



# TAX INCREMENT FINANCING ADMINISTRATION AND IMPACT

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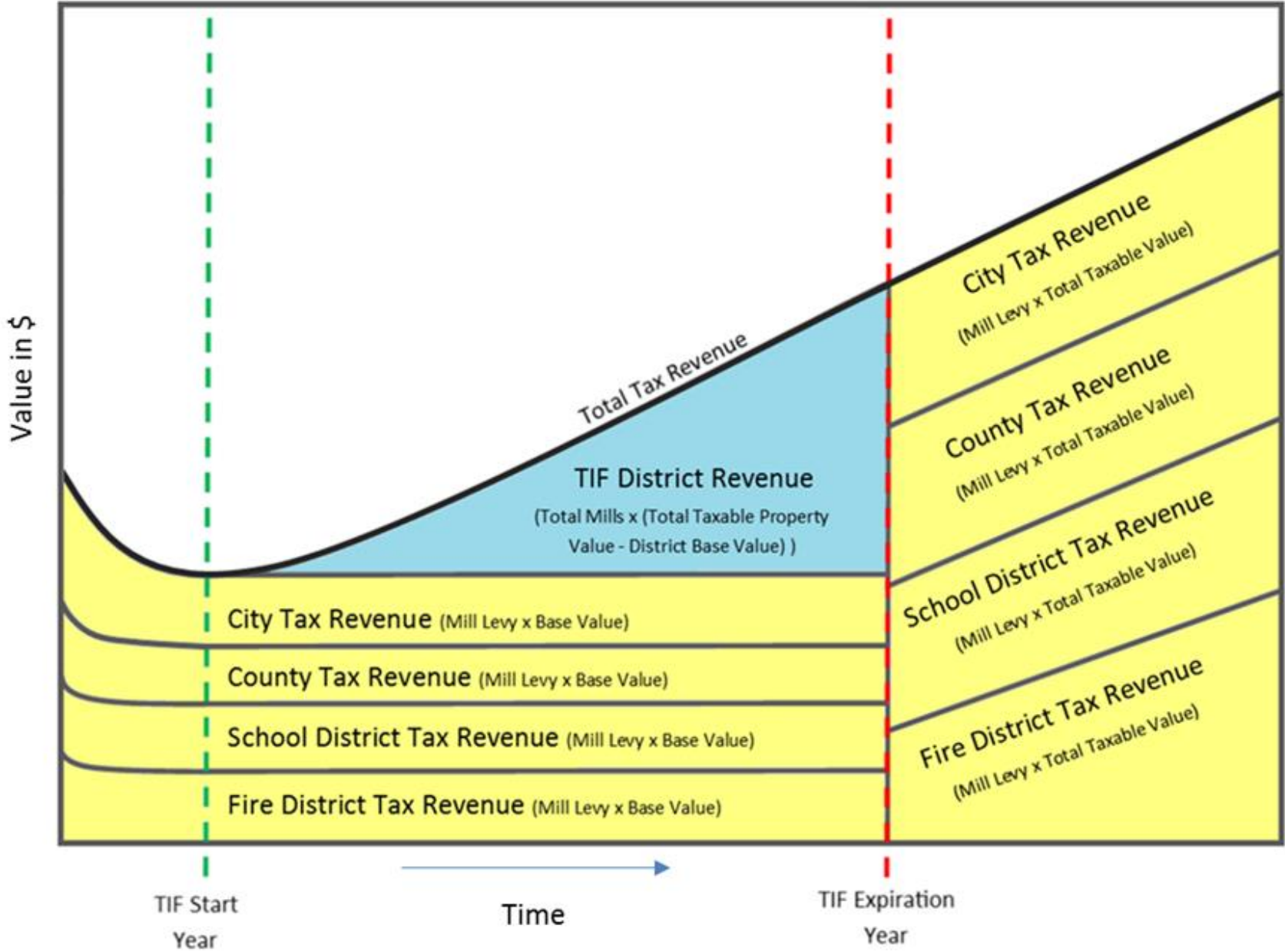
# What is TIF?

## ■ Urban Renewal Law

- *Allows for local governments to create development districts (i.e. Urban Renewal)*
- *Allows for the use of a tax increment provision to fund development projects*

## ■ How TIF Works

- *“Base value” – Taxable property value in district prior to the districts creation*
- *“Increment value” – Increase in taxable property value above the base value*
- *“Tax increment” – The tax revenue collected by the district*



# Objectives

- Determine how Tax Increment Financing is being used to combat blight and infrastructure deficiencies across the state as required by state laws and rules.
- Evaluate the Department of Revenue's oversight role of Tax Increment Financing in regards to district approval, certification, and monitoring to ensure districts are operating according to state laws and rules and department policies.
- Determine the impacts of Tax Increment Financing Districts in Montana, including property value and condition, employment, and other state and local benefits.

# Methodologies

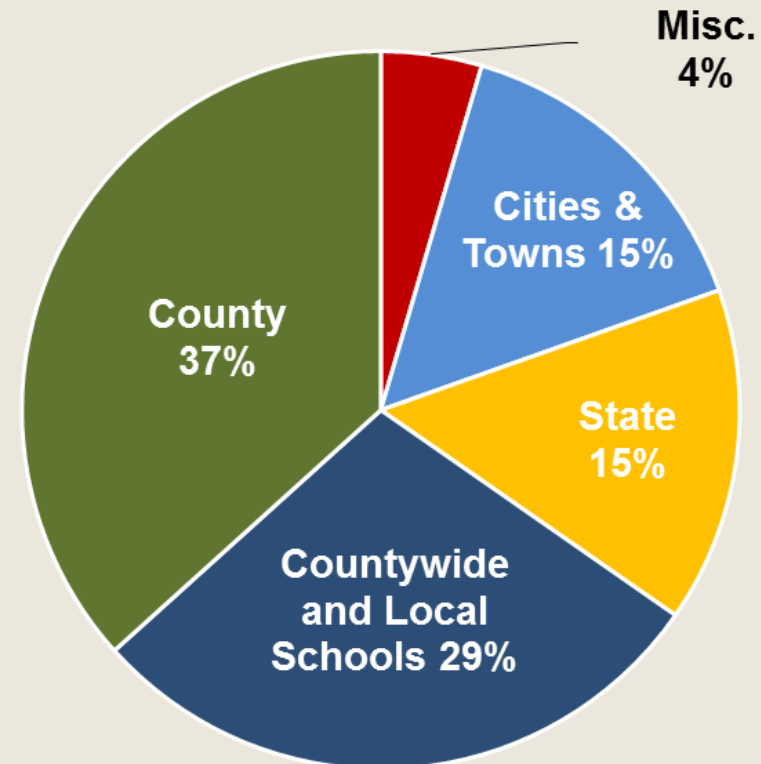
- TIF document review (application packets, debt offering statements, expenditures, remittance agreements, etc.)
- Site visits and interviews with state and local government staff
- Interviews with central DOR staff
- Survey of local government financial officers and TIF managers
- Survey of county and regional DOR PAD staff with TIF duties
- Statistical analysis of TIF impacts

