



**AGENDA
CITY OF LAUREL
LAUREL URBAN RENEWAL AGENCY
TUESDAY, FEBRUARY 22, 2022
11:00 AM
COUNCIL CHAMBERS**

Public Input: *Citizens may address the committee regarding any item of business that is not on the agenda. The duration for an individual speaking under Public Input is limited to three minutes. While all comments are welcome, the committee will not take action on any item not on the agenda.*

General Items

1. L.A.R.C. presentation by Leif Welhaven.

New Business

2. Voting in Chair and Vice-Chair of the agency.
3. MSU TIF Study document discussion.
4. Generation of future projects list.

Unfinished Business

Other Items

Announcements

5. The next Laurel Urban Renewal Agency meeting will be held on March 21, 2022 at 11:00 am in City Council Chambers.

The City makes reasonable accommodations for any known disability that may interfere with a person's ability to participate in this meeting. Persons needing accommodation must notify the City Clerk's Office to make needed arrangements. To make your request known, please call 406-628-7431, Ext. 2, or write to City Clerk, PO Box 10, Laurel, MT 59044, or present your request at City Hall, 115 West First Street, Laurel, Montana.

File Attachments for Item:

1. L.A.R.C. presentation by Leif Welhaven.

Laurel Activities Recreation Complex

Phase One Coming to Laurel



The Project So Far

A Brief History



Laurel Swimming Pool

- End of life, 60 plus years old



Riverside Hall

- Needs repair & updates *in work



Old Middle School Gym

- In need of major repairs



How & Why We Got Started

GOALS ACCOMPLISHED THUS FAR

- Community Awareness
- Grass Roots Fundraising
- Create Non-Profit Corporation
- Feasibility Study
- Site Selection
- Site Layout Drawings
- Change Name & Branding

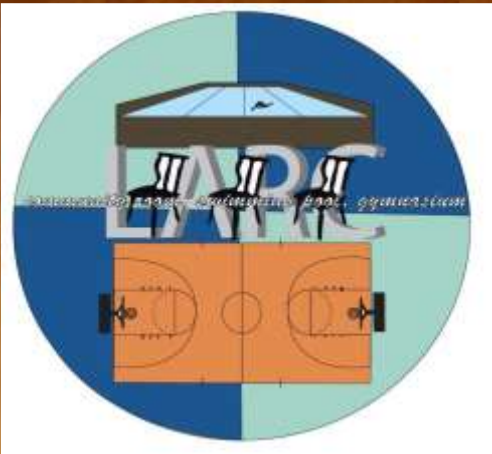


RE-BRAND & RE-FRESH BEGINS NOW

- New Logo
- New Ideas
- New & Existing Leadership
- New Focus
- Looking for your Input
- Looking for your Participation
- Looking for your Investment



RECENT LOGO CONTEST ENTRIES



The Winning Entry

Holly Schwarm – Woods Power Grip



The Winner

Holly Schwarm – Woods Power Grip



Future Home of LARC

- Land Donated by Woods Power Grip
- 10 Acres
- Some Utilities Located Across the Street
- City working on TIF to bring more Utilities in
- LARC Facility
 - 8 Acre Footprint
 - Site Signs coming plus Yard Signs



Future Home of LARC

- Land Donated by Woods Power Grip
- 10 Acres
- Some Utilities Located Across the Street
- LARC Facility
 - 8 Acre Footprint
 - Site Signs coming plus Yard Signs



Future Home of LARC

- Square Footage by the Phase
 - Phase 1 First Floor = 25,000 sq. ft.
 - Phase 1 Second Floor = 10,000 sq. ft.
 - Phase 2 = 11,000 sq. ft.
 - Phase 3 = 25,000 sq. ft.

This is proposed space and is subject to change.



Laurel Community Pride

- All things Laurel
- Laurel Activities
- Laurel Recreation
- Laurel Complex
 - Laurel Pride
 - Laurel Owned
 - Laurel Operated
 - Laurel's Future



Laurel Activities

- Community Activities
 - Craft Fairs
 - Farmers Market
 - Event Center
 - Wedding & Reception Venue
 - Class & Family Reunions
 - Meeting Space
 - Concession Area
 - Etc.



Recreation In the Gymnasium

- **Gymnasium/Multi-Use Facility**

- Indoor Soccer (Futsal)
- Basketball
- Martial Arts
- Baseball Training & Batting Cages
- Fitness Classes
- Weight Facility
- Dance Classes
- Wrestling
- Tournament Venue
- Team Practice & Game Facility
- Climbing Wall
- Future Aquatic Center
- Etc.



Laurel Complex

- This will be a Local, County, Regional Complex
- How do we get Funding & Participation for this Project
 - Donations
 - Sponsors
 - Grants
 - Fundraisers
 - Board Members
 - Committee Members
 - Volunteers
 - Wall of Contributors (Gold, Silver, Bronze Levels)



FUTURE ON-SITE EVENTS & IDEAS

- Trunk or Treat
- Fall Fest
- Halloween Events
- Summer Carnivals
- Food Truck Battles
- Walk a Thon's
- Run for LARC
- Fourth of July Float and Activities
- Etc.



How can you get Involved?

