

## Lori Stratton

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**From:** Larry Bonderud  
**Sent:** Thursday, September 14, 2017 3:25 PM  
**To:** Lori Stratton  
**Subject:** Fwd: Revenue and Transportation Interim Committee notes  
**Attachments:** September 14\_RTIC Notes.docx; ATT00001.htm

Next packets.

Sent from my iPhone

Mayor Lar

Begin forwarded message:

**From:** Melissa Lewis <[melissa@mlewisassoc.com](mailto:melissa@mlewisassoc.com)>  
**Date:** September 14, 2017 at 3:23:09 PM MDT  
**To:** "'Larry Bonderud ([larry@shelbymt.com](mailto:larry@shelbymt.com))'" <[larry@shelbymt.com](mailto:larry@shelbymt.com)>  
**Subject:** Revenue and Transportation Interim Committee notes

Mayor,

Please see attached notes from the budget discussion portion of today's Revenue & Transportation Interim Committee meeting.

In summary, weak individual income taxes and low corporate taxes are the main cause of the current budget shortfall which could trigger significant budget cuts in 2017-2018 unless a special legislative session were to occur and include revenue enhancers (tax increases) which is not likely given the composition of our legislature.

A prominent state senator indicated in a private conversation that a special session could occur in the spring of 2018 and only after budget cuts occur. Budget cuts could impact local governments, nursing home providers and the private prison in Shelby, just to name a few. Budget cuts could occur relatively soon after the Legislative Finance Committee meets in Helena October 4-5.

Melissa

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September 14, 2017

### **RTIC Meeting**

Summary: Weak individual income taxes and low corporate income taxes are the main cause of the current budget shortfall which could trigger significant budget cuts in 2017-2018 unless a special legislative session were to occur and include revenue enhancers (tax increases) which is not likely given the composition of our legislature. A prominent state senator indicated in a private conversation that a special session could occur in the spring at the earliest and only after deep cuts are made.

### **Budget Status Report**

The Legislative Fiscal Division summarized their report to the Revenue and Transportation Interim Committee.

Cohenour: During session we knew there was a budget problem so we enacted SB 261. When did we first know about the problem?

Stephanie Morrison, Analyst, Legislative Fiscal Division: We get information for building a revenue estimate in the fall of each year. This includes detailed taxpayer data from the previous year and detailed corporate taxpayer data from the past two years. The data comes from the Department of Revenue. Then, when the legislative session begins, we start looking at revenues and monthly/year-to-date revenue estimates.

Dick Barrett: The median estimate dropped off in May and it was very clear we weren't going to make HJ2.

### **Legislative Fiscal Division Report**

Amy Carlson: The report I have for you today summarizes a complex situation. There are quite a few different funds that the General Fund can borrow from on a short-term basis. But we also have two major expenditure pressures right now—fires and the HELP Act.

If you look at the first page, which is numbered as Page 2, at the top it says SB 261 implemented in revenue. It takes into account everything that happened in FY 2017. Expenditures were down but not by much. All of the triggers are also incorporated into the green bar table. Ending fund balance is \$236M. We ended session with about \$200M. All the triggers in SB 261 bounced it back up to \$236M.

The minimum ending fund balance in 2019 is \$118M by state statute.

Scenario 2 out of 5 includes DNRC fire costs and the HELP Act. We have about \$32.3M in fire fund available. And the emergency statutory appropriation is \$16M. \$13M will go to 2017 calendar fire costs for DNRC. Total funding available is \$45M. \$22.5 million shortfall for fires. \$47-\$67M fire season and the average fire season is \$22.5M. So, what do we do? We don't have to pay fire costs immediately. We know we have more expenses coming so it is a question of timing.

Scenario 3 includes expenditures from Scenario 2. Then we make different assumptions. We looked at taking HJ2 and updating with the global IHS data. It would include changes in oil, etc. This represents a \$73M reduction in HJ 2 numbers. At that point, the ending fund balance estimate becomes \$104M. The triggered cuts would take effect with this scenario. Expenditures plus this adjustment in revenues would

get you to the level where you start considering trigger impacts. Likewise we see greater short-term borrowing. The ending fund balance is also lower.

Then we have alternative assumptions. If you want a more conservative revenue forecasts, you could consider additional assumptions. In this scenario, the ending fund balance and structural balance are substantially negative.

This committee has the opportunity to comment to the Executive. Megan Moore can advise you in that area.

If you did pick a set of assumptions, you could consider internal and external borrowing. You could consider cuts. You could also call a special session. With a special session, you could increase revenues/fees, you could delay projects, transfer fund balances and/or change policies that reduce expenditures and school funding. You could also change the minimum ending fund balance. Right now we're looking at \$118M, which is a 5%. 2% was the desired ending fund balance years ago. We could go back to that.

### **Budget Office Report**

Budget Director Dan Villa: My job today is to walk you through the assumptions to manage the state finances today and for the remainder of the biennium. The situation cannot be underestimated. The gravity of the situation should not be dismissed. My tenure since 2009 this has only happened once before.

I want to walk you through my memo and the assumptions and then walk you through the revenue side.

The expenditure side will take place by LFC in early October.

Ten years ago, 5.6% growth was realized in state general fund revenues. Today we're at 4.1 percent. Each tenth of a percent is about \$46M. Our revenue stream has declined \$460M per year in the past 10 years. We have to acknowledge that our economy is different than 2000, 2005 and 2009.

Montana used to be a lumbering economy. That has changed. We now have a health care economy. Timber mills pay property taxes and hospitals do not. Federal income has also changed. We have also cut taxes for Montana small businesses through the business equipment tax.

Our updated revenues are on the next page. I'm going to touch on federal tax policy having a positive implication this year or next. I'll touch on that at the end.

You can also see our balance sheet updated for 2017 actuals. In 2018, we updated disbursements as well as updated revenue projections. Two things are nuances. We have to project fire suppression costs. This will be the worst year in Montana's history and the worst year \$57.93M has been spent \$1.9B from US Forest Service.

We're projecting a growth trend of 4.3 and 4.6. I think those are very realistic given where we're at with the fiscal year.

What is the likelihood that we can survive without additional cuts or revenue enhancers? We'd need 10.4 percent growth.

Will federal tax policy result in a revenue surge? No. We're at the same tax processing level as we were last year. People are not waiting for federal action. Even if they were, we'd not realize the bump until October 2018.

Under 17-7-140, you set appropriations. We implement them. You say we're going to spend this dollar on this. We have built a mechanism to respond to changes. We respond early because you have to look at the realities. We can't bet on the come. \$1M people are waiting on us. There are 250,000 people and 147,000 kids and 40,000 in university system. The only option available to the governor is to cut our expenditures. Your comments will help inform me and then we'll take the cuts to LFC. The governor will then have authority under statute to make cuts.