# USE OF TIF BY LOCAL GOVERNMENTS

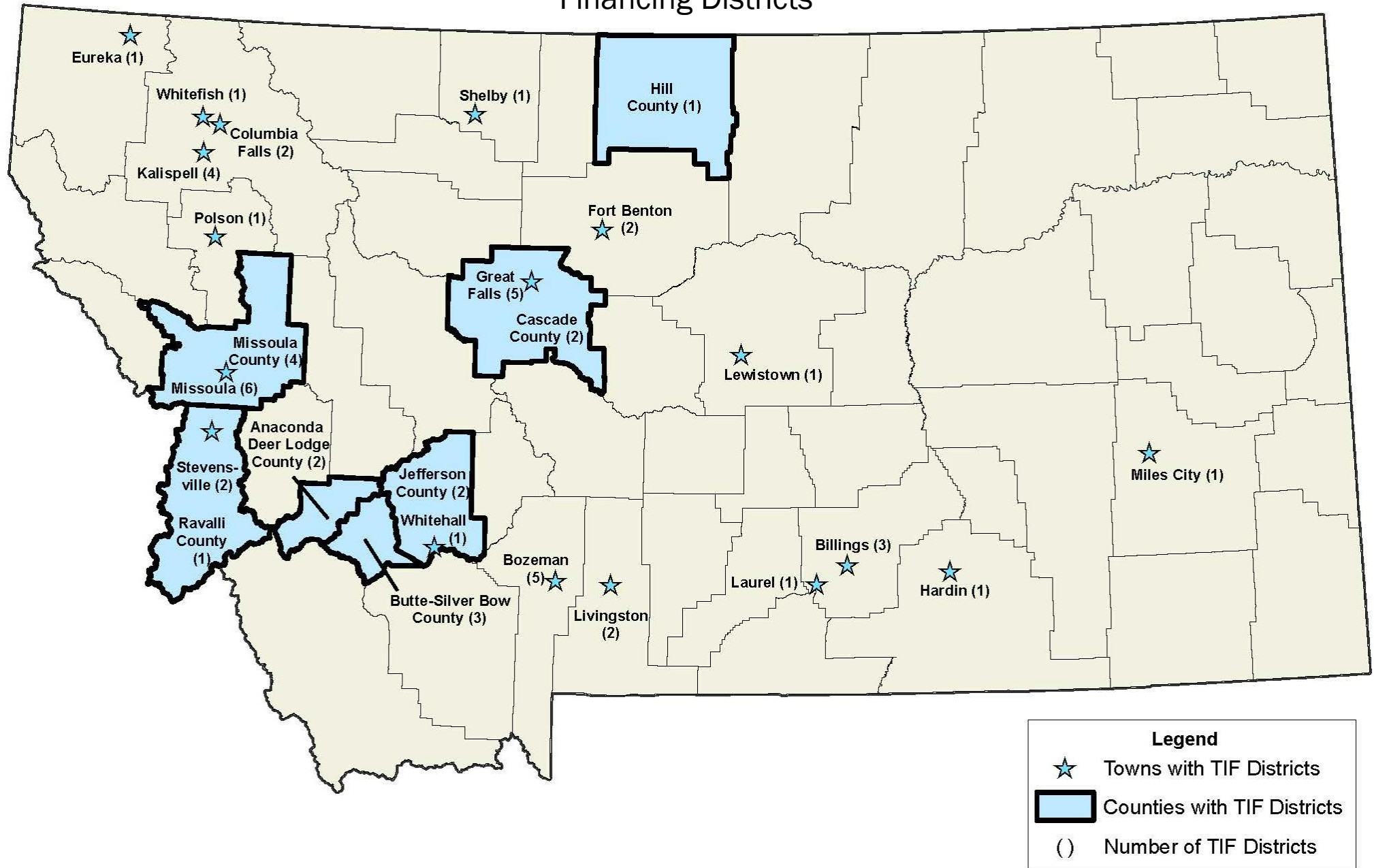


# 2016 TIF District Increment Estimate by Taxing Jurisdiction

In 2016, over \$35 million in tax increment was sent to TIF districts, around \$5 million of which was generated with state mills



