



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **SB0002: Revise treatment of tax increment upon expiration of tax increment financing provision**

Primary Sponsor: Greg Hertz Status: As Introduced

- Included in the Executive Budget
 Needs to be included in HB 2
 Significant Local Gov Impact
 Significant Long-Term Impacts
 Technical Concerns
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
Expenditures				
General Fund (01)	\$0	\$0	\$0	\$0
Revenues				
General Fund (01)	\$0	\$0	\$0	\$0
Net Impact	\$0	\$0	\$0	\$0
General Fund Balance				

Description of fiscal impact

Department of Revenue

SB 2 removes Tax Increment Financing (TIF) district increment from being included in the calculation of newly taxable property for the purposes of 15-10-420, MCA. Newly taxable property is excluded from the tax base of local governments when they set their mills. The effect of removing increment from the newly taxable exclusion will cause taxing jurisdictions to reduce mill levies when TIF districts expire, rather than permitting them to levy the same mills over a larger tax base. It is assumed the newly taxable exclusion will not affect the 95 equalization mills or the 1.5 Vo-Tech mills in the forecast period due to banked mill authority and the limited number of TIF districts expiring in the forecast period.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. SB 2 revises 15-10-420, MCA to no longer include the release of increment from Tax Increment Financing (TIF) districts as newly taxable property.
2. Newly taxable property is excluded from the tax base when local governments set their mill levy. The effect of this exclusion allows governments to grow their revenue authority by the amount of newly taxable value multiplied by the mill levy.
3. If the increment released from a TIF district cannot be excluded from the calculation of the mill levy, that will tend to drive mills lower, all else equal, as the tax burden is spread out across a larger tax base.
4. The effect of SB 2 will be to reduce the revenue authority growth for taxing jurisdictions with expiring TIF districts, as compared to current law.

5. When TIF districts are created, the base period for their existence is 15 years. A TIF may pass bonds in the initial 15-year period that extend the lifetime of the TIF until the bond is repaid. These bonds may be created for a term of up to 25 years. This results in TIFs that could exist is 40 years. Targeted Economic Development Districts created after 2022 have more limited bond extensions.
6. There are ten TIFs with expected expiration dates during the fiscal note window(FY 2026-FY 2009. Five of these districts are within their initial 15-year term and may extend.
7. The five districts that are beyond their initial bonding window and are set to expire in the next four years. In TY 2024 (FY 2025) they have a combined incremental taxable value of \$2.03 million.
8. This taxable value would create an additional \$192,850 in tax authority for the state 95 mills, which currently represents 0.04 (4/100ths) of a mill. It is assumed that banked mills (reserved mill authority) will cover this reduced revenue authority.
9. Therefore, there is revenue impact to the state.
10. The cost of implementing the changes due to SB 2 are assumed to be part of current practice and have no expenditure impact for the department.

Effect on County or Other Local Revenues or Expenditures

1. The effect of SB 2 will be to reduce the revenue authority growth for taxing jurisdictions with expiring TIF districts, as compared to current law.
2. Newly taxable property is excluded from the tax base when local governments set their mill levy. The effect of this exclusion allows governments to grow their revenue authority by the amount of newly taxable value multiplied by the mill levy. The released TIF incremental taxable value will reduce pressure to raise mills as the released property helps fund the current revenue base.

Significant Long-Term Impacts

1. As more TIFs expire, the foregone growth in budget authority of the equalization mills will have a greater effect on revenues, since 15-10-420, MCA allows budgets to grow by half the rate of inflation, the compounding effect of less revenue growth will also increase over long time horizons.

NO SPONSOR SIGNATURE

1/7/25



Sponsor's Initials

Date

Budget Director's Initials

1/6/2025

Date