- Invite us to Speak at your Event or Business
- Come to a Board Meeting
 - 2nd Monday of Month @ 6:30 pm @ The Yogurt Shop
- LARC Information
 - Website: <https://www.laurelarc.org/>
 - Facebook: <https://www.facebook.com/laurelarcmontana>
- Contact Information
 - Gabe Bush – Board President 406.208.1945
 - Leif Welhaven – LARC Consultant 406.855.6595



File Attachments for Item:

3. MSU TIF Study document discussion.

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

By
Scott Rickard Ph.D.
Jonna Jones



Center for Applied Economic Research

January 2011

Executive Summary

An analysis of Tax Increment Financing Districts in Yellowstone County Montana concludes that these districts in general produce a higher rate of economic growth than the rest of the area. It also concludes that, depending upon the future growth in the costs of providing public services, these TIF districts may or may not produce sufficient tax revenues to cover all of their service costs in the later years of the district's lifespan. This is because the additional property taxes generated by business investment in the TIF are not available for unrestricted use by the city, county, or school district in which the TIF is located. The greater a local government's reliance upon property taxes for revenues, the more likely a service cost deficit will occur. The greater the percentage of total tax base that the TIF district represents, the more likely some amount of service cost deficit will occur. In the case where there are multiple taxing jurisdictions covering the district, the jurisdictions that rely more upon property values for revenue generation will be more affected by these districts.

Introduction

This document is the product of a research project conducted by MSU Billings Center for Applied Economic Research (the CAER) on behalf of the MSU Billings Urban Institute. The Institute was asked by Big Sky Economic Development Authority to analyze the performance of Tax Increment Financing (TIF) districts located within Yellowstone County.

After initial discussions with stakeholders in this project, it was decided that this analysis should focus upon answering two questions. The first relates to the economic performance of TIF districts. *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?* The second question deals with a financial concern. *Do TIF districts shift costs from the residents and businesses located in TIF districts and onto other tax payers living within the same taxing jurisdiction but outside the boundaries of the district?*

In order to answer these questions, representatives of the Urban Institute and the CAER interviewed a number of TIF district stakeholders and government officials, collected (or built) and analyzed government and private data sources, and created models capturing the features of TIF districts that were necessary to answer the core questions. A web survey was also used to capture the views of area residents.

The end result of this project is this analysis document you are currently reading and one or more public presentations presenting this information.

The Urban Institute and Center for Applied Economic Research wish to thank employees of Billings and Laurel city government and Yellowstone county government for their assistance in gathering and interpreting the data used in this report. It also thanks the project advisory council for their insights and suggestions. Any remaining inaccuracies found in this document are solely the responsibility of the authors.

Background Information and Topics

Tax Increment Financing is a complex topic because it touches upon many areas of how local governments are funded. Before describing the analysis, there are several topics which must be touched upon to put this into context. Most of these relate to how local governments and TIF districts operate. They are presented below.

How Local Governments in Montana Operate

The City of Billings and Yellowstone County provide a number of infrastructure and services to its residents. Examples of infrastructure include streets and roads and water and sewer facilities. Examples of public services include police and fire protection. Some city and county workers are employed to keep the roads and water facilities working and in good repair, and if this public infrastructure is not maintained, the costs to the city or county will eventually grow as they must spend monies to fix things that break down or wear out.

Sometimes large city or county infrastructure projects must be financed over time, much like taking out a mortgage to purchase a house. At any time in recent history, the total city or county budget covers a mix of service and infrastructure expenditures.

These things are financed from taxes and fees paid by residents, businesses and other (potential) users of these public benefits. The majority of these taxes and fees are based upon either the value of property located within an area (property-based taxes) or the value in income generated within the area (income-based taxes). With property- or income-based taxes, the amount owed grows as the value grows. In some special cases, revenues are based upon a unit fee assessed on a vehicle, a residence, or a business.

In Montana, property taxes provide revenues for state, county, and local governments. Tax rates are determined by the state based upon public law, with additional county and city levies added as the result of local votes. In Montana, land and improvements (buildings) are taxed based upon an assessed value that is assigned to each building by the MT Department of Revenue. The taxable value of every Montana property is assessed every six years, and if the new taxable value is different from the previous value, property taxes are increased (or decreased) over the next five years until all of the change in assessed value is included in each property. In effect, county real estate owners are paying taxes based upon what their property was appraised at six years ago.

Billings and Yellowstone County contains a number of sometimes overlapping taxing jurisdictions. A Billings homeowner may pay a property tax which includes city taxes, school taxes, and other fees, including sometimes a fee to pay for something as local as the new sewers built by the city for that neighborhood (which is an example of a Special Improvement District – SID – project).

Tax Incidence and Tax Burden

It should be briefly noted that who is taxed and who pays this tax may not be the same entity. If increasing property taxes on an apartment building lead landlords to raise their rents by the same percentage as the tax increase, the tax incidence is upon the property owner while the burden falls on the renter. In many cases, tax increases or decreases are shared, as in the landlord absorbing part of the increase (paying for it out of his or her rental income) while passing some of it along to the renter.

Public Investment

As discussed earlier, local governments provide public infrastructure like streets or sewers. They pay to build it and they pay to maintain what they have already built. In many cases, proper maintenance can keep a street or sewer functional for decades. But as it ages, even properly maintained infrastructure can over time have higher maintenance costs. At any point in time local government must balance increasing maintenance expensed with the costs of rebuilding these sections of street, sewer, or building, trading off construction expenses with lower annual maintenance for a number of years following construction.