# Location and Number of 2016 Active Tax Increment Financing Districts



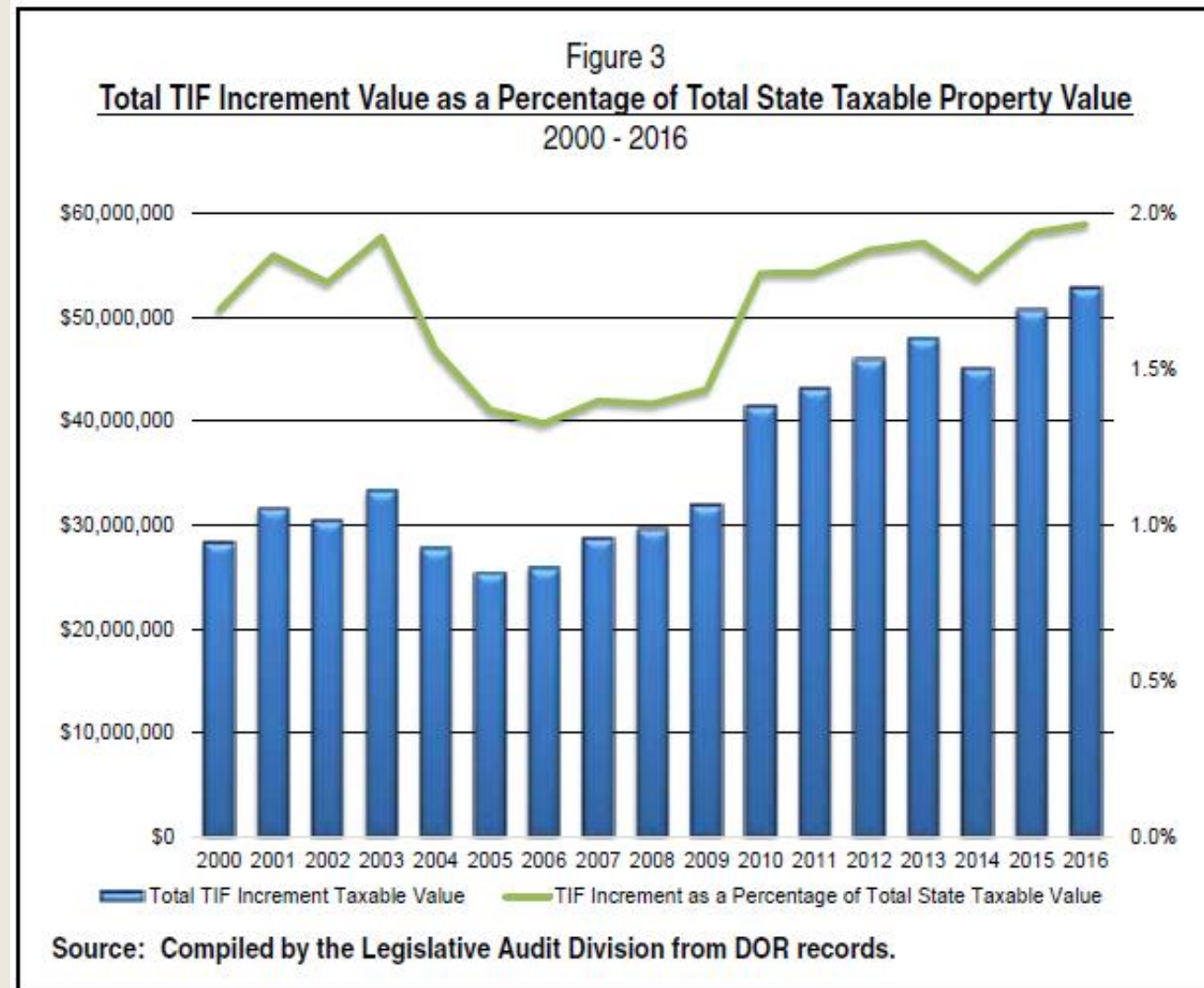
**Legend**

- ★ Towns with TIF Districts
- Counties with TIF Districts
- () Number of TIF Districts



# Change in TIF Over Time

- While TIF increment as a percentage of total state taxable value has grown, so has total state taxable value
- As a proportion, TIF has increased slightly from 1.7% to 2% over the past 16 years



# Review of Local Government Implementation

- Local reasons for creating districts
- Public process practices
- Management structures of districts
- Involvement of other taxing jurisdictions
- Use of TIF funds
- Use of debt financing
- Use of remittances to other taxing jurisdictions

# Motivation for Creating Districts and Public Process

## Reasons for Creating Districts

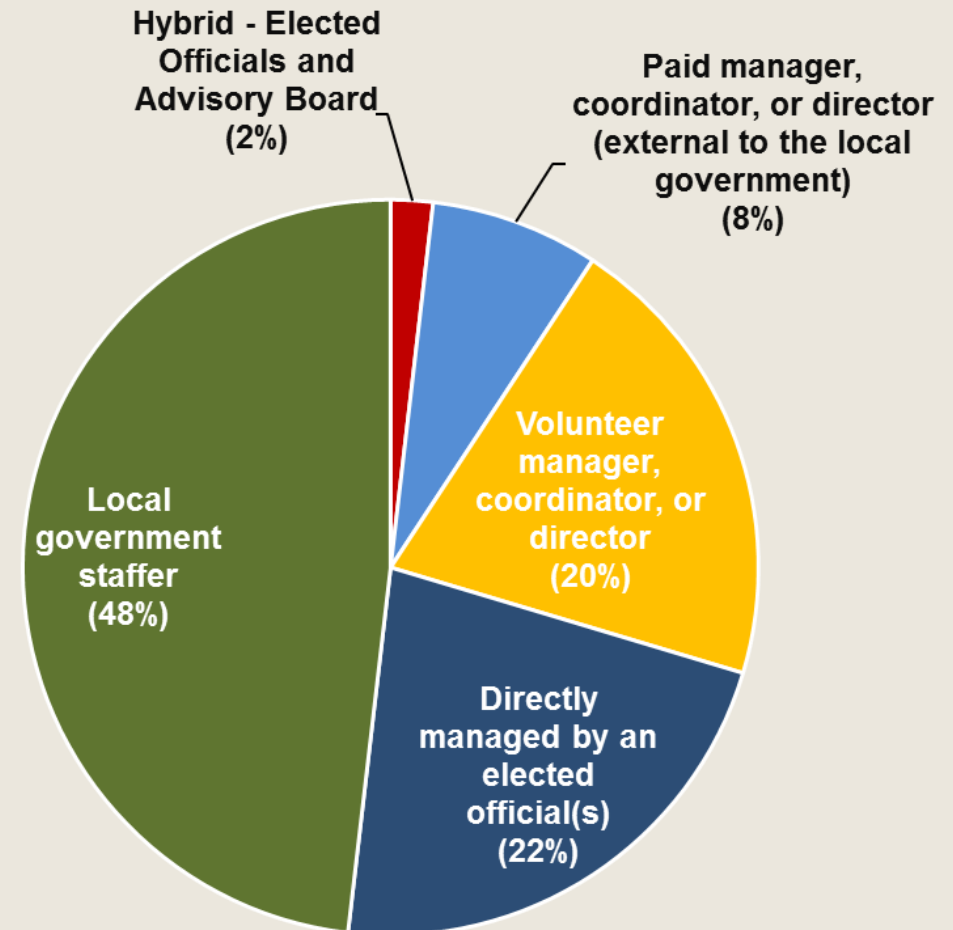
- Improve or maintain infrastructure (81%)
- Combat blight (74%)
- Increase local jobs (59%)
- Stabilize or increase declining tax base (59%)

