

Tax Increment Financing (TIF) in Montana - Glossary of Terms
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Adoption of a TIF Provision/Effective Date – Adoption occurs through passage of an ordinance, following a certified mailing to property owners, a properly noticed public hearing, two readings of the ordinance, which becomes effective 30 days after the second reading and final passage. The ordinance and either an urban renewal plan (for an urban renewal district), or a comprehensive development plan (for a targeted economic development district) must specially call for use of the TIF provision, the opportunity to use TIF bonds (when funds become available) and identifies a “*base year*” and the need for a corresponding “*base taxable value*” (see below) to be determined by the DOR, from which incremental increases in the taxable value are measured.

Base Taxable Value – The base taxable value means the actual taxable value of all taxable property within an urban renewal or targeted economic development district as it appeared on the property tax record as of January 1st of the year in which a TIF provision becomes effective (as certified by the DOR). For example, an urban renewal plan or comprehensive development plan containing a TIF provision, with an effective date on or before December 31st, 2017, would have a base taxable value calculated as of January 1st, 2017. Taxes which result from the base taxable value continue to be distributed to all taxing jurisdictions that levy mills within the district.

Beneficial Use Tax (Referred to as a Privilege Tax in §15-24-1203 MCA) – Business that lease property from exempt entities are subject to property taxes, calculated based on the percentage of space that is occupied. For example, a business that leases a portion of state-owned property must pay a share of the property taxes that would be owed by a non-exempt property owner. According to §15-24-1205 MCA, “the tax imposed hereunder shall be assessed to such possessors or users of the tax-exempt property upon the same forms and shall be collected and distributed at the same time and in the same manner as taxes assessed to owners, possessors, or other claimants of property which is subject to ad valorem taxation...”

Business Improvement District (BID) – BIDs are authorized under §7-12-1101 MCA and provide for a self-imposed assessment on property owners within a particular geographic area. The creation of a BID must be supported by a petition signed by no less than 60 percent of the property owners to be included in the BID. The BID must serve a public use and:

- promote the health, safety, prosperity, security, and general welfare of the inhabitants of the district and of the people of this state;
- be of special benefit to the property within the boundaries of any district created pursuant to the provisions of this part; or
- aid in tourism, promotion, and marketing within the district.

Some Montana communities have made use of BIDs in conjunction with the state’s urban renewal statutes and tax increment financing programs.

Centrally Assessed Property – Many districts also have a at least some *centrally assessed property*. Property classified as centrally assessed falls into several classifications. However, there are three classes of centrally assessed properties of concern to URDs and TEDDs. Class 9 includes pipelines and the non-electric generating property of electric utilities. *The market value of Class 9 property in local jurisdictions is determined by the portion of property that is in the local jurisdictions.* The tax rate is twelve percent. Class 12 includes all property owned by airlines and railroads. It is valued each year and the tax rate varies depending on the effective tax rate of all industrial property in the state. In 2016, the tax rate was 3.04 percent. Class 13 includes all property of telecommunication utilities and the electric generating property of electric utilities. The market value is determined on an annual basis by the Department of Revenue’s centrally assessed appraisers. The tax rate is six percent. (Montana Department of Revenue Biennial Report 2014-2016)

Incremental Taxable Value – The incremental taxable value is the amount, *if any*, by which the actual taxable value at any time exceeds the base taxable value of all taxable property within an urban renewal or targeted economic development district (the *net* increase in taxable value).

Industrial (“TIFID”), Aerospace and Technology Districts – Prior to 2013, three other types of districts were authorized to use TIF as a funding mechanism for projects. These were eliminated and replaced by the 2013 Montana Legislature under the Targeted Economic Development Act. Existing industrial, aerospace and technology districts may continue to operate, but no new districts of this type may be created.

Projects, Programs and Activities – The Montana Urban Renewal Law identifies the types of projects and programs that may be undertaken in a URD or TEDD. In general, these include the following:

- 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

§7-15-4288 MCA specifically lists the types of activities that can be paid by TIF. The list also includes the general redevelopment activities authorized under §7-15-4233 MCA. Urban renewal and targeted economic development projects proposed for funding by TIF (or other mechanism) *are required to be supported/justified in the urban renewal plan or comprehensive development plan adopted by the governing body.*

Property – The term “property” refers to all real and personal property that is taxed, based on a percentage of its value (an *ad valorem* tax). It also includes property owned by a non-taxable entity such as a government agency, but leased to a taxable entity. For example, a for profit business that leases property from the state of Montana would pay a “*beneficial use*” or “privilege” tax (see above), based on the value of the property that it occupies.

Targeted Economic Development District (TEDD) (§7-15-4278 MCA) – A TEDD is an infrastructure-deficient area within a city, town, county or consolidated city-county that constitutes a serious impediment to the development of infrastructure-intensive, value-adding economic development in Montana and where “the state’s tax increment financing laws should be used” to develop needed infrastructure for *value-adding industries.*” A resolution of necessity that documents the infrastructure deficiencies with the area to be designated must be adopted by the local governing body prior to embarking on the creation of the TEDD. The plan for a TEDD may include a TIF provision as a funding mechanism for implementing projects and activities identified in the plan

Tax Abatement – Under §15-24-1502 MCA, the remodeling, reconstruction, or expansion of an existing commercial building or structure that increases its taxable value by at least 5%, as determined by the Department of Revenue, may receive a property tax exemption (abatement of a portion of the property taxes owed) during the construction period, not to exceed 12 months, and for up to 5 years following completion of construction. The property tax exemption is limited to 100% of the increase in taxable value caused by remodeling, reconstruction, or expansion. The abatement must be approved by the local governing body after a public hearing. Tax abatement may also be applied to historic preservation projects under §15-24-1603 MCA. Tax increment financing (see below) is not an exemption from paying property taxes; rather it changes the distribution of the paid incremental increases in property taxes within a specific urban renewal or targeted economic development district .

