From:	Kelly Lynch
To:	Moore, Megan
Cc:	Tim Burton; Bill Bronson
Subject:	Response to 2011 MSUB TIF Study
Date:	Friday, February 16, 2018 12:28:25 PM
Attachments:	FINAL Response to MSUB Memo 2-16-18.pdf

Good afternoon, Megan,

Last fall when the MSUB TIF study was presented to the RATIC and LGC committees, representatives of some of the local jurisdictions with tax increment financing expressed some concerns with the methodology and conclusions in that report. After several discussions with our members, City Councilmember Bill Bronson from Great Falls finalized our concerns into the attached memorandum. Would you please distribute this to the members of both Committees as our formal response to the MSUB TIF study? Thanks!

Let me know if you have any questions, and have a great weekend! -Kelly

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MEMORANDUM

TO: TIF Working Group

FROM: Bill Bronson (Great Falls City Commissioner)

RE: Analysis of the 2011 MSU-Billings TIF Study

DATE: February 15, 2018

During our first meeting in June 2017, I agreed to undertake a review of the MSU-Billings Tax Increment Study, conducted in 2011.[1] This memorandum sets forth the results of that review, and incorporates our groups discussion and comments since the first draft of this paper was reviewed by the Working Group in late September 2017.

The existence of this study surfaced during some of the legislative debates over tax increment financing in 2017. The Revenue and Transportation Interim Committee [RTIC] will review and consider the study as part of its assessment of tax-increment financing prior to the 2019 legislative session. Our TIF Group needs to study the proposal as well and be prepared to comment and criticize where appropriate.

The study is somewhat daunting, to say the least. It is comprised of 48 pages of text and graphics. The Executive Summary states that the Yellowstone County districts they studied in general "*produce a higher rate of economic growth than the rest of the area.*"[2] This tends to confirm our belief and understanding of how TIF's perform. However, the Summary also states that," *depending upon the future growth in the costs of providing public services, these TIF districts may or may not*

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[1]S. Rickard & J. Jones, *Analysis of the Performance and Potential of Tax Increment Financing Districts in Yellowstone County, Montana*, Montana State University-Billings, Center for Applied Economic Research (January 2011).

[2] Id., p. 1 (Executive Summary).

produce sufficient tax revenues to cover all of their service costs in the later years of the district's lifespan."[3] This conclusion is troubling.

Preliminary review of the entire study suggest that its authors may be laboring under misunderstandings of how local government services are provided, and how they are financed. These misunderstandings lead to incorrect conclusions and will mislead legislators in their efforts to understand tax increment financing. This paper responds to the misunderstandings.

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<u>MSU-B ASSUMPTION (1)</u>: *The costs of providing city services to a TIF district increase over time, while the pre-TIF district valuation remains fixed. Consequently, the district may at some point cost more to the city or county sponsoring the TIF, at which point the sponsoring/taxing jurisdiction ends up "subsidizing" the public services provided to residents of the TIF district.*

<u>COMMENT:</u> This assumption is not based on actual experience or practice.

<u>ANALYSIS:</u>

(1) *Utility services (water, sewer, stormwater)*: residential and/or commercial/industrial customers typically pay for these services on a "fee-for-service" basis; the city does not pay for them out of general fund revenues. The rates charged for these services are calculated without regard to whether a payor is inside or outside a TIF district. For example, a commercial customer located within a TIF District pays the same rate for water, sewer, and or stormwater services as a commercial customer located outside the district. Both users will pay the same increases in rates, if any, adopted by the governing body.

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[3] <u>Id.</u>

(2) *Police/Fire-Rescue*: these services are paid for by general fund revenues. A "user" does not receive a bill for service. There is no way that the overall cost of that service can be "allocated" to a specific area or district located within a city or county.

As TIF's generally involve newer construction, it is more likely that demands for police and fire services are less than what they are for other areas of a community. At least in the instance of demand for fire suppression services, one can argue that newer construction may not involve as many fire calls as an area with older construction. Police service calls may actually be *less* in a TIF district previously characterized by urban blight, as the latter might typically experience more police calls. To that extent, the "cost" of providing police and fire services within a TIF district is "less" than what it would be elsewhere.