Barrett: Could you give us an idea of the timeline?

Villa: I will send a certified budget to the governor at the time we make the cuts. We'll take your feedback on revenue changes, expenditure changes, LFC will then have a comment period and shortly thereafter we will begin the formal certification and expenditure reductions will be authorized by the governor.

Barrett: When is the earliest that the governor could make cuts? Define shortly thereafter.

Villa: The governor could make cuts the day after the LFC meeting. But he'll likely take more time than that.

#### **Public Comment**

Heather O'Loughlin, MT Budget and Policy Center. We advocate for revenue enhancers. We hope we can come together to find a balanced approach when it comes to revenue.

Bob Story, MonTax, I really appreciate the work the staff does. I don't see things changing and what does that mean? The Revenue Director said the Montana economy has changed. That is true. Unemployment is low. The tourism economy is big but that doesn't translate into a lot of taxes. As the State of Montana goes down that road, we'll have to look at revenue. The coal industry and power generation industry are on the wane. We need to find a replacement. There will be pressure on the legislature to look at new revenue sources, should they decide to come to Helena. There were proposals to increase revenue last session. If they'd all been adopted, we'd have an extra \$100 million in the biennium. At the end, the legislature will need to look at a significant change in tax structure or a significant reduction. The probability of having a huge turnout is not likely. In 2009, the legislature left about \$275M. By October 2009, the governor was into the statutory cut mode. We almost called a special session until the federal government put \$50M into bank and then Arch Coal contributed. I think at the end, you need to reduce spending soon and responsibly. Once you get too far into the biennium, we don't have too many options because you can't touch school dollars.

Joe Peden, Operations Officer for Montana Independent Living Project. The cuts on the table are egregious. When are we going to say this is enough? I can't believe you're taking health care from people who make \$12 an hour. In home care is 40% less than a nursing home. What are you going to do when the people who need help brushing teeth end up in the nursing home? Then you'll have cuts to make. It is your obligation to work together to find a solution and to stop playing political football with

people's lives and if you can't do that, resign your positions and let someone else come in here to do your work.

Jacquie Helt, SEIU. I serve as the State Director of SEIU 775. We represent the service industry, home care workers and nurses. We're here today to ask our legislators to consider revenue. Specifically, we'd like you to consider tobacco tax revenue. It aligns with the legislature's desire to raise provider rates and wages for workers. We can't build an economy with workers making \$8 to \$10 an hour. We respectfully ask for your consideration.

Sarah Howell, Montana Women Vote. We represent low-income households. Please focus on a balance approach and consider revenue enhancers. The cuts are truly devastating and we cannot afford another round of cuts at this magnitude. Please consider new revenue to bring a balanced approach to the current situation.

Nick Hart, Alzheimer's Association. We need a balanced approach that includes revenue. We are the fastest graying state in the nation. We need to plan for the future and have a responsible approach to our budget that includes revenue enhancers so we're not just depending on budget cuts to get our general fund back on track.

Stacey Anderson, Montana Primary Healthcare Association. It would behoove you to adopt conservative revenue estimates and think about revenue such as the tobacco tax, wine and alcohol tax, etc. These are the things that we supported because it helps our economy and our constituents. I would encourage this body to think in a bigger way. This is not a partisan issue, it is a people issue.

Shaun Reagor, Montana Human Rights Network. As advocates representing Montanans who will be affected by revenue shortfalls, we are here to share concerns. We support legislation that will bring new revenue into the state to stave off cuts. \$218M in cuts to the General Fund have already come down. Another \$227M may also be cut, as we were informed last week. A cuts-only approach is not prudent. We need the legislature to consider increasing general fund revenue. With cuts already made and coming, we're looking at half a billion dollars. We need to increase and invest in ourselves and our communities. It is time for coming up with balanced solutions. We need to raise revenue.

Kristin Page-Nei, American Cancer Society and Cancer Network. You do have an opportunity here to address your budget crisis. You can increase revenue from an existing source and look at reducing long-term healthcare costs. In Montana, annual health care expenditures caused by tobacco is \$440M. If you raise the cost of tobacco by \$1 or more, you will see that we're saving lives, money and we'd be generating revenue that you'd need. Passed out a fact sheet. This was produced for the 2017 session. This summarizes what a \$1.50 tax increase would do to generate revenue and save on healthcare costs.

Ken Brown, Opportunity Resources. I supported the tobacco tax and alcohol tax. I think we also need to tax sugary drinks. We were facing cuts during the 2017 session and to be facing these additional cuts today is unthinkable. It will unnecessarily hurt a lot of people.

Diane Fladmo, MEA-MFT. I represent thousands of state and public workers. What you do matters to the people of the state and the people that provide the services. I feel the angst of our workers. Now more than ever, we need a committed workforce during this difficult time. I urge you to work in a bipartisan way and how appreciation to your employees during this difficult time. Please consider new revenue sources and sources that have been considered in the past.

John Ilgenfritz, Helena resident. I'm retired and wanted to come to the meeting today. I read Senator Llew Jones' article and I heard the testimony from MonTax. I've been watching and reading about the people who will be hurt. I need you to look at revenue in addition to cuts.

Claudia Clifford, AARP. There hasn't been a debate on whether we have a dire situation. Your role is to provide feedback on the revenue estimate. I hope you will work on this in a bipartisan way so we know where we're at. 10% cuts could be devastating. My members may not be able to stay at home and will have to go to nursing homes. Please look at revenue.

Brent Mead, Montana Policy Institute. We don't disagree that there's an imbalance between spending and revenues. Revenues are up. The reason we have a shortfall is because spending is up. Let's not dig into taxpayer wallets. Let's decide if some of the new starts are more worthwhile than funding existing programs that have been around for years.

Bridger Mahlum, Montana Chamber of Commerce. We echo Bob Story's comments. There are missed opportunities with the tourism economy. If we do go in the direction of enhancers, we need to be cognizant of how enhancers impact employers. There is possibility of uncertainty if we look at tax proposals from last session.

Travis Hoffman, Missoula resident. I am a consumer of services that are on the chopping block. I'm here today to plead to you to put aside political differences and do what is right to raise revenues. I read that certain revenue sources are off the table. I ask you to not draw the line in the sand. We can't balance the budget on the backs of the elderly and disabled. People will be forced into nursing homes at a higher cost for care to be provided. Please look at other sources to cut and generate revenue.