## Public Process in Decision Making

- Statutory requirements for public notice in the creation process & budgeting process
- Communities also sometimes use additional methods beyond statutory requirements to involve the public

# Management Structures of Development Districts using TIF

- Most districts are managed internally by a local government staffer or directly by elected officials
- Relatively few use external paid managers

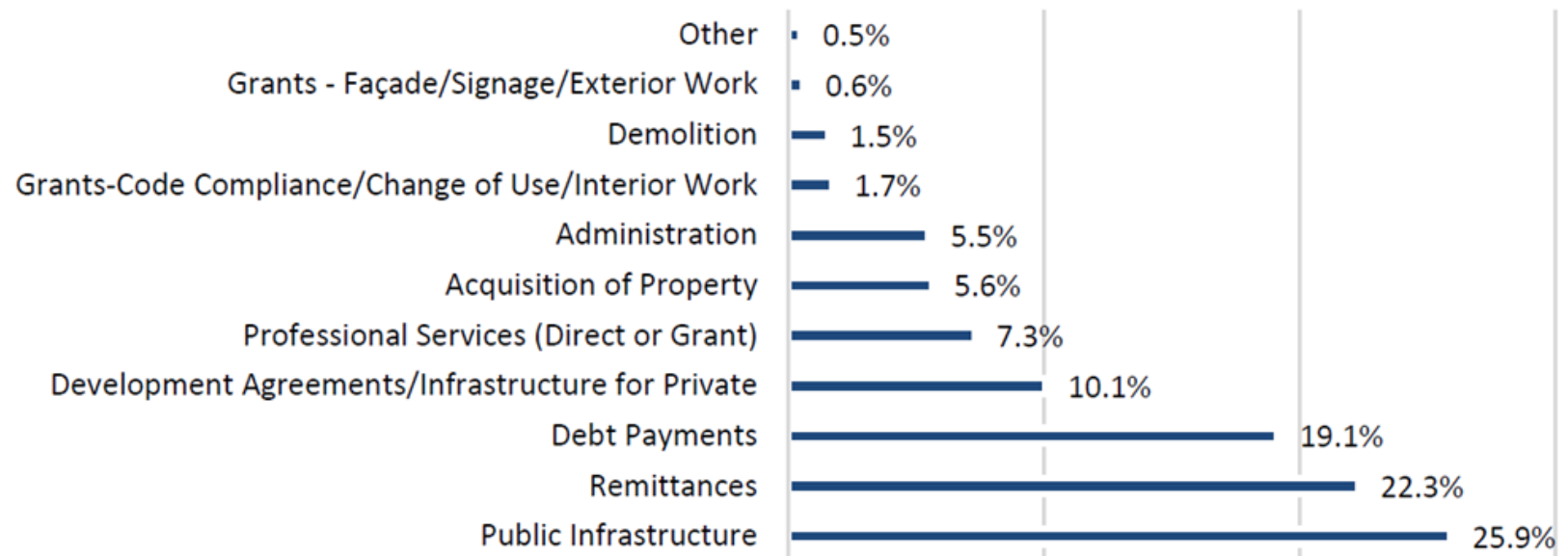


# Involvement of Other Taxing Jurisdictions

- **When initiating a TIF provision, statute requires:**
  - *“take into account the effect on the county and school districts that include local government territory” (§7-15-4284)*
  - *file a copy of each plan, ordinance, or amendment with the clerk or other officer of the affected taxing bodies*
- **Districts typically invite other taxing jurisdictions to advisory board meetings when major changes are being considered (survey)**
- **TIF has little-to-no effect on school district funding**

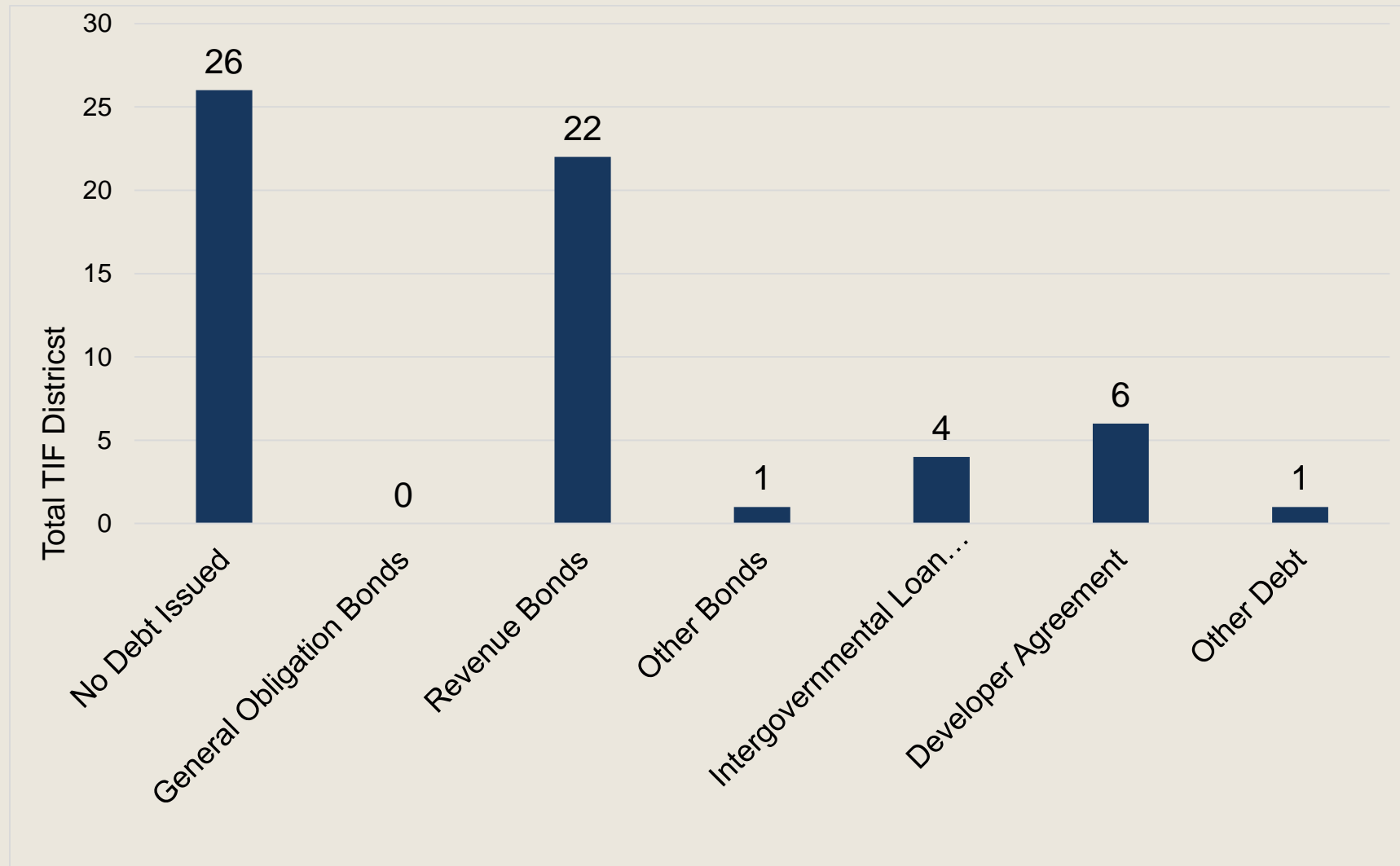
# Summary of Expenditures for Select Districts