The Costs of Providing Local Government Services

Over time, the costs of providing local government services can increase due to increasing prices for the goods and services that cities and counties purchase or because it simply takes more of these goods and services to produce a particular government function. Increasing costs are an especially vexing problem for local governments because their spending is in effect limited by the tax revenues and fees that they collect and thus, if the prices of inputs go up, they must find other, less expensive ways of producing the same level of service as before, or reduce the level of some or all services until costs are again covered by revenues, or find additional sources of revenues.

TIF Financing

Tax Increment Financing (TIF) is a little different from other property-based taxes in that some of the tax revenues generated by taxpayers within a TIF district can only be spent on projects which mainly benefit the TIF district. The process of creating a TIF district can start with a need for improvements to public infrastructure which would be difficult to pay for using most other forms of local government funding. As required by law, a local government can formulate a plan to designate an area (e.g. a neighborhood or other block of land) a TIF District (TIFD). After approving this plan, the MT Dept of Revenue calculates the starting taxable value of all land and improvements within the district, and this is the amount of taxes which continue to be collected by the county and returned to the taxing jurisdiction for each year the TIFD is in effect.

At this point, the TIFD has the ability to borrow money, in the form of loans or bonds, to pay for improvements to the public infrastructure, promising to pay off these loans with the increase in property taxes that will be generated by new businesses and residences moving into (and building on) the TIFD. For example, the South Side Billings Urban Renewal District (SSBURD) used TIF funds to pay for road improvements which made possible the new retail plaza (now containing the Sam's Club and Cabelas) along King Avenue East. The property taxes, over and above the base-year starting values, pay off the loans that built the infrastructure, and if there are additional taxes available they can be used to pay for other infrastructure improvements within the district. At the end of the life of the TIFD, which is usually 15 years but can be longer if necessary to pay off the TIFD infrastructure loans, the taxing district ends and all property taxes again flow to the 'normal' taxing jurisdictions.

As with any project, there are a number of ways in which a TIFD can fail. In most cases it comes down to the inability of the district to attract sufficient new building to increase property taxes enough to pay for the loans initially taken out to build the new public infrastructure.

Even a successful TIFD can potentially create problems for the city or county in which it is created. These include both actual funding issues and perception problems. For example, a successful TIFD which is generating \$500,000 per year in additional property taxes may only be allowed to spend this money on public projects within the district boundaries. If this goes on for several years it can create the perception that the city or county is favoring this area with new streets or sewers at the expense of other parts of the city or county.

Another potential problem, and one of the reasons for this analysis, concerns that part of the property taxes which are still distributed to the original taxing authority. If the costs of providing city services to the district grow over time, while the amount of tax money received from the district is fixed, then the district may at some point cost more to the city or county than it generates, and the rest of the taxing jurisdiction could to some degree be subsidizing the public services provided to residents of the TIF district.

Past and Current TIF Districts in Yellowstone County

The following is a brief overview of the past and current TIF districts located within Yellowstone County Montana. The residences and businesses located on Billings' TIF district property represent seven percent of the city's total property value and eight percent of its total taxable property value. Maps of these districts are presented at the end of this document.

The North 27th District:

The North 27th District consists of two TIF districts in downtown Billings. The areas covered in the original charter were re-chartered in 2005 (2T3) and the new 27th Street district was created in 2008 (2T3A). The boundaries of these districts are between 4th and 6th Ave. North and N. 30th to N. 26th Street, with an extension covering one-half block on each side of N. 27th Street to 1st Ave. N.

Most residents would be familiar with the street and sidewalk improvements along Montana Avenue, which was paid for with TIF funding. Under the original TIF charter, major improvements tied to the TIF include the construction of parking garages, building refurbishments, and funding to assist in school district construction.

The East Billings Urban Renewal District (EBURD)

The East Billings Urban Renewal District (2T4) was started in 2007. This district's boundaries include North 22nd St and N. 8th Street and 8th Ave North to the railroad tracks.

The South Billings Boulevard Urban Renewal District (SBBURD)

The South Billings Boulevard Urban Renewal District was started in 2008 and consists of two adjoining TIF districts (2T5 and 23T5). The area included in this combined district runs from Muldowney Lane to Jackson Street along with parts of Washington Street and Laurel Road/Underpass Avenue/State Avenue to Interstate 90 with parts extending south of the Interstate. New development has been apparent in the SBBURD with the recent openings of Cabela's Sporting Goods Store and Sam's Club.

The Laurel TIF District

The Laurel TIF District (7TI) was started in 2009. The boundaries encompass 8th Avenue to Juniper Avenue and 3rd Street to Interstate 90. Even though the Laurel TIF is rather new, improvements have already been made to the city's storm water run-off and renovation to older buildings on Main Street.

A Simplified Model of TIF Funding

The following three examples show how a TIF district may perform in an area characterized as economically healthy, stagnant, or in economic decline. These examples assume that the TIF district is located within a single taxing jurisdiction and that business property tax receipts are greater than the costs of providing government services to this jurisdiction, while residential property taxes do not cover the costs of providing the government services demanded by these residents.