Rose Hughes, Montana Healthcare Association. The first thing I have to tell you is projecting revenue is not what we do. We're at a disadvantage to tell you what the revenue projection should be. But we have some thoughts. First, it is important that the revenue committee takes a hard look at what the revenue will be. After that, you're looking at 10 percent cuts across all the programs. There's 111 pages of cuts for DPHHS alone. If revenue projections are really bad, we have to do something bigger than cuts. What about the trigger for 17-7-140. A year ago it was 2 percent. Now it is 5%. Could you alleviate the amount of the cuts by taking a look at that percentage trigger? Some program cuts could be made and some enhancers could be made. But you can't do anything without 150 members of the legislature meeting. Providers have tried at numerous times to suggest cuts and places to trim. But we're at a point that despite the fact that none of us look forward to the legislature coming back, and particularly for reasons like this. It make take 150 heads to get through this. I do hope that you look at revenue and cuts and be reasonable. Some of the cuts proposed are not reasonable. None of you want them to happen. None of you.

Adam Haight, Northern Plains Resource Council. Please seriously consider revenue enhancers to get us out of this budget crisis.

Chairman Tom Jacobson: Now we have the opportunity to provide comment or a recommendation to the Executive Branch.

Senator Cohenour: We have no reason to specifically doubt or disagree with the estimate that has been presented.

Senator Barrett: There is always going to be uncertainty. We should adopt the conservative revenue estimate and encourage the office to take into account any new information that comes in, because adopting this estimate has severe consequences.

Hoven: When you say accepting the estimate are you talking about accepting the Budget Office's revenue estimate? I would not accept the Budget Office's estimate. I feel the federal tax policy will help us in the next 18 months. 10 percent cuts need to be prioritized. No one wants to cut services for disabled persons. I do think there are areas that could be cut. In 2013, the legislature put \$100M for the next 6 years into retirement programs. Maybe we look at that. Maybe we let people out of jail early.

Barrett: The governor has the authority to cut certain programs but no program more than 10 percent. There will be no picking and choosing for the governor. He cannot pick and choose with these revenue estimates unless he gets help from the legislature.

Hamilton: Both LFD and the Governor's Office are showing revenue increases. Even with increases, we have a very serious problem here. If we're looking at doubling cuts that have already happened, this is a deep problem. We need to urge the governor's office and everyone to work quickly to find a balanced solution. Quickly.

Blasdel: HJ 2 is the rosier scenario. The Budget Director's estimate is the direst. There are unanswered questions but let's keep up the discussion.

Megan Moore: In 2010, RTIC acknowledged that the revenue estimates will trigger budget cuts included in 17-7-140.

Jacobson: If we are not ready now, we can discuss later today or by conference call at a future date.

Cohenour: I don't think we should leave town without deciding what to do.

Jacobson: I think we'll have time later today.

[END]

SEPTEMBER 14, 2017

Revenue and Transportation Interim Committee  
Megan Moore, Research Analyst

## TAX INCREMENT FINANCING

Title 7, chapter 15, parts 42 and 43, MCA, provide for the use of tax increment financing (TIF) for urban renewal and economic development projects. A city may create an urban renewal district (URD) and a city or a county may create a targeted economic development district (TEDD). The URD or TEDD plan may include a provision that allows the district to use tax increment financing. This document provides the basics of tax increment financing.

### Terms

**Actual taxable value:** the taxable value of all taxable property as calculated from the property tax record

**Base taxable value:** the actual taxable value of all taxable property within a district before the effective date of the tax increment financing provision

**Incremental taxable value:** the amount, if any, by which the actual taxable value exceeds the base taxable value of all taxable property within a district

**Tax increment:** the collections realized from extending the tax levies of all taxing bodies in which the district is located against the incremental taxable value

**Taxing body:** any incorporated city or town, county, city-county consolidated local government, school district, or other political subdivision or governmental unit of the state, including the state, that levies taxes against property within a district

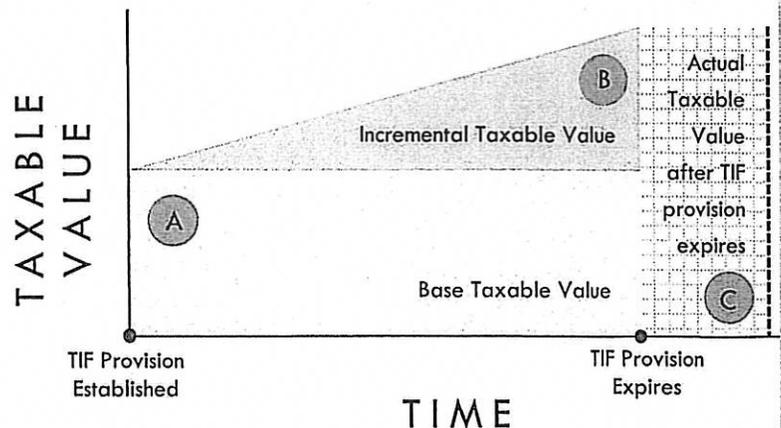
### Area A: Base Taxable Value

The revenue generated from the application of mill levies to the base taxable value continues to flow to taxing bodies as it did before adoption of the tax increment provision.

### Area B: Incremental Taxable Value

The combined mill rate for all taxing bodies within the district is applied to the incremental taxable value to determine the tax increment available for urban renewal or economic development projects. The combined mill rate does not include the 6-mill

university levy and, for TIF provisions adopted after April 6, 2017, does not include the 1.5-mill vocational-technical education levy or a new mill levy approved by voters after adoption of the TIF provision.



### Area C: Actual Taxable Value After TIF Provision Expires

After the TIF provision expires, the incremental taxable value is no longer separated from the base taxable value and taxing bodies again collect revenue from the total actual taxable value. A TIF provision expires the later of the 15<sup>th</sup> year following its adoption or upon the payment or discharge of all bonds for which the tax increment has been pledged.

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Revenue and Transportation Interim Committee  
Megan Moore, Research Analyst

## HJ 18: MSUB TIF ANALYSIS SUMMARY

The Revenue and Transportation Interim Committee heard testimony at its 2017-2018 interim organizational meeting suggesting that the committee review available analyses of the use of tax increment financing (TIF) in Montana as part of the House Joint Resolution No. 18 study of tax increment financing. The suggestion also included an indication that MSU Billings, the Department of Commerce, and the Department of Revenue have published such reports. Staff did not find reports published by the Departments of Commerce or Revenue so this summary focuses on the paper, "Analysis of the Performance and Potential of Tax Increment Financing Districts in Yellowstone County Montana" published by the Center for Applied Economic Research at MSU Billings.<sup>1</sup>

### Summary of "Analysis of the Performance and Potential of Tax Increment Financing Districts in Yellowstone County Montana"

The Big Sky Economic Development Authority asked the MSU Billings Urban Institute to analyze the performance of TIF districts in Yellowstone County. The MSU Billings Center for Applied Economic Research (CAER) performed the analysis on behalf of the MSU Billings Urban Institute. This summary includes an overview of the research questions, methodology, assumptions, findings, and discussion sections within the report. In a few places labeled "Additional Considerations," staff comments are included to provide additional context.