Figure 7  
2016 Expenditures in Sampled TIF Districts



Source: Compiled by the Legislative Audit Division from district expenditure reports.

# Debt Financing in TIF Districts



# Use of Remittances

- Most local TIF managers and staff do not intend to create remittance agreements with school districts in the future
- Remittances were provided to only four school districts in 2016, totally \$2.76 million
- Districts are now more likely to include school districts within the boundaries of the district to directly conduct development projects on the school



# Conclusions

1. Though local governments are using a variety of ways to manage TIF districts across the state, including the extent to which they involve other taxing jurisdictions, they appear to be following the public notice and involvement requirements.

# Conclusions

2. There are few statutory guidelines on the implementation methods and appropriate use of TIF funds, particularly for urban renewal districts. This results in local governments using TIF funds under the direction of their local governing body in diverse ways to fulfill local development goals. Overall, TIF districts are using the majority of TIF funds in accordance with the more restrictive allowable costs cited in §7-15-4288, MCA. Additionally, projects appear to relate to the broad statutory goals laid out for development districts in the Urban Renewal Law.

Questions?

# STATE ADMINISTRATION OF TAX INCREMENT FINANCING



# Department of Revenue's Role

- **Property Assessment Division (PAD)**

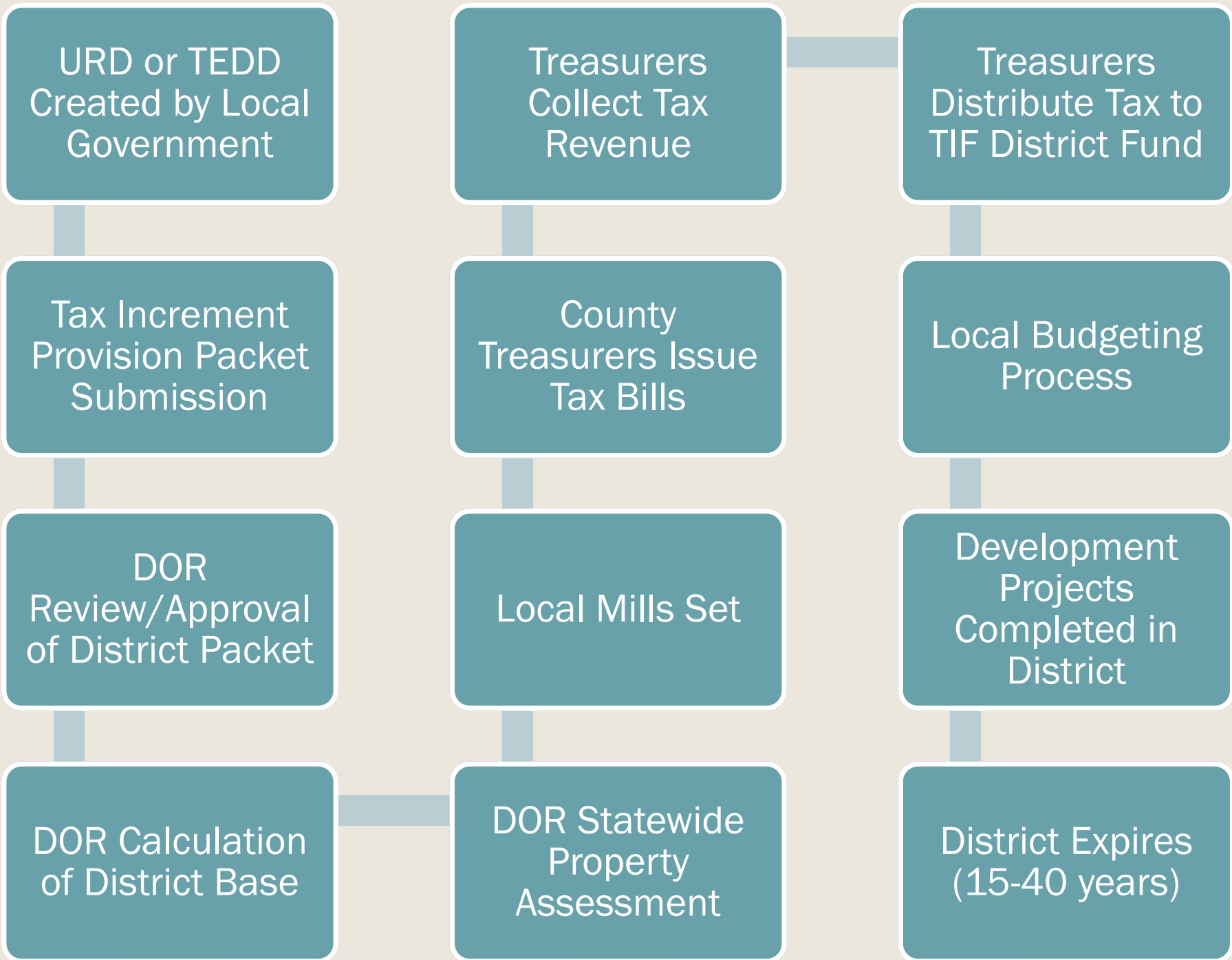
- *Valuation of district values and report of these values in certified value forms*