Case 1: Declining Economic Activity and Property Values

In this case, an industrial area in a city has been in economic decline for a number of years. This is either due to fewer businesses operating within the district's boundaries and/or the businesses that remain in the district are generating fewer revenues each year. In either case, property values for these businesses (and the district overall) fall further each year, and the property taxes based upon these property values also fall. As property taxes generated within the district decline, the city collects less tax revenue from the property owners in this area.

The city is still responsible for providing a set of city services to this area, including police and fire protection. (With fewer businesses, there may be less need for some services, but we will assume that this effect is small compared to the loss in tax revenues.) The city also sees fewer tax dollars that in the past it would collect from businesses and use to fund services for non-business residents.

In effect, as the years go on, the economic decline in this area places more and more of a financial burden on the city.

In an attempt to stop this decline and shore up city finances, a TIF district is created. Bonds are sold, backed by the promise of the incremental future tax revenues from new construction in the district, and the money is used to build public infrastructure to support a new industrial or commercial development. Private businesses then choose to build in the district, and their additional property taxes flow to the district. The city is willing to not collect additional property taxes that can be used anywhere in the community in return for the chance to not see these tax revenues fall any more.

In this case, the most important feature is that the decline in property values (and property taxes) stops. If the combination of this public and private investment is enough to stop the decline in property values, and these taxes are enough to pay the bond holders, the city has at

least succeeded in stopping the falling property values and the decline in property taxes collected from within the district. It can count upon at least the TIF base level of property tax revenues will come from the district for the lifespan of the district. If more businesses choose to locate or expand into the TIFD, generating even more property taxes, additional improvements may be made to the area. Even if this public investment does not completely pay for itself, even some degree of success at slowing the rate of decline may be preferable from the perspective of the city's finances.

Case 2: Stagnant Economic Activity and Property Values

In this case a TIF district is created within an area where property values have been stagnant for a number of years. Any new business or residential building (creating new taxable property value) is matched by other businesses within the area closing.

This case is less clear-cut than the first for several reasons. First, it can be difficult to predict if property values in this area will remain stagnant in the future. If for some reason in a few years this area will see economic growth with or without the city's help, a TIF district commitment will prevent the city from collecting these new tax revenues (for the lifetime of the district). Second, there may be no guarantee that the TIF-funded city spending will generate enough additional taxes to pay for itself.

Either of these situations are part of the risk of many economic development projects, and either can result in the city being worse-off in terms of tax revenues compared to doing nothing.

Case 3: Improving Economic Activity and Property Values

While at first glance it would seem unlikely or even impossible given the regulations on what is necessary for a TIF district to be formed, it is worth exploring the implications of this case to see the worst-case outcome for a city. These things are hinted at in the previous cases. The city foregoes future tax revenues that it could spend for other purposes and funds infrastructure projects which may have been in-part or in-total privately funded. Given that this area was already seeing significant increases in economic activity, it would take a project promising (and delivering) a very high level of TIF-stimulated economic development to cost-justify the district.

Implications of These Cases

The three cases presented using this simplified model of the impacts of TIF districts suggest that TIF districts should have better success rates in improving property values in an area in true

economic decline and will have far less chances of success in significantly improving an area that is already growing.

The Analysis of TIF Districts in Yellowstone County Montana

Many data sources and external forecasts were used in developing this analysis. These sources were used to measure program benefits and costs and to estimate other important aspects of the local economy. A brief description of the major data sources follows.

Local Government Records

The City of Billings annually produces two documents which were used in this analysis: The Comprehensive Annual Financial Report (CAFR), and the annual Billings budget document. Versions of these documents, dating back into the 1980s, were used to build data sets detailing the annual city expenditures on a variety of public projects.

Unfortunately, these documents were not available for each of the past 30 years. Sometimes the data gaps from one document could be filled using data reported from a later year. In a few cases it was necessary to estimate a value for particular year. Especially troubling was the inability to find reliable data sources covering the first decade of the original North 27th TIF district. This led to an inability to fully evaluate the early performance of this district.

In addition to these documents, the City Planning Division provided the CAFR with a copy of the ORION database containing the property data used by city planners. This information included the types of buildings located on each tax parcel, property tax assessments, and the geographic boundaries of tax districts – including the TIF districts in Billings. This data became an important source for evaluating how TIF districts were alike and different from other parts of the taxing jurisdiction.

State Government Records

The Montana Department of Revenue collects property tax information and calculates the amount of TIF district property taxes which should be returned to the original taxing authority or distributed to the TIF district representatives. The MT DOR produced and provided a spreadsheet listing the annual property tax revenues generated by each Montana TIF district.

Federal Government Sources

Data on city and county population came from the US Census Bureau American Factfinders database. Income on price changes and income levels over time were gathered from the US Bureau of Labor Statistics' Consumer Price Index (CPI) and Current Employment Statistics (CES).

Private Data Sources

The Minnesota IMPLAN Group™ produces an economic modeling system called IMPLAN. This is an input-output model used to estimate the number of additional jobs and amount of additional money which will flow through a local economy as the result of the addition of a new business or the expansion of an existing one. In this project we used IMPLAN to verify some of the assumptions used in our analysis.