Question 1: Are the TIF districts located within Yellowstone County producing more economic growth within these districts than they would have produced without the benefits of TIF designation?

#### Methodology

To answer the question of whether TIF districts generate economic growth at a greater rate than if TIF was not used, the authors estimated the growth in property values<sup>2</sup> inside and outside of the districts and used the change in property value as an estimate of the economic activity.

#### Assumptions

The analysis estimates average growth in property values between 1984 and 2008 at a rate of 3.8% per year for property within Billings but outside a TIF district.

<sup>1</sup> Scott Rickard, Ph.D. and Jonna Jones, "Analysis of the Performance and Potential of Tax Increment Financing Districts in Yellowstone County Montana," Center for Applied Economic Research, Montana State University Billings, January 2011.

<sup>2</sup> The property values were estimated for years in which a reappraisal was not conducted because the analysis occurred when residential and commercial property was valued on a 6-year cycle.

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### Findings

Multiplying the 3.8% average annual growth rate by 15 years (the minimum time period after which a tax increment provision expires), the authors infer that the property values in TIF districts must grow by at least 57% to conclude that the TIF generated economic activity at a greater rate than if TIF was not used. For Laurel, the estimated average growth rate is 4.3% per year and the total growth required to show more economic activity in a TIF district is 64%

The analysis concludes that, through 2010, the total growth in property values in four of the six Billings districts and in the Laurel district was greater than the growth in property values for property outside of the districts but within the respective city limits.

### Additional Considerations

- The 3.8% average annual growth rate appears to be based on *market* value while the total growth of districts that use TIF is based on *taxable* value.
- The analysis arrives at a total growth rate required to determine whether the use of TIF resulted in more economic activity by multiplying the average annual growth rate by 15 years, which is the number of years a tax increment provision is in effect if the increment is not pledged to the repayment of bonds. If the increment is pledged to bond repayments, the tax increment provision is in effect until the bonds are repaid. The analysis does not take into account this longer timeframe, though none of the Yellowstone County districts had issued bonds when the analysis was published in 2011.

Question 2: Do TIF districts shift costs from residents and businesses located in TIF districts onto other taxpayers living within the same taxing jurisdiction but outside the boundaries of the district?

### Methodology

The methodology for this question was to estimate the cost of providing services to a TIF district and to compare this cost with the tax revenue generated from the base taxable value of the district. If the cost of providing services is greater than the revenue generated from the district, the assumption is that costs are shifted to other taxpayers.

The analysis uses three models of the present value of the sum of future revenues and costs to estimate the net value or cost of each district. The three models vary in assumptions about growth in the cost of providing services:

1. Cost of services grow only at the 5.2% average annual growth rate
2. Cost of services grow proportionally to the value of TIF investments and at the 5.2% average annual growth rate
3. Cost of services grow proportionally to the value of TIF investments and at half the average annual growth rate

### Assumptions

- Before creation of a TIF district, tax revenue from the district exactly covered the cost of services provided to the district.
- The cost of providing services in Billings grew at an average of 5.2% per year between 1992 and 2009. The 5.2% average growth rate is used to estimate expected growth in the cost of providing services between 2010 and 2025.
- City expenditures in Billings average 0.46% of the market value of Billings properties between 1992 and 2010. The cost of services in the first year of a TIF district is estimated at 0.46% of the total market value in Billings for that year.

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- The market value of properties is assumed to grow at 3.8% per year, the same growth rate that was used for the first question.
- On average, property tax revenue accounts for 30% of total local tax revenue. The revenue derived from the base taxable value of a TIF district represents 30% of the tax revenue generated from properties within the district.

**Findings**

The following table from the analysis summarizes the findings from the three models comparing the present value of estimated cost of services to the present value of estimated revenues.

For Billings TIFs, the cost of services exceeds revenue in two of five districts if costs grow at the average annual rate, in all five districts if costs grow at the average annual rate and proportionally to the value of the TIF, and in 1 of 5 districts if costs grow at half the average annual rate and proportionally to the value of the TIF.

The estimated cost of services exceeds estimated revenues in the Laurel TIF only for the model using the average annual growth rate and increases in service costs proportional to the value of the TIF.

**TABLE 11. COST OF SERVICE DIFFERENCES FOR VARIOUS RELAXED ASSUMPTIONS<sup>3</sup>**

		Costs of Service Only Grow Due to Average Annual Growth Rates	Costs of Service Grow Due to Both Increase In TIF Investments and Average Annual Growth Rates	Costs of Service Grow Due to TIF Investments and at One-Half of the Average Annual Growth Rates
N. 27 <sup>th</sup> 2T3	% Diff	33%	-29%	53%
	PV Deficit	\$2,101,603	(\$3,371,931)	\$2,877,269
N. 27 <sup>th</sup> 2T3A	% Diff	2%	-31%	22%
	PV Deficit	\$328,204	(\$4,531,443)	\$1,817,699
EBURD 2T4	% Diff	-10%	-31%	6%
	PV Deficit	(\$360,899)	(\$1,552,212)	\$192,972
SBBURD 2T5	% Diff	-5%	-30%	14%
	PV Deficit	(\$378,695)	(\$4,453,809)	\$1,190,604

<sup>3</sup> Rickard and Jones, p. 26.

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<b>SBBURD 23T5</b>	% Diff	-27%	-31%	-13%
	PV Deficit	(\$2,010,163)	(\$2,465,212)	(\$871,128)
<b>Laurel 7TI</b>	% Diff	5%	-32%	30%
	PV Deficit	\$236,722	(\$1,758,141)	\$917,469

### Additional Considerations

- The assumption that a TIF district generates sufficient tax revenue to cover services provided to the district before the district is created may or may not be true. Urban renewal districts must include a finding of blight. A blighted area is likely to have stagnant or declining property values and may not generate enough revenue to cover the cost of services provided within the area.
- The assumption that TIF districts contribute revenue to the city in addition to the property tax revenue generated from the base taxable value may be overstated. A staff analysis of local government revenue sources supports the claim that 30% of Billings' revenue is generated from property taxes.<sup>4</sup> However, the analysis assumes that the 70% of revenue that Billings generates from other sources can be generated from TIF districts. This is likely true for revenue that comes from licenses and permits or charges for services but, in 2015, 26% of revenue was in the form of intergovernmental revenues such as entitlement share payments, shared state gas tax revenue, state and federal grants, and district court reimbursements. Increased economic activity in a TIF district may not generate additional intergovernmental revenue.
- The tables showing the results of the models refer to "Restricted Tax Revenues" and assume the same amount of revenue each year. Upon adoption of a tax increment provision, the base taxable value is established and mills are levied against this base. The amount of revenue collected from the base taxable value will fluctuate from year to year as mills are adjusted.