- **Tax Policy and Research (TPR)**

- *Reports TIF information in its biennial report*

- **Legal Services**

- *Approves district packets for TIF provision*



# TIF District Approval Process is Inconsistent

- Current timeline in rules does not reflect needed notice of DOR to calculate values
- Identified some missing documentation according to ARM requirements
- Found DOR inconsistently requires additional documentation relating to statutory requirements, but not reflected in ARM
- **Recommendation #1: Update rules to better reflect statutory requirements and current DOR practice, and also communicate accurate notice requirements**

# TIF District Value Errors

- Identified errors in base values in certified value forms from 2012 to 2017 (when available)
- Survey results found local officials and DOR PAD staff perceived issues with value accuracy
- Interviews identified lack of consistent review of certified TIF base and increment values
- **Recommendation #2: Develop a process to check increment and base values prior to sending forms to local government, and establish formal lines of communication for locals to use to discuss concerns about values**



# Distribution of the Tax Increment

- Errors with a county tax software program has caused issues in the past with tax increment distribution
- **Recommendation #3: Guide county treasurers regarding proper calculation of increment distribution**

# TIF Data are Not Accurate

- Different offices within DOR have conflicting records of TIF districts
- Packets submitted for district approval are not tracked, well organized, or complete
- **Recommendation #4: Coordinate the collection, entry and maintenance of tax increment financing district information by defining formal job duties and processes.**

# Communication of TIF Expectations to External Stakeholders

- DOR policy specific to TIF is not comprehensively developed
- DOR does not have a comprehensive communication strategy for expectations and processes regarding TIF
- **Recommendation #5: Develop and communicate policies and procedures to stakeholders**

# Department Response

- Concerned about authority to implement recommendations
- Experienced decreased personnel capacity
- Plan to create a TIF section on the DOR website

Questions?

# TIF STATEWIDE IMPACTS



# Locally Reported Impacts of TIF

Local governments reported a number of positive impacts of TIF, including:

- Maintaining or improving local infrastructure
- Encouraging infill development
- Decreasing blight
- Encouraging private development
- Lowering local mill levies
- Spillover effects to other properties or even outside the district

# TIF Impact on Property Value

## ■ Methodology

### – *Stage 1:*

- 7,911 parcels from TIF districts created between 2003 and 2014 were matched with 7,911 similar nonTIF parcels from the same year
- Characteristics considered to influence selection for TIF (at year selected):
  - *Property type*
  - *Value per acre*
  - *Distance from nearest municipality center*
  - *Parcel size*
  - *Past 3 years change in market value*
  - *Local demographic features (population, median household income, 3 year population change)*



# TIF Impact on Property Value

- Methodology:

- *Stage 2:*

- Assessed average annual growth in property value from year parcel selected to 2017
    - Aimed to separate the TIF effect on property value from other characteristics that affect property value, including:
      - *2017 parcel size*
      - *2017 property type*
      - *2015 local median income (most recent available)*
      - *2016 local population (most recent available)*
      - *Population average annual growth rate*
      - *“Age”*