Estimating Economic Growth from TIF Districts

In order to answer the first research question, we explored several different units of measure to compare economic growth within and outside of TIF districts. In the end, the method we chose was to estimate the growth in property values inside and outside of TIF districts, and use this change in value as an estimate in the growth in economic activity in each area. This simplifies comparisons since the MT Dept. of Revenue reports an estimate of the amount of new property taxable property within each TIF district each year. The important assumption is that economic activity grew proportional to property values during this time period¹.

To evaluate the year-to-year change in property values it was necessary to adjust the property values reported in city and county documents and tables to reflect the fact that in Montana property valuation is phased in over six years following each reappraisal cycle. This involves shifting property value estimates back six years, and using the values for years in which reappraisals were conducted for all properties to estimate these values for the other years.

Using this data it was possible to estimate the total property values for the areas of Billings School District #2 (SD2) outside of the TIF districts (see Figure 1). A polynomial equation fits this data very well, suggesting that this equation will provide a good estimate of property values for the years between reappraisal cycles.

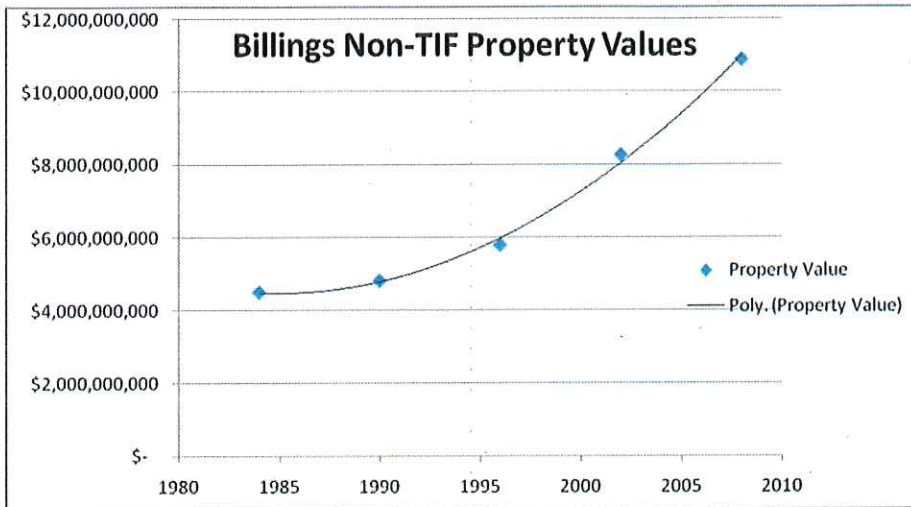


Figure 1. Billings Property Values for Areas Outside TIF Districts

Using this method, it is estimated that between 1984 and 2008 property values inside of Billings but outside of TIF districts grew at an average rate of 3.8% per year. Part of this increase was due to growing population and inflation. Without these effects, the average inflation-adjusted property value growth rate per person per year is 0.3% per year.

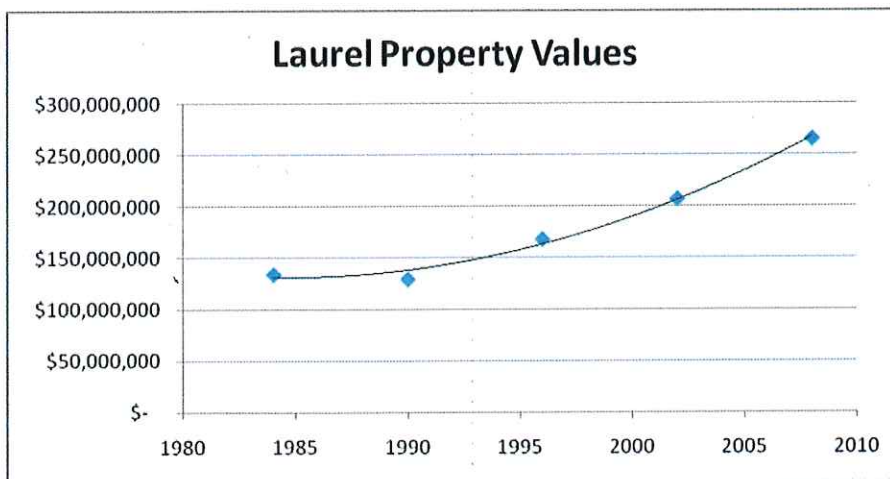


Figure 2. Laurel Property Values for Areas Outside TIF Districts

Using a similar process for Laurel, total property values grew by an average of 4.3% per year for the same time period.

Do the TIF Districts Surpass Economic Growth Rate Benchmarks?

In the previous section we developed an estimate of 3.8% annual growth in value for property values for the parts of Billings outside of TIF districts. At this rate, over the 15 year lifespan of a TIF District we would need to see at least 57% growth in property values within the district in order to infer that this district grew at a faster rate than the rest of the jurisdiction. For Laurel, this value was 4.3% for average annual growth and 64% for total growth.

The following tables detailing the performance of each TIF district, columns show the taxable value which continues to flow to the original taxing authorities (Base Value), the total amount of new taxable property added since the TIF district was created (Cumulative Increment), and the annual percentage in growth in total (base and taxable) value each year (% Total Growth).