### Opportunity Costs of TIF Districts

The analysis also attempts to answer the question of how much property tax revenue the city would collect if the districts did not adopt tax increment provisions and to compare the revenue estimated to be generated if the district was not created with the cost of services.

### Methodology

This question was answered using two different revenue growth models and then estimates the differences in revenue if the TIF did not exist under two scenarios: one in which TIF investments do not increase the cost of services and one in which TIF investment does increase the cost of services.

<sup>4</sup> Megan Moore, "Local Government Sources of Revenue," Legislative Services Division, May 2016, p. 14. See Rickard and Jones, p. 19.

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The first revenue growth model estimated tax revenues and cost of services assuming no tax increment provision and no tax increment funded capital investments and used the historic average annual growth in property values and cost of services. The second model used half the historic average annual growth rate in market value for properties within the TIF district boundaries and the average cost of services growth rate.

### Findings

Both revenue growth models estimate that with the TIF district, property tax revenue will exceed service costs for the Billings districts as a whole and for the Laurel district.

The following table shows the present value of estimated net revenues with the tax increment provision compared to net revenues if the TIF did not exist and assumes no increase in cost of services due to the TIF district.

TABLE 14. PRESENT VALUE OF THE FUTURE NET REVENUES FROM TIF DISTRICTS COMPARED TO THOSE IF THE DISTRICT DID NOT EXIST, ASSUMING TIF INVESTMENT DID NOT INCREASE COSTS OF SERVICES<sup>5</sup>

TIF AREA ASSUMPTIONS	TIF INVESTMENTS DO NOT INCREASE COS, COSTS AND REVENUES GROW AT AVERAGE RATES	TIF INVESTMENTS DO NOT INCREASE COS, COSTS AND REVENUES GROW AT AVERAGE RATES
NO-TIF COMPARISON ASSUMPTIONS	PROPERTY VALUES DO NOT CONTAIN TIF INCREMENT AND GROW AT AVERAGE RATES	PROPERTY VALUES DO NOT CONTAIN TIF INCREMENT AND GROW AT ONE-HALF AVERAGE RATES
N. 27 <sup>th</sup> 2T3	\$2,270,216	\$2,469,986
N. 27 <sup>th</sup> 2T3A	\$603,219	\$932,073
EBURD 2T4	(\$272,001)	(\$168,817)
SBBURD 2T5	(\$108,392)	\$214,828
SBBURD 23T5	(\$1,860,549)	(\$1,681,644)
Laurel 7TI	\$335,954	\$454,612
Total P.V.	\$968,447	\$2,221,039

In both models, the results suggest that Billings and Laurel will generate more revenue overall with the TIF districts than without them. For Billings, the model assuming that property values grow at average rates shows three Billings TIF districts with negative present values of future net revenue, while the model that uses growth at half the average rate results in negative present value of future net revenue for two Billings districts

The next table shows the present value of estimated net revenues with the tax increment provision compared to net revenues if the TIF district did not exist and assumes an increase in cost of services proportionally to the property value added.

<sup>5</sup> Rickard and Jones, p. 30.

TABLE 15. PRESENT VALUE OF THE FUTURE NET REVENUES FROM TIF DISTRICTS COMPARED TO THOSE IF THE DISTRICT DID NOT EXIST, ASSUMING COST OF SERVICES GREW PROPORTIONALLY WITH TIF INVESTMENTS<sup>6</sup>

TIF AREA ASSUMPTIONS	TIF INVESTMENTS INCREASE COS, COSTS AND REVENUES GROW AT AVERAGE RATES	TIF INVESTMENTS INCREASE COS, COSTS AND REVENUES GROW AT AVERAGE RATES
NO-TIF COMPARISON ASSUMPTIONS	PROPERTY VALUES DO NOT CONTAIN TIF INCREMENT AND GROW AT AVERAGE RATES	PROPERTY VALUES DO NOT CONTAIN TIF INCREMENT AND GROW AT ONE-HALF AVERAGE RATES
N. 27 <sup>th</sup> 2T3	(\$3,203,318)	(\$3,003,548)
N. 27 <sup>th</sup> 2T3A	(\$4,256,428)	(\$3,927,574)
EBURD 2T4	(\$1,463,314)	(\$1,360,130)
SBBURD 2T5	(\$4,183,506)	(\$3,860,286)
SBBURD 23T5	(\$2,315,598)	(\$2,136,693)
Laurel 7TI	(\$1,658,909)	(\$1,540,251)
Total	(\$17,081,073)	(\$15,828,481)

The results of this model show negative present value of future net revenues for all districts assuming average growth rates and growth at half the average rate.

### Effects on Other Taxing Jurisdictions

The analysis includes a discussion of effects on other taxing jurisdictions and offers the following conclusions:

- Counties and school districts rely more heavily on property taxes so adoption of a tax increment provision has a greater impact.
- Yellowstone County tax revenues have grown at an average rate of 3.7% per year between 1994 and 2009. Property taxes represent two-thirds of county tax revenues. Assuming that the county can collect non-property tax revenue on new economic activity in the TIF district, new revenue to the county is estimated to grow by 1.2% per year (one-third of the revenue that is not derived from property taxes multiplied by 3.7%). Over the same time period, Yellowstone County cost of services increased by 2.9% per year. This results in what the authors call a “built-in deficit of 1.7% of the cost of providing county services.”<sup>7</sup>
  - Additional Consideration: One would need to compare actual tax revenues and actual cost of services, not just their growth rates, to determine whether costs exceed revenues.

<sup>6</sup> Rickard and Jones, p. 31.

<sup>7</sup> Rickard and Jones, p. 33.

SEPTEMBER 14, 2017

HJ 18: MSUB TIF Analysis Summary

Revenue and Transportation Interim Committee

Megan Moore, Research Analyst

## Additional Complicating Factors

The analysis includes a discussion of two factors complicating the analysis.

The first complication raised by the authors relates to the assumption that a TIF district results in *new* economic activity. If the economic activity is from relocation of businesses elsewhere in the city or new businesses that compete with existing businesses, the city could see a decrease in tax revenues in other parts of the city outside of the TIF district.

The other complication relates to the cost of services estimates. The model estimates that the cost of services grows proportionally to the value of the investment in the TIF district. If the cost of services in the TIF district grows faster (or slower), the findings about whether the district results in a service cost deficit would change. A TIF district with many residences may see cost of services grow disproportionately to the investment in the district because, according to “past research,”<sup>8</sup> residences collect more in services than they pay in property taxes while the reverse is true for businesses.