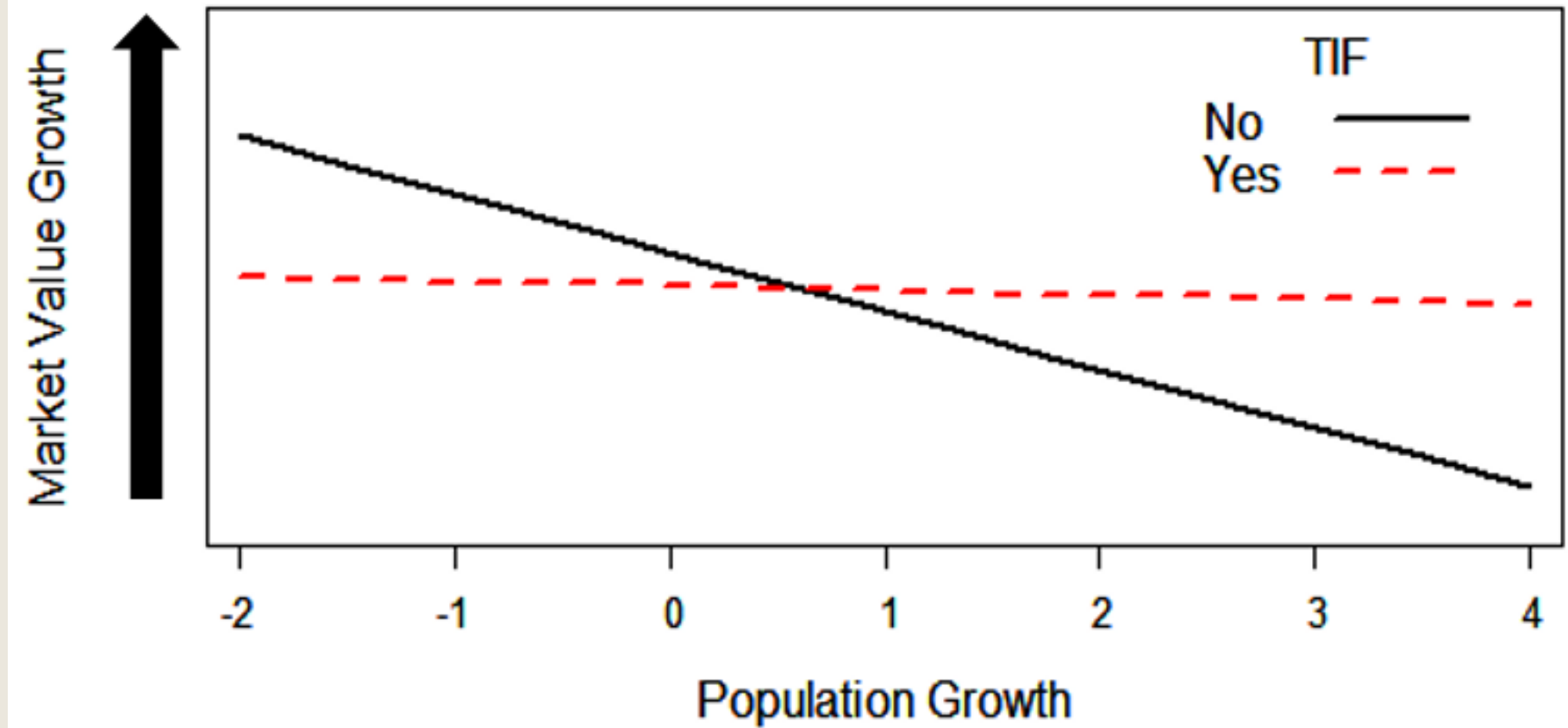
# TIF Impact on Property Value

## ■ Results

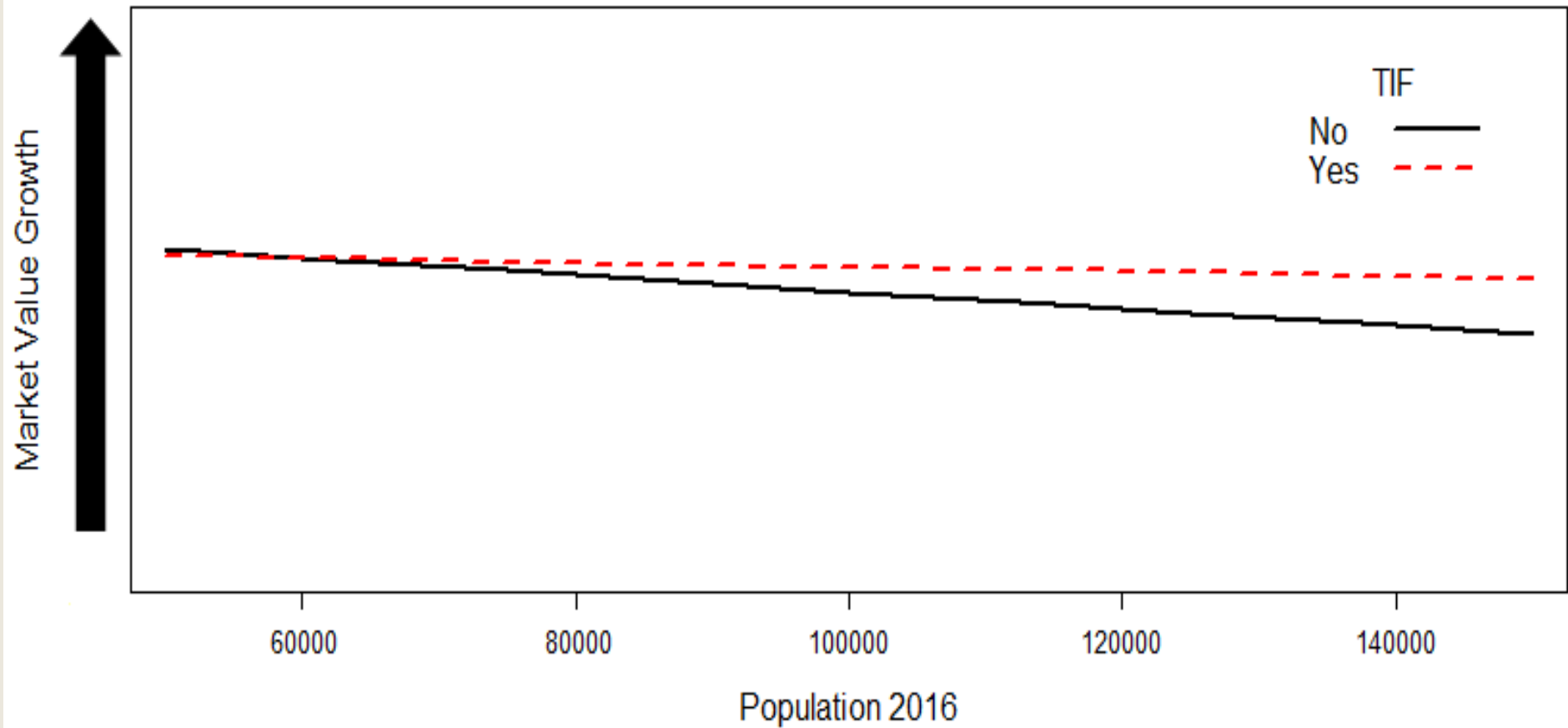
- *TIF can affect market value, but effect depends on outside factors, including:*
  - *Population growth,*
  - *Total area population, and*
  - *Area median income*

