



Organization

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MEMO

TO: Sara Hudson, Project Manager
Big Sky Economic Development

FROM: Janet Cornish, CDS Of Montana *je*

Re: Responses to Questions Concerning Targeted Economic Development Districts

DATE: April 10th, 2015

I am pleased to provide my thoughts in response to the questions that have been raised concerning the creation of a Targeted Economic Development District (TEDD) in Yellowstone County in the Lockwood “concept area”. **These answers do not constitute a legal opinion.** Rather, they are based on my experience working with tax increment financing (TIF) and various types of TIF districts throughout the state of Montana. Do let me know if you have any further questions or require additional clarification.

1. *Presently, approximately 42% of the property taxes supporting Lockwood School comes from one business, the Exxon refinery. We need to diversify our business tax base so our school funding is not so heavily dependent upon one business.*

Response

In 2013, the Montana Legislature passed Senate Bill 239, the Targeted Economic Development District Act, specifically authorizing the use of tax increment financing (TIF) in support of secondary, value adding businesses in both incorporated communities and counties. The Act, which has been codified in the Montana Urban Law, specifically in § 7-15-4279 MCA, reflects the state’s desire to encourage the retention and recruitment of manufacturing and knowledge-based employment through the construction of infrastructure in support of value-adding economic activities. This is clearly stated in the preamble to the Act, which says:

- Infrastructure-deficient areas exist in the municipalities of the state and constitute a serious impediment to the development of infrastructure-intensive, value-adding economic development in Montana;

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- municipalities lack sufficient capital to rectify the infrastructure shortage in infrastructure-deficient areas, thus impeding their ability to achieve economic growth through the development of value-adding industries;
- the creation of infrastructure in support of value-adding economic development is a matter of state policy and state concern because the state and its local governments will continue to suffer economic dislocation due to the lack of value-adding industries; and
- the state's tax increment financing laws should be used to encourage the creation of areas in which needed infrastructure for value-adding industries could be developed.

TEDDs, therefore, provide a critical implementation strategy to help achieve long term, diversified and sustainable development in the face of the critical challenges that confront Montana communities. The creation of a TEDD at Lockwood will help to diversify the property tax over time, resulting in less dependence on a single taxpayer.

2. The TEDD will freeze the tax base in the area at its present level. While expenses continue to increase for Lockwood's School, Water and Fire districts, no additional revenue will be available from new businesses in the TEDD area for 15 or more years.

Response

Tax Increment Financing (TIF) does not "freeze" the tax base. Rather, property tax increases due to increases in taxable value within the TEDD will be reinvested within the district. Growth in taxable values and the associated increases in property taxes outside the TEDD will be available to all of the taxing jurisdictions. While tax increment revenues are directed to a special fund for expenditures within the district, the taxes derived from the base taxable value continue to be distributed to those taxing entities that levy mills within the district. The affected jurisdictions don't lose any existing revenue. In fact, if there is a loss in the base taxable value, no increment will be realized until the base is "made whole".

TIF districts represent a very small portion of the total taxable property values in the state. In 2014, the taxable value of all property in the state of Montana was \$2,520,708,358, while the combined incremental taxable value of all active TIF districts in the state was \$45,186,770, less than 2% of the total. (Montana Department of Revenue, 2015).

In addition, TIF districts can support other taxing entities through the funding of infrastructure that is required to connect to services that are located outside the district. TIF can also be used to support public services and facilities in proportion to services they provide within the TIF district. Across the State TIF funds have been used to help fund the specific cost of providing public services in a district, including maintenance of public

spaces, public safety programs and street maintenance. They have also been used to directly fund capital improvements to schools, when those schools are located within a TIF district, helping to lower the overall price tag of those improvements for tax payers. If a TIF has excess funds in any one year, the TIF may remit funds to the other taxing entities which may use those dollars to lower their mill levy.

3. Shortfalls that may occur from revenue not generated by the TEDD will place additional tax burdens on other business and residential properties in Lockwood.

Response

As noted above, there are no “revenue shortfalls” associated with tax increment financing. If taxable values decrease within the TEDD, there will be no increment until the base is made “whole”. Increment is realized only when growth occurs in excess of the base value. Without growth, there is no increment.

Investments in infrastructure-deficient industrial areas encourage growth in all areas of a community. Employees of the businesses that locate in a TEDD purchase or rent homes, buy from local merchants and enroll their children in local schools, increasing both the community’s tax revenues and school funding allocations from the state.

Tax increment funds can be used to offset the cost of providing services and infrastructure within the district and benefit the entire community at the same time. For example, TIF was used to fund the construction of a sewer line from the Butte-Silver Bow Metro Sewer Treatment Plant to the Montana Connections Business Development Park, an industrial TIF district in Ramsay. Property owners located along the route, but outside the district, did not have to bear the burden of this major capital investment, but could take advantage of the new service by reimbursing for their proportionate share of that major capital investment.