## What Does this Analysis Miss?

The analysis uses the market value of property and the cost of services to determine whether a TIF district results in additional economic activity. The benefits of a TIF district could be undervalued if additional economic activity is not captured in the value of the property.

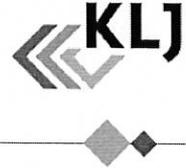
The authors also include survey results in Appendix A that include questions about whether and how TIF districts have impacted Yellowstone County.

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<sup>8</sup> Rickard and Jones, p. 34.

# CONSTRUCTION FIELD REPORT



*Project Name: NCMRWA Segment W4-B1 Shelby to Conrad*

◇ Report Date: 9/15/2017

Owner: NCMRWA

Project Location: Shelby to Conrad, MT

KLJ Project No: 4615048

Contractors: Downing Construction Inc.

Reporter: Aaron Peters

## **Weather & Site Conditions**

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- Warm through most of the week with daily highs in the 70s and 90s. Thursday colder and rainy high of 47.

## **Construction Activities**

---

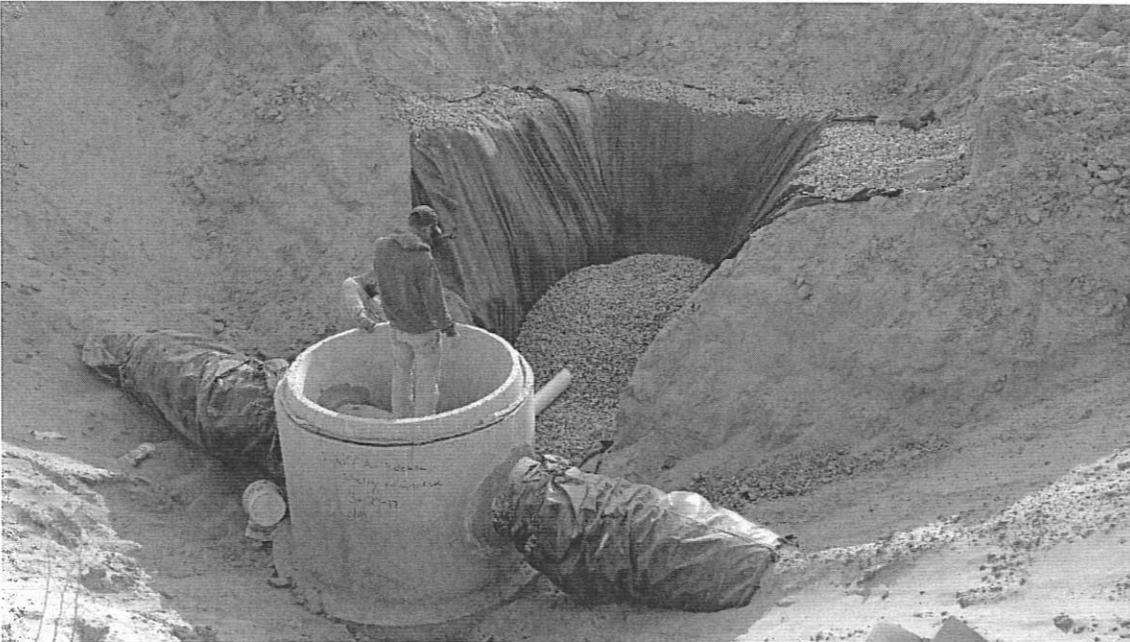
- The week of September 10<sup>th</sup> Downing Construction installed vault drains and drainage basins, and grouted all the ARV manholes on the South portion (Schedule 2) of the project. They constructed a silt fence at sta. 522+38.54 - 527+00.00 in the event of side slope erosion before seeding can occur. Continued work on the 12" tie-in at the Treatment Building from sta. 5+55.70 to sta. 4+15.00 just before the tie-in to the existing 12" AC line.
- CTI continued boring under the Marias River on the South side.
- Downing imported granular material and mobilized equipment to the wet area near Underdahl road Sta. 117+00. A trench box will be utilized along with pumps to attempt to install the remaining pipe in this section. This process will be repeated near old water tank road Sta. 270+00.

Construction Pictures

12" Tie-in at UV building



Vault Drain



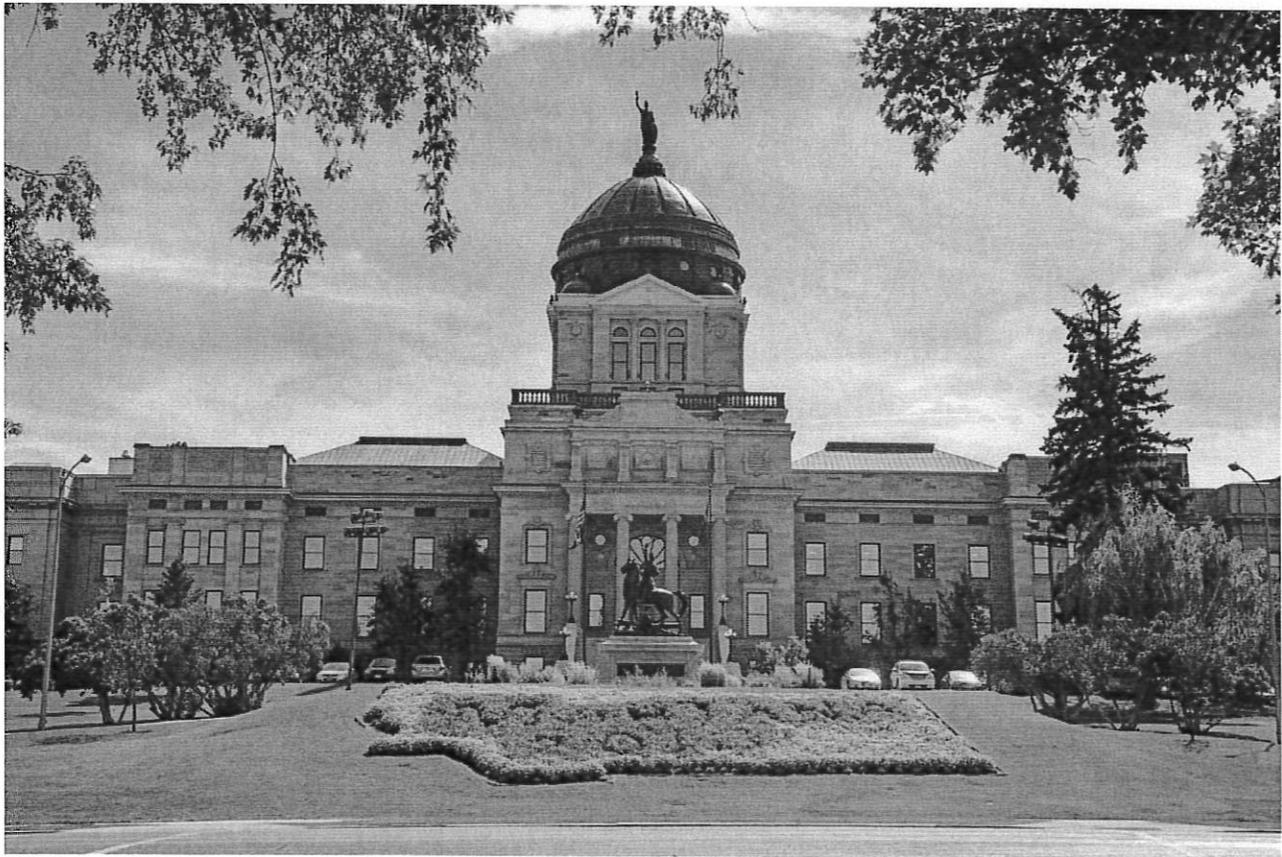
BREAKING 22 hurt as improvised bomb explodes in London subway train terror attack