*Analysis was on the **parcel level**, not the district level*

## Effect of Population Growth on Market Value



### Effect of 2016 Population on Market Value



## Effect of Median Income on Market Value

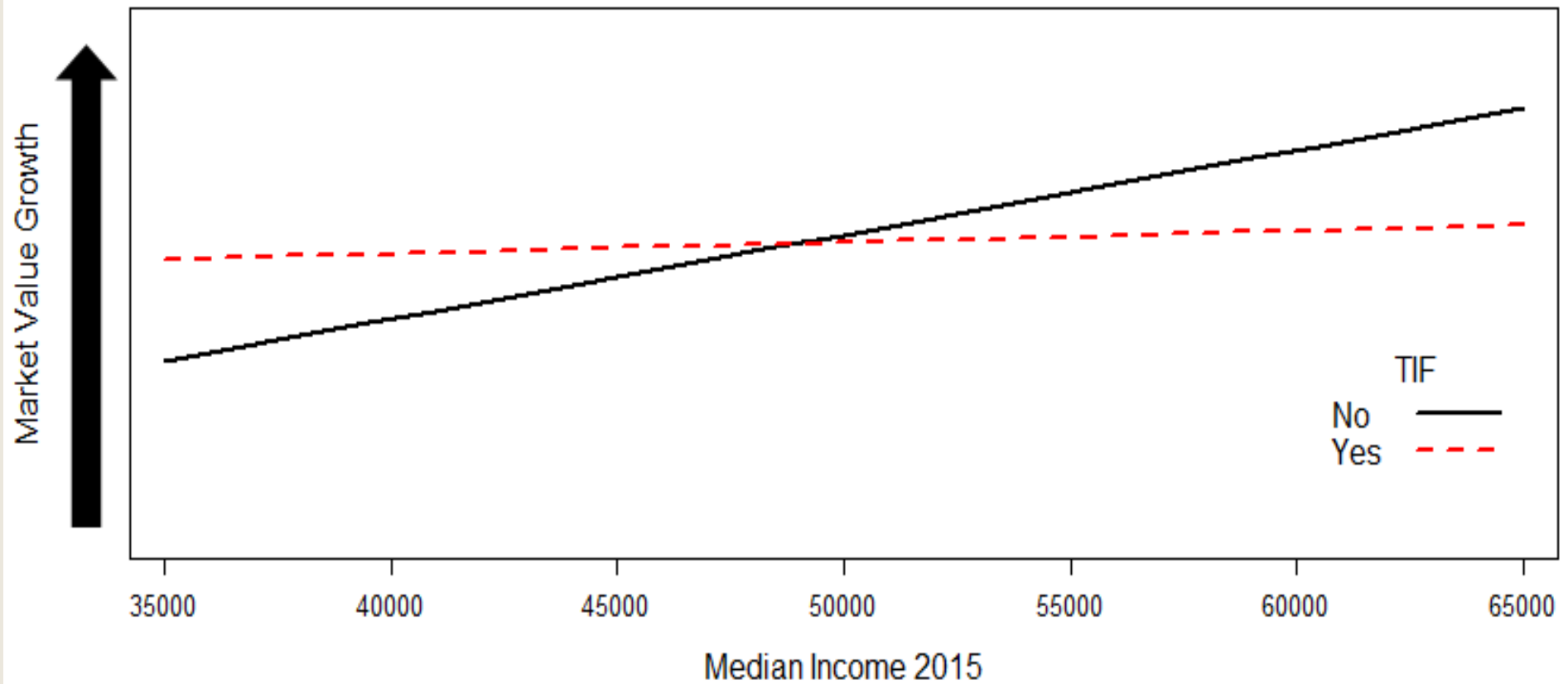
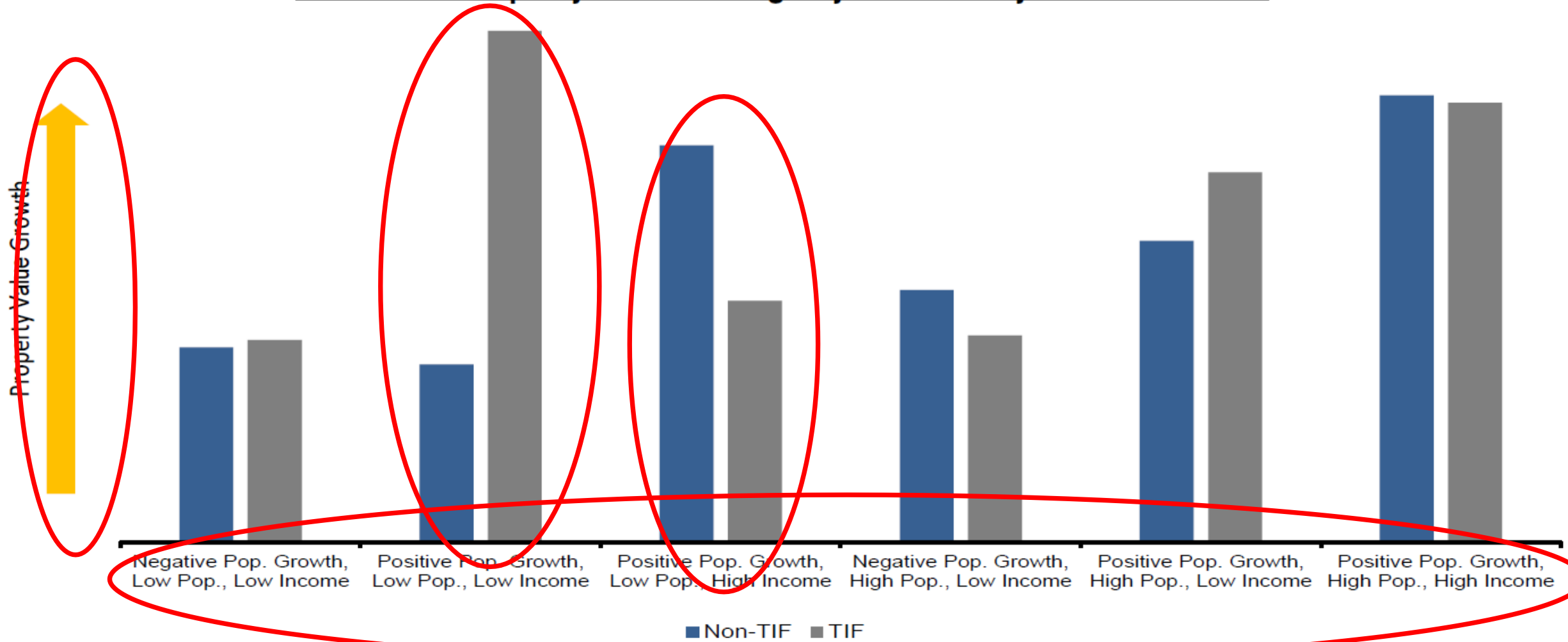


Figure 11

Estimated Property Value Change by Community Characteristics



Source: Compiled by the Legislative Audit Division.

# Conclusion

Demographics of different communities influence the success of tax increment financing for increasing property value growth. As a result, TIF can impact the growth of property value, but does not always increase property value above what the area would have experienced otherwise.

# NEED FOR STATUTORY CLARIFICATION





# State Laws Lack Direction for State and Local Entities

- “Qualified” TIF district not defined outside of process requirements
- Where DOR’s role ends and local’s begins is not always clear
- No clear state goals or performance measures for TIF, or a state entity evaluating the provision

# The Legislature Should Clarify TIF Responsibilities

- District “qualification”
- Define state, county, and local governments responsibilities in administering and monitoring TIF
- Identify goals for TIF
- Directing an entity to evaluate whether or not TIF, on a state-wide level, is meeting identified goals

# Recommendation #6

We recommend the Montana Legislature

- A. Define what criteria the Department of Revenue should review to approve qualified tax increment provisions as described in §7-15-4285, MCA, and
- B. Clarify tax increment financing laws, including statutory goals, state and local administration, monitoring, and how TIF should be evaluated.

Questions?