It can be argued that without the public investment of increment dollars, new private investment would not have occurred, would not have occurred to the same extent, or would not have occurred in a timely, thoughtful manner. The use of tax increment dollars allows the community to guide the timing of infrastructure development, and private development reflecting local desires and needs through plan, budget and regulatory approvals.

4. It has been suggested that trickledown economics resulting from the TEDD will bring additional residential growth to Lockwood. With this growth will come additional homes and families but the TEDD will limit the resources to provide services for these additional families.

Response

Actually, the opposite is true. Growth in economic activity within the TEDD will create more activity in the community overall as service and retail businesses take advantage of the growing number of employees and families in the district. Again, as noted previously, additional families locating in the Lockwood area will add value to the residential property tax base and increase enrollment in the public school system.

The purpose of the TEDD is to enhance and grow local community resources over time. Economic development is a long-term proposition, not a quick fix. The creation of a TEDD requires a partnership between the local government and the business sector to achieve sustainable economic development.

The fundamental premise of the macroeconomic “trickledown theory” is that the benefits of providing tax breaks to the “rich” will inevitably trickle down to benefit the “poorer” members of a community. However, the TEDD tool is not a tax break. Businesses within the TEDD continue to pay the taxes they currently pay. As new growth occurs, they must pay an increasing amount of taxes on the value of that growth. A successful TEDD brings with it the guarantee that businesses will pay more taxes, not less.

TIF is not tax abatement, whereby the taxes abated are never paid and therefore not available to any of the taxing jurisdictions for education, public safety, infrastructure, or services. TIF does redirect all of the taxes received on *new* investment for a period of time, but the property owners must still pay their taxes and support the development of critical infrastructure in the area in which they locate. Taking the long view, this is a win-win for everyone!

5. Not enough data. When the TEDD was originally proposed, a specific boundary area was stated. Now, at more recent meetings, we are told that the TEDD boundary area has not been determined and could include as much as all the property from the interstate to the Yellowstone River in the study area. We are being asked to support a project that will affect our taxes for the next 15 years or more, if TIF bonds are issued, before the boundary and its financial impact on our community has even been established.

Response

The TEDD boundary is not final until the Commission officially adopts the Comprehensive Development Plan for the District by ordinance. Prior to the adoption of the Plan, the Commission must adopt a Resolution of Necessity, as required by statute, based on a finding of infrastructure deficiency within a generally defined “study” area. The final TEDD boundary may be smaller than the study area, but cannot be not larger. The final boundary description will be very specific and will be based on the inclusion of entire parcels within a legally described boundary.

The BSED has engaged in a process that began with an analysis of the need for planned industrial space in Yellowstone County. That analysis identified three concept areas, one of which was the Lockwood Concept Area. In the first Phase of the TEDD, our team met with the Lockwood community to review that area and draw a general “study area” boundary. No final boundaries have been set yet. That will come during Phase II of the TEDD project, wherein we will engage the Lockwood community in recommending final boundaries to the County Commission.

6. The monies from the TEDD are to be kept in Lockwood, but can only be used in the TEDD district with few exceptions. Will resources available from the county for other areas of Lockwood be reduced because of the TEDD?

Response

The property tax receipts from base year taxable values will continue to go to all the taxing jurisdictions. There will be no reduction in the amount of taxes that each of the taxing jurisdictions receive, including the county. In fact, their receipts will likely grow. Between 2014 and 2015, the taxable value of Yellowstone County increased by \$1.5 million, from \$306.2 to \$307.7 million. Over the past 10 years, the value has increased by about 45%, from \$212.3 million in 2005 to \$307.7 million in 2015. (Montana Association of Counties).

7. How TEDD monies will be spent in the TEDD area will be determined by the county, not by Lockwood.

Response

BSED’s Phase II planning process will provide ample opportunity for the Lockwood community to contribute to the development of the Comprehensive Development Plan for the TEDD, which identifies the projects and programs for which TIF and other funding tools will be used in implementation of the Plan’s goals and objectives. The BSED will then present that Plan to the County Commission for adoption. Should the County Commission adopt that Plan, it must expend those funds in accordance with the Plan.

Many communities, with TIF Districts in place, have chosen to establish TIF advisory committees. These committees work in conjunction with the local governing body to administer their TIF programs. There are no statutory requirements for such committees, which often include District property owners, area residents and business owners, economic development professionals, and other interested parties. While the City or County Commission retains budget authority, it relies heavily on the input from the committee in making decisions. An advisory committee can identify critical projects and program priorities, assist in estimating annual increment and prepare annual reports. Often a representative from the governing body will participate as a non-voting member on the committee and report committee activities to the Commission.