[http://helenair.com/news/politics/state/committee-acknowledges-montana-budget-problem-but-chooses-not-to-take/article\\_959adae6-ba69-57f9-a539-77bce6e940be.html](http://helenair.com/news/politics/state/committee-acknowledges-montana-budget-problem-but-chooses-not-to-take/article_959adae6-ba69-57f9-a539-77bce6e940be.html)

TOPICAL FEATURED

## Committee acknowledges Montana budget problem, but chooses not to take action yet

ERIN LORANGER [erin.loranger@helenair.com](mailto:erin.loranger@helenair.com) 4 hrs ago



The Montana Capitol.

THOM BRIDGE, Independent Record

BUY NOW

Facing a dire financial situation and after the governor's budget director called on a group of lawmakers to play ball in finding a solution, a committee that deals with revenue voted Thursday only to acknowledge the problem but not to take action.

Some lawmakers were gun-shy about appearing to support calling lawmakers back to Helena for a special legislative session to explore increasing taxes, which could help the state dig out of a financial hole caused by tax collections coming in far below estimates the Legislature used to build its budget.

The governor's budget director, Dan Vella, said if nothing happens to increase revenues, the state will experience a cash flow problem in late October or early November and make severe cuts of up to 10 percent for most agencies. The decreases are steep enough to even put the state prison in a situation where it can't replace security cameras.

Last week, state agencies were required to submit plans to make up to 10 percent in mid-year budget cuts. The cuts are necessary because of lower-than-expected state revenues due to low income tax collections, which are down about \$70 million from what was projected so far. There has also been a reduction in tax revenue from natural resource extraction. Updated estimates show tax collections will likely be lower than expected over the next two years.

On top of that, the state's expenditures on high expenses fighting wildfires that have torched more than 1 million acres so far this summer, with several major forest fires burning.

Montana's Constitution does not allow the state to operate in the red and gives the governor authority to make multi-year reductions. The state has to have an ending fund balance, or cash in the bank, of \$143 million at the end of fiscal year 2019.

The proposed cuts would eliminate hundreds of jobs and significantly reduce programs and services. The Department of Public Health and Human Services has been asked to cut \$105 million from its budget, and the Department of Corrections will make \$40 million in reductions under the 10 percent plan.

While Democratic Gov. Steve Bullock has the final say on how to make the cuts, the Transportation and Revenue Committee is one of two committees given the opportunity to make a recommendation to the governor. In the last legislative session, the governor saw most of the tax increases he proposed shot down by a Republican-dominated House and Senate. It's unclear if Republicans would have a different appetite for tax increases if a special session were called this fall.

"We have to act, and we have to act now," Villalosa said, imploring the revenue committee to take action.

More than a dozen people testified in front of the committee on Thursday, also urging them to act. Most called for the committee to consider revenue enhancements, like a tax on tobacco and beer and wine, efforts that didn't pass during the 2017 session.

Joel Peden, operations officer at the Montana Independent Living Project, said the services they offer to people with disabilities are not luxuries. He reminded the committee of the privileges they have, such as not needing assistance brushing their teeth or taking a bath.

Without some compromise, people are going to do without the services they need," he said.

Several people testifying asked the committee not to follow the recommendations made by Sen. Llew Jones, R-Conrad, in an opinion on article published Thursday. Jones, who is considered a more moderate Republican, said now is not the time to raise taxes.

"I advise you not to draw that line in the sand," Travis Hoffman said. "We can't balance this budget solely on the programs people with disabilities rely on."

The committee heard a presentation from the Legislative Fiscal Division, which crafted the revenue estimate adopted by the Legislature to create the state budget. Staff mostly pointed the finger for its flawed revenue estimate at people delaying certain types of non-paycheck income like money made off investments in the hopes a Republican-controlled federal government will lower tax rates for that kind of income in coming years.

Vlla also gave a report, explaining how the revenue stream has changed in the last 10 years. In 2007, the state was collecting \$460 million on more in revenue than it is today. Vlla said the largest industry in the state was timber in 2007, but has since been replaced by health care.

Member mills paid property taxes," he said. Hospitals do not."

Villa disagreed with some assumptions made by LFD, such as people waiting to file taxes because they think there will be changes in federal tax policy.

"Why are we not processing fewer forms than we were last year if the people were waiting for some federal action?" Villa asked.

When it came time to make a recommendation, the committee debated over a drafted memo to be sent to the governor. Members agreed to acknowledge the revenue projections may result in an ending fund balance, but didn't recommend any action.

The committee acknowledges the importance of responding as soon as possible to this development, but also recognizes that estimating revenue early in the biennium introduces uncertainty into the estimates," the memo says.

Chair Tom Jacobson, D-Great Falls, proposed language that said the committee encourages the governor to work with the Legislature to consider all means necessary" to maintain the integrity of the state.

Sen. Dick Barrett, D-Missoula, approved of the language. He said the governor's only options to make cuts while the Legislature could provide more flexibility. In addition to raising taxes, he said the body has the power to change the law specifying the amount of the state's ending fund balance.

But Republicans said that language sounded like an invitation for a special session, and those who spoke either said it wasn't necessary or it was too soon to tell.

The committee eventually agreed on language that asked the governor to continue to inform the committee of changes in revenue.



## Lori Stratton

---

**From:** Larry Bonderud  
**Sent:** Wednesday, September 20, 2017 11:04 AM  
**To:** Lori Stratton  
**Subject:** Fwd: City of Shelby Question  
**Attachments:** image001.png

Packets.