(3) *Street Assessments:* owners of property located within the TIF districts also pay street assessments, if such are imposed by the local taxing jurisdiction. These assessments are not reduced simply because the property is located within the district.

(4) *Other services:* If a community (like Great Falls) conducts safety inspections on commercial/industrial properties, the charge is uniform as between TIF districts and other areas of the city. The same would be true of general business licenses.

It is true that a taxpayer in the district is effectively paying a smaller share of its ultimate tax bill into the general fund revenue pool, used for provisions of public services, as the taxes paid on the new, added valuation are only available for expenditure within the TIF district itself, during the life of the district. That does not mean the taxpayer is paying *less* for the same value of service provided to someone outside the district, or that the property taxpayers outside the district are subsidizing the cost. Only if can be proven that the taxpayer in the TIF district is somehow making extremely disproportionate use of the service might it be said that the TIF district resident is getting subsidized.

SUMMARY:

The assumption made in the study does not consider the realities of local government services and how they are paid.

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MSU-B ASSUMPTION (2): *The study also offers as "corollary" assumption, the idea that if costs of providing services to the TIF district are greater than tax receipts, then "residential" property taxes are effectively covering or subsidizing these additional costs.*

COMMENT: the authors of the study are assuming that the costs are greater, which is not borne out in practice. It also assumes – incorrectly – that the only other taxpayers are residential.

ANALYSIS:

As discussed in the previous section on the nature and costs of public services, there is no evidence that TIF districts necessarily entail higher costs relate to the provision of public services. It is also inaccurate to suggest that taxpayers outside the TIF district are residential only. Some are commercial and/or industrial.

SUMMARY:

Once again, the study conclusions are too general and present a misleading picture of what actually occurs.

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MSU-B ASSUMPTION (3): *the study at times appears to suggest that the only beneficiaries of the creation and operation of the TIF district are the residents of the district.*

<u>COMMENT</u>: as with the assumption on cost of services, the assumption of "limited benefit" is over-simplistic, and not borne out in practice.

<u>ANALYSIS:</u>

For purposes of illustration, consider the Great Falls West Bank Urban Renewal TIF. Prior to redevelopment, the district lacked any essential infrastructure. It was blighted. Few if any of the functioning properties generated any significant tax revenue. Anecdotally, it is also true that at least one of the properties in the area (a roadhouse-style bar) was a frequent "consumer" of public services, in the form of law enforcement (i.e., police calls.)

Upon creation of the district, developers began construction of a new federal courthouse (the building is privately owned and leased back to the government, so the property is on the tax rolls), a major hotel, and a new restaurant. There were no streets or utilities. One of the principal developers agreed to construct the streets according to city and state DOT specifications, if it could receive reimbursement out of TIF revenues, once available. A development agreement was entered into whereby the developer agreed to construct the streets in accordance with City/DOT requirements, at a fixed price. Revenues from the newly-created increment, derived from new and valuable properties, are sufficient for reimbursement, and those payments are now being made.

These new streets and adjacent utilities are not privately owned; they are public. Anyone can use them or benefit from them. Virtually everyone who does, to access the hotel and the restaurant, or the other new properties, live or reside *outside* the TIF district. While the actual monetary benefit cannot be easily quantified, there is clearly a public benefit to non-district residents.

Moreover, the overall aesthetics of the area have improved immensely, and continue to improve. The physical appearance of the area has improved, with attractive, high-quality construction. There are green spaces in and around the new developments. These types of improvements are without question appreciated by those who use the services available in the district, but those are only driving by the district. Economists typically refer to these benefits as "positive externalities;" these are benefits that the user or consumer does not necessarily pay for, but they benefit nonetheless.

The public park bordering the district, which pre-dates the district itself, has also benefitted. A new playground was constructed in the area, making the vicinity far more useful and attractive than it was prior to the development.

SUMMARY:

Benefits flowing from the creation and development of the district will generally outweigh the costs. Some of these benefits exist if they cannot be quantified.