Table 1. North 27th Street (2T12) District

	Base Value	Cumulative Increment	% Total Growth
1998	\$1,169,223	\$9,648	1%
1999	\$1,169,223	\$304,994	26%
2000	\$1,169,223	\$304,994	26%
2001	\$1,169,223	\$528,795	45%
2002	\$1,169,223	\$918,415	79%
2003	\$1,169,223	\$1,324,474	113%
2004	\$1,169,223	\$1,769,554	151%
2005	\$1,169,223	\$2,224,755	190%
2006	\$1,169,223	\$2,722,158	233%
2007	\$1,169,223	\$3,276,333	280%

Estimating the economic performance of the North 27th Street 2T12 TIF district was difficult due to missing (and frequently conflicting) data sources. The MT Dept. of Revenue, whose data was considered most reliable, could only provide property values back to 1997. There were also multiple attempts to recreate data from sources such as old municipal records. In the end, we were able to piece together observations for 1982-85, 1988, and 1991. In each of these years, property values in the TIF district grew at between 4.7% and 8.4% of base taxable values. This evidence suggests that, at least in these years, the economic activity in TIF districts grew faster than the rest of the community.

Between 1998 and 2007, MT DOR records were available, and this data suggests that the economic activity in this downtown TIF district grew five-times faster than that of the rest of the community.

Table 2. North 27th Street (2T3)

		Cumulative	
	Base Value	Growth	% Total Growth
1997	\$783,431	\$8,305	1%
1998	\$783,431	\$361,762	46%
1999	\$783,431	\$2,250,400	287%
2000	\$783,431	\$2,250,400	287%
2001	\$783,431	\$2,711,210	346%
2002	\$783,431	\$3,076,144	393%
2003	\$783,431	\$3,487,269	445%
2004	\$783,431	\$3,967,615	506%
2005	\$783,431	\$4,631,801	591%
2006	\$783,431	\$4,833,997	617%
2007	\$783,431	\$5,175,273	661%
2008	\$783,431	\$5,335,397	681%
2009	\$783,431	\$5,638,798	720%
2010	\$783,431	\$5,912,923	755%

Table 2 presents information on the second of the original N. 27th Street districts (2T3) for which data was limited. Based upon available MT DOR records, this district generated nearly 15-times as much new economic activity (reflected in new property values) as did the rest of the economy. This may be accurate. The baseline property values were very low. This may also be due to a disproportionate quantity of taxable new construction relative to the rest of the economy. But further research might be warranted.

Table 3. North 27th Street (2T3A)

	Base Value	Cumulative Increment	% Total Growth
2008	\$3,328,807	\$0	0%
2009	\$3,328,807	\$510,265	15%
2010	\$3,328,807	\$3,191,493	96%

Table 3 shows the performance of the North 27th Street 2T3A district. This district has already produced sufficient new property value to pass the benchmark value of growth, and as long as by 2023 the value of the cumulative growth is at least \$1,879,420 dollars or total of 57%, it will maintain this status.

Table 4. EBURD (2T4)

	Base Value	Cumulative Increment	% Total Growth
2007	\$1,800,794	\$10,659	1%
2008	\$1,800,794	\$332,496	18%
2009	\$1,800,794	\$450,079	25%
2010	\$1,800,794	\$763,948	42%

As shown on Table 4, without further growth within the EBURD 2T4 district, it will not pass the benchmark value of 57% growth or \$1,026,453 in total new property value. It must generate economic growth sufficient to add an additional \$262,505 in new property value in order to reach the benchmark growth levels expected for the wider community.

Table 5. SBBURD (2T5)

	Base Value	Cumulative Increment	% Total Growth
2008	\$3,893,167	\$0	0%
2009	\$3,893,167	\$224,333	6%
2010	\$3,893,167	\$2,515,425	65%

The SBBURD 2T5 district (which houses the new retail complex) has already generated sufficient property value growth to pass the benchmark rate of 57% (see Table 5). As long as it can maintain a total increment of \$2,219,105 by the year 2023 it will stay above the benchmark property value growth expected for the overall city.

Table 6. SBBURD (23T5)

	Base Value	Cumulative Increment	% Total Growth
2008	\$3,334,819	\$0	0%
2009	\$3,334,819	\$212,378	6%
2010	\$3,334,819	\$212,378	6%

Based upon available data (shown in Table 6), the SBBURD 23T5 district is currently generating new property value at a slower rate than the average for the non-TIF district areas of the community. By 2023 it must generate enough additional economic activity to average \$1,900,846 in new property values in order to at least equal the benchmark rate of property value growth seen by the non-TIF areas of the community.

Table 7. Laurel (7TI)

	Base	Cumulative Increment	% Total Growth
2008	\$1,169,223	\$266,291	23%
2009	\$1,169,223	\$693,474	59%
2010	\$1,169,223	\$1,251,976	107%

As shown in Table 7, the Laurel TIF district 7TI has already generated enough new property values to surpass the benchmark level of 64% growth over 15 years based upon this community's average growth rate in the past decade. Assuming that economic activity in 2011 through 2023 is sufficient to keep the total incremental property values above an average of \$491,074, it will stay above this benchmark.

In conclusion, it would appear that, measured in growth in property values as an indicator of growth in economic activity, five of the seven chartered TIF districts have grown or are growing faster than the growth in the areas of the city not covered by TIF districts. This is striking given this includes three districts which have another ten or more years to operate under TIF regulations. In the case of the remaining two districts, each has ten or more years in which to improve their economic growth rates.