Sent from my iPhone

Mayor Lar

Begin forwarded message:

**From:** "William E. Hunt, Jr." <[huntlaw@3rivers.net](mailto:huntlaw@3rivers.net)>  
**Date:** September 20, 2017 at 10:39:00 AM MDT  
**To:** Larry Bonderud <[larry@shelbymt.com](mailto:larry@shelbymt.com)>  
**Cc:** Jade Goroski <[jade@shelbymt.com](mailto:jade@shelbymt.com)>  
**Subject:** FW: City of Shelby Question

Larry & Jade-

Below is the email I received from Alan Hulse et al at MMIA on child volunteers. Basically, MMIA finds that there's no age limits on child volunteers, but follow the law anyway and use common sense. I did look at the Child Labor Act under Title 41, Chapter 2. Specifically, the definition of "employed" or "employment." It defines "employed," in part, as uncompensated labor. That sounds like "volunteer" to me.

So, I advise that the minimum age for volunteers be 14. If we want, we can be flexible and go younger, but I recommend limiting younger children to just cats and small dogs. And any volunteer regardless of age should be able to handle the animal that they're dealing with.

Let me know your thoughts and I'll inform Crissy.

We can also codify something in our ordinances for volunteers or add something to our employment practices.

---

**From:** Alan Hulse [<mailto:ahulse@mmia.net>]  
**Sent:** Tuesday, September 19, 2017 4:34 PM  
**To:** William E. Hunt, Jr. <[huntlaw@3rivers.net](mailto:huntlaw@3rivers.net)>  
**Cc:** Angela Simonson <[asimonson@mmia.net](mailto:asimonson@mmia.net)>; Ann Komac <[akomac@mmia.net](mailto:akomac@mmia.net)>  
**Subject:** FW: City of Shelby Question

Bill;

I'm not aware of any rules, regulations, restrictions etc concerning volunteers, although the concerns you raised you your last e-mail need to obviously be considered. There are rules however; under the

Wage and Hour laws, for employees that I think can be instructive in that they are designed to protect our youth in an employment environment. Angela has done some research, and the rules are listed below. I think a good risk management measure, would apply these rules to volunteer child laborers as well as some common sense management practices regarding size and temperament of the animal relative to who will be handling it.

Hope this helps!!

Alan W. Hulse  
CEO  
MMIA  
800-635-3089 ext 124  
406-443-0907 ext 124  
[ahulse@mmia.net](mailto:ahulse@mmia.net)

---

**From:** Angela Simonson  
**Sent:** Tuesday, September 19, 2017 3:52 PM  
**To:** Alan Hulse <[ahulse@mmia.net](mailto:ahulse@mmia.net)>  
**Subject:** RE: City of Shelby Question

Unless they are operating clippers to groom a dog, then all dog handling and kennel care could be done for wages by a child age 14+ under Wage and Hour. Again, if they are uncompensated volunteers, then Wage and Hour does not have age limits, as they only regulate compensated time.

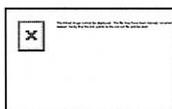
However, if they were paid, then the following would apply:

14/15 year olds:

- may not be employed before 7 a.m. or after 7 p.m. during school year-after 9 p.m. when school is not in session (summer)
- may not work more than 3 hours on a school day
- 18 hours in a week
- 8 hours on a non-school day
- 40 hours in a non-school year week

Hope this helps!

*Angela Simonson, MPA, PHR, SHRM-CP*  
Human Resources/Employment Practices Specialist  
Montana Municipal Interlocal Authority  
Office: 406-495-7017  
[asimonson@mmia.net](mailto:asimonson@mmia.net)



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---

**From:** Alan Hulse  
**Sent:** Tuesday, September 19, 2017 3:14 PM  
**To:** William E. Hunt, Jr. <[huntlaw@3rivers.net](mailto:huntlaw@3rivers.net)>  
**Cc:** Angela Simonson <[asimonson@mmia.net](mailto:asimonson@mmia.net)>  
**Subject:** RE: City of Shelby Question

We are doing some research into this Bill, I'll get back to you shortly.

Alan W. Hulse  
CEO  
MMIA  
800-635-3089 ext 124  
406-443-0907 ext 124  
[ahulse@mmia.net](mailto:ahulse@mmia.net)

---

**From:** William E. Hunt, Jr. [[mailto:huntlaw@3rivers.net](mailto:mailto:huntlaw@3rivers.net)]  
**Sent:** Tuesday, September 19, 2017 10:13 AM  
**To:** Alan Hulse <[ahulse@mmia.net](mailto:ahulse@mmia.net)>  
**Subject:** City of Shelby Question

Alan-

I have a question from the head volunteer of our animal shelter. She wants to know what the minimum age is for volunteers to feed, pet, walk, clean up after, etc. of dogs and cats.

This is more of a work comp and liability question. I know we list our shelter volunteers as volunteers so they're on work comp. Last night, Larry was thinking around 16 yo, but the shelter mentioned younger children to him. 8 or 9 years old.

Thoughts?

Bill

William E. Hunt, Jr.  
Attorney at Law  
PO Box 569  
201 Main Street  
Shelby MT 59474  
(406) 434-3900  
Fax (866) 868-8943  
[huntlaw@3rivers.net](mailto:huntlaw@3rivers.net)

## Lori Stratton

---

**From:** Larry Bonderud  
**Sent:** Wednesday, September 20, 2017 1:03 PM  
**To:** Lori Stratton  
**Subject:** Fwd: Water issues at the Shelby Border Patrol

Council.

Sent from my iPhone

Mayor Lar

Begin forwarded message:

**From:** Lisa Kearns <[circle7kkearns35@gmail.com](mailto:circle7kkearns35@gmail.com)>  
**Date:** September 20, 2017 at 12:46:59 PM MDT  
**To:** <[larry@shelbymt.com](mailto:larry@shelbymt.com)>  
**Subject:** **Water issues at the Shelby Border Patrol**

Hi Larry,

I am hoping you can help me with this situation.....The Border Patrol has been out of water for 6 days over the past 2 weeks. We have almost a full staff of 12 at that facility presently.

Due to the lack of consistent reliable water services it has come to my attention that the Border Patrol has threatened to move out because of this factor. I do not know how serious they are but I do realize that we are a 24 hour emergency facility and that we do need adequate water services. I have spoken with Lauren at the Town Shop and he said they cannot help it?? The work crews that I have spoken with say the pipe is very old and needs replacing??

I am not sure where to go with this. Can you please help us to resolve the issue so our employees can have reliable restroom facilities on site at their work place?

Thanks

Lisa

--

Lisa Kearns  
Manager/Owner  
Circle 7K Corp.  
PO Box 35

Sunburst, MT 59482  
406-450-8002