, and purpose of the hearing
- specify the proposed boundary of the urban renewal area affected (2011 Legislative change)
- outline the general scope of the plan under consideration
- specify the goals the municipality has in the rehabilitation and renewal of the area
- indicate the method of financing the district and whether the municipality intends to use tax increment financing and bonds to be paid from tax increment financing. (2011 Legislative change)

Public Hearing Requirements



- 10 days notice
- Certified letters to property owners within the proposed district
- Notice published in the newspaper

Plan/District Adoption



Adoption by Ordinance



- **Ordinance must state all findings with respect to**
 - Infrastructure deficiencies and/blight
 - Plan conformance and zoning accordance with Growth Policy
 - That the district does not include any existing district
- **Ordinance must also include**
 - A legal description
 - An indication that TIF will be used
 - An effective date 30 days after adoption
- **Attachments include**
 - The hearing notice
 - The plan

Certification by the Montana Department of Revenue



Certification Documents



- Documents are mailed to DOR and all affected taxing jurisdictions no later than February 1st of the year following the district's establishment.
- The ordinance adopting the district plan and TIF provision must have an effective date no later than December 31st of the year of establishment of the district (its base year).
- The DOR may request additional information or ask for clarification prior to certifying the district.

Working with Affected Taxing Jurisdictions



Meet early and often



- **Include all the affected taxing jurisdictions in the initial planning stages**
- **Make informational presentations to county commissioners, school board representatives, city council members, planning board members to explain the proposed TIF district**
- **Encourage taxing jurisdictions to participate in every step of the adoption process**

Managing Urban Renewal and Targeted Economic Development Districts

Novem
ber,
2015



How are TIF Districts Managed?

- **Urban Renewal Districts**
 - The Local Governing Body with or without an advisory board, or
 - A separate “Urban Renewal Agency”, established by the local governing body.
- **TEDDs**
 - The Local Governing Body with or without an advisory board



Project Identification



- **Based on:**
 - Statutory Authority
 - Planning Goals and Objectives in the Urban Renewal Plan
- **Limited by:**
 - Financial Resources
 - Staffing Resources
 - Available Opportunities

Project Types



- **Feasibility Studies**
 - Market Analyses
 - Engineering Studies and Reports
- **Programs and Activities**
- **Capital Projects**
 - Direct Financing
 - Leveraged Financing
 - ✦ Matching funds
 - ✦ Seed monies
- **Governing Body/Agency Initiated vs. Applicant Initiated**

Overall Considerations



- **Projects should be:**
 - In the Annual Work Plan
 - Generally Provided for in the Urban Renewal Plan on Comprehensive Development Plan
- **Each year's projects should be submitted to the Governing Body for approval with the annual budget**
- **Projects should be bid and managed in compliance with local procurement laws as well as those governing any state, federal or private matching funds**



Annual Work Plan



- An Annual Work Plan for the URD or TEDD is submitted to the Governing Body in the spring of each year for the following fiscal year (July 1st to June 30th) to include:
 - Anticipated Increment Revenue for the Year
 - Project and Program Priorities and Associated Costs
 - Financing Strategies Anticipated
 - Administrative Budget

Termination of Tax Increment Provision



- A tax increment provision terminates upon the later of:
 - the 15th year following its adoption or
 - the payment in full of all tax increment bonds payable from the tax increment derived from the district
 - Note: The district sunset date cannot be extended by bonds issued later than those issued during the first fifteen years.
- Revolving loan funds may continue to operate after the TIF district sunsets



Questions