Another important result of this analysis is that a district may not be able to rely upon the initial round of public and private investment to generate more tax base than the amount that would be created over 15 years (the average lifespan of a TIF) of normal economic growth. The district may need to attract additional businesses investment throughout its life to pass this benchmark.

Do TIF Districts Shift Costs To Other Taxpayers?

The second research question concerning TIF districts was whether districts shift the costs of public services onto taxpayers outside the district. This is because once the district is established, all of the growth in property taxes within the district can only be used to pay for approved projects within the district. For a local government facing increasing costs of services, watching a TIF district seemingly flourish while still contributing the same amount of property taxes that it did 10 years ago can be frustrating.

To test if this is the case for the local TIF districts; we used data on local government expenditures to estimate the growth in the costs of providing city or county services, and data on tax revenues to estimate the growth rates in these property taxes.

The specific methodology used is to estimate how much it will cost to provide city or county services for the residents and businesses within a TIF district, and compare this to the tax revenues that are generated by economic actors in the TIF and that are available for the city or county to use to provide these services. If, within the lifespan of a TIF district, the cost of providing services to it is greater than the unrestricted taxes generated by it, then it is assumed that the city or county must find someone else to pay for these services.

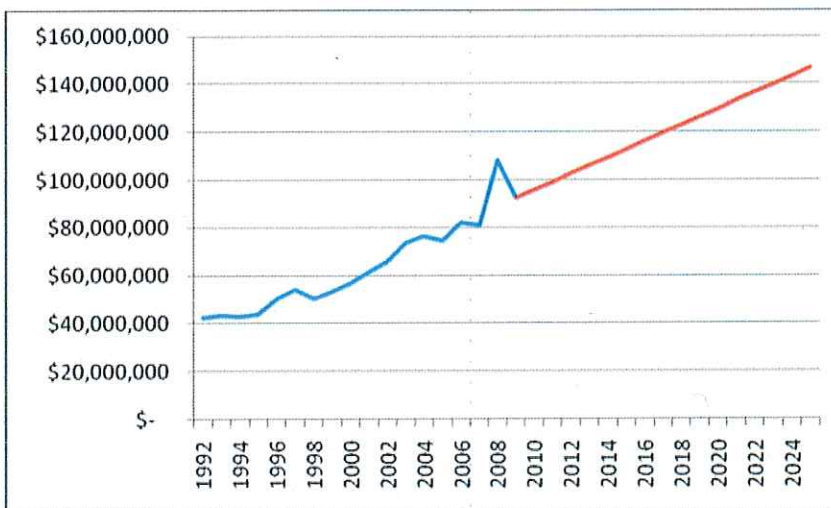


Figure 3 Billings Governmental Expenditures and Forecast

As shown in Figure 3, between 1992 and 2009 Billings' government expenditures grew by an average of 5.2% per year, from \$38 to \$89 million dollars. Much of this growth can be explained by population growth and expansion of city boundaries (1.1% per year) and inflation (average 2.7% per year). In addition, the remaining growth matches increases in real per-capita personal income, meaning that there has been no real expansion of the city's revenues during this time period.

Based upon this data we estimate city expenditures to grow by an average of 5.2% between 2010 and 2025. Between 1992 and 2010 city expenditures average 0.46% of the market value of properties. Using this as the starting point and 5.2% for the growth rate, we forecasted the

costs of services for each TIF district as being equal to the estimates share of city expenditures. For Laurel, expenditure growth was higher (6.3%) based upon 2001-2010 patterns.

To estimate the future growth in property tax revenues we will use the same property value estimates developed in the previous section. In that analysis we concluded that on average property values outside of TIF districts grew at an average rate of 3.8% per year. As other parts of the analysis showed, growth within the TIF districts grew even faster, so this 3.8% estimate will be conservative. Also, using 2009 data, it was found that in Billings taxable property values represented 3.09% of the total market values for these properties while in Laurel this percentage was 3.18%. Using these estimates, we could estimate the total market value of properties within each TIF district by multiplying the total taxable values (both base and cumulative increments) by the reciprocal of 0.0309 or 0.0318 respectively.

A review of property tax records and summaries also showed that, on average, property taxes represent approximately 30% of total local tax revenues produced by businesses and residents in these districts (their average based upon existing data). This is important in that it suggests that while a TIF district will only contribute a fixed amount of property tax revenues to the city for unrestricted purposes (the base taxes), the majority of additional Billings city revenues (the other 70%) created when a TIF district expands still flow to the city (and can be used for unrestricted purposes).

Testing the Existing TIFDs

To estimate the revenues and costs for each TIF district, we start with the assumption that prior to the formation of the district the total tax revenues from each area exactly covered the costs of providing services to its residents. (Alternately, we could frame this as the fraction of the city's total revenues that are available to cover overall service costs anywhere in the city.) Other parameters and estimates used are as follows:

- The market value of properties grows by the historic average of 3.8% per year.
- The initial cost of providing services is estimated as 0.46% of the market value of all Billings properties in the first year of the TIF district. This estimate is based upon historic city expenditure data.
- The cost of services grows by the historic average of 5.2% per year.
- The restricted tax revenues (taxes from the TIF increment) represent 30% of the total tax revenue generated by the properties within the district.