Tax Increment - "Tax increment" is the amount realized from applying the tax levies, expressed in mills, of all taxing bodies in which the urban renewal or targeted economic development district or a part of the district is located against the incremental taxable value. (The six-mill university levy and certain voted mill levies are exempt from this calculation.)

The following table shows how the tax increment is calculated.

Tax Increment Calculation	
Base Year Taxable Value	\$10,000
Current Year Taxable Value	\$12,000
Incremental Increase in Taxable Value	\$2,000
Current Year Mill Levy	550 (total number of mills levied in the district less exempt mills)
Base Taxes due all taxing jurisdictions	\$5,500
Tax Incremental due to URA/TEDD	\$1,100

Tax increment Financing (TIF) - TIF is a state authorized, locally driven funding *provision* that enables cities and counties to direct property tax dollars that accrue from net increases in taxable value, within a specifically designated urban renewal (URD) or targeted economic development district (TEDD), to community and economic development activities *within or connecting to* that district. In Montana, TIF is authorized in §7-15-4201 and 4301, et. Seq. Montana Code Annotated (MCA), the State’s Urban Renewal Law.

Taxable Value – The taxable value of a property is determined by multiplying its assessed market value by a certain percentage, depending on its class. *Class 4 property* is the largest class of property in the state of Montana, as measured in both market value and the number of parcels. Residential, commercial, and industrial land and improvements are included in Class 4 and make up much of the real property in most TIF districts. The tax rate for residential property was 1.35 percent in 2016. The tax rate for commercial and industrial property was 1.4 times the residential property tax rate, or 1.89 percent in 2016. (Montana Department of Revenue Biennial Report 2014-2016)

TIF Bonds – Tax increments may be used to pay interest and principle on bonds issued for projects within a URD or TEDD. Bonds may be issued for a period, not to exceed 25 years. TIF bonds are a form of revenue bond and are typically not issued as a voter approved general obligation of the local government.

TIF Remittances – A local governing body may enter agreements with the other taxing jurisdictions to return (or *remit*) a portion of the increment not needed for projects and/or bond payments. Remittances must be made to all affected taxing jurisdictions in proportion to the number of mills levied by each within the URD or TEDD. Remittances can be made with or without an agreement, however; but they must be distributed proportionately to all the taxing jurisdictions.

TIF Sunset (§7-15-4292 MCA) – 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, not to exceed a total of 40 years

Note: The TIF provision sunset date cannot be extended by bonds issued later than those issued during the first fifteen years. No TIF provision may be in place for a period longer than 40 years. **Revolving loan funds** established with TIF funds may continue to operate after the TIF provision sunsets in accordance with the plan for the district. (The initial loan funds must be appropriated during the life of the TIF provision. Districts and their corresponding plans are not required to sunset and may continue to be implemented, but a new base year must be established if a TIF provision is to be used again.

Urban Renewal Agency (URA) (§7-15-4231 MCA) – A local government may, by resolution, create an urban renewal agency to exercise the powers authorized in the urban renewal statutes. A URA is governed by a five-member board, appointed by the local governing body. The local government may also choose to retain these powers and assign a department to undertake urban renewal activities on behalf of the governing body. There is

no corresponding authority identified in the statutes authorizing TEDDs. Many local governments have chosen to use advisory boards in conjunction with their urban renewal or targeted economic development programs.

Urban Renewal District (URD) (§7-15-4209 MCA) – A URD is an area within a city, town or consolidated city-county that has as its purpose, to utilize private and public resources:

- to eliminate and prevent the development or spread of blighted areas
- to encourage needed urban rehabilitation
- to provide for the redevelopment of such areas

Prior to embarking on the creation of a URD, the local governing body must adopt a resolution of necessity that identifies *at least three conditions of blight as defined in §7-15-4206(2)* within the area to be designated. The plan for a URD may include a TIF provision as a funding mechanism for implementing projects and activities identified in the plan.

Urban Renewal Law - The Montana Urban Renewal Law (§7-15-4201 and 4301, et. Seq. MCA), was originally adopted by the Montana Legislature in 1947 to address “blighted areas” and noted that “the prevention and elimination of such areas is a matter of state policy and state concern...” The law was amended in 1974 to include TIF as tool to facilitate urban renewal. In 2013 the Legislature amended the Urban Renewal Law to include targeted economic development as an allowable urban renewal activity. The Targeted Economic Development District (TEDD) Act found that “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...” The Act also provided for the use of TIF in TEDDs.

Value-Adding industry (§7-15-4279 MCA) – is a business that produces secondary value-added products or commodities or a business or organization that is engaged in technology-based operations within Montana that, through the employment of knowledge or labor, adds value to a product, process, or export service resulting in the creation of new wealth. (Secondary value-added products or commodities" means products or commodities that are manufactured, processed, produced, or created by changing the form of raw materials or intermediate products into more valuable products or commodities that are capable of being sold or traded in interstate commerce.)