Note that TIF district 2T12 was not included in this analysis because data was not available for 2008-2010.

This analysis is only forward-looking, covering the years between 2010 and the projected sunset of the TIF district. Since different districts end in different years, we use the present value (PV) of the sum of future revenues and costs to estimate the net value or cost of each district.

Table 8 shows the results of this forecast for the North 27th Street district 2T5. As shown at the bottom of this table, under these assumptions, over the remaining lifespan of this district, the unrestricted tax revenues received by the city due to economic activity within the TIF district do not cover the costs of providing services to this district. Between 2010 and 2023, unrestricted tax revenues are 5% below the costs of services, and the present value of this deficit is \$379 thousand dollars.

Table 8. Tax Revenues and Costs of Services for N. 27th Street (2T12) – Base Analysis Assuming Costs of Services Do Not Grow Due to TIF Investments but Do Increase Annually At Average Growth Rates

		Mkt Value		Cost of Services		Unrestricted Tax Revenues		Restricted Tax Revenues
2010	\$	207,397,799	\$	686,352	\$	797,569	\$	209,887
2011	\$	215,278,915	\$	722,043	\$	756,164	\$	209,887
2012	\$	223,459,514	\$	759,589	\$	782,506	\$	209,887
2013	\$	231,950,976	\$	799,088	\$	809,848	\$	209,887
2014	\$	240,765,113	\$	840,640	\$	838,230	\$	209,887
2015	\$	249,914,187	\$	884,353	\$	867,690	\$	209,887
2016	\$	259,410,926	\$	930,340	\$	898,269	\$	209,887
2017	\$	269,268,541	\$	978,717	\$	930,011	\$	209,887
2018	\$	279,500,746	\$	1,029,611	\$	962,958	\$	209,887
2019	\$	290,121,774	\$	1,083,151	\$	997,158	\$	209,887
2020	\$	301,146,402	\$	1,139,474	\$	1,032,657	\$	209,887
2021	\$	312,589,965	\$	1,198,727	\$	1,069,506	\$	209,887
2022	\$	324,468,384	\$	1,261,061	\$	1,107,754	\$	209,887
2023	\$	336,798,182	\$	1,326,636	\$	1,147,456	\$	209,887
Difference						\$ (642,007)		
% Diff						-5%		
PV Deficit						(\$378,695.13)		

For the other existing districts, the estimates are as follows:

North 27th Street 2T3N Unrestricted revenues cover the costs of services by 33% and generate a funding surplus with a present value of \$2,101,603.

North 27th Street 2T3A Unrestricted revenues cover costs of services and generate a funding surplus of 2% or a present value of \$328,204.

EBURD 2T4	Unrestricted revenues do not cover the costs of services. The funding deficit is 10% or a present value of \$360,899.
SSBURD 2T5	Unrestricted revenues do not cover the costs of services. The funding deficit is 5% or a present value of \$378,695.
SSBURD 23T5	Unrestricted revenues do not cover the costs of services. The funding deficit is 27% or a present value of \$2,010,163.
Laurel 7TI	Unrestricted revenues cover the costs of service and generate a funding surplus of 5% or a present value of \$236,722.

This analysis suggests that, as of 2010, only three of the six TIF Districts analyzed showed sufficient growth in unrestricted city tax revenues to cover the forecasted increases in the costs of providing services.

From this base analysis we can examine the effects of relaxing some of the underlying assumptions of this analysis. The first is the assumption that in 2010 unrestricted tax revenues equaled the pre-district costs of providing services to the district. If instead the costs of providing services to district residents and businesses grew proportionally with property values, the costs of services in each year would be higher for any year a district had incremental property value growth.

Table 9 Tax Revenues and Costs of Services for SBBURD 2T5– Analysis Assuming Costs of Services Grow Both Proportionally to the Value of TIF Investments And Annually At the Average Growth Rates.

		Mkt Value		Cost of Services	Unrestricted Tax Revenues		Restricted Tax Revenues
2010	\$	207,397,799	\$	954,030	\$	797,569	\$ 209,887
2011	\$	215,278,915	\$	1,003,639	\$	756,164	\$ 209,887
2012	\$	223,459,514	\$	1,055,829	\$	782,506	\$ 209,887
2013	\$	231,950,976	\$	1,110,732	\$	809,848	\$ 209,887
2014	\$	240,765,113	\$	1,168,490	\$	838,230	\$ 209,887
2015	\$	249,914,187	\$	1,229,251	\$	867,690	\$ 209,887
2016	\$	259,410,926	\$	1,293,172	\$	898,269	\$ 209,887
2017	\$	269,268,541	\$	1,360,417	\$	930,011	\$ 209,887
2018	\$	279,500,746	\$	1,431,159	\$	962,958	\$ 209,887
2019	\$	290,121,774	\$	1,505,579	\$	997,158	\$ 209,887
2020	\$	301,146,402	\$	1,583,869	\$	1,032,657	\$ 209,887
2021	\$	312,589,965	\$	1,666,231	\$	1,069,506	\$ 209,887
2022	\$	324,468,384	\$	1,752,875	\$	1,107,754	\$ 209,887
2023	\$	336,798,182	\$	1,844,024	\$	1,147,456	\$ 209,887
Difference					\$	(5,961,522)	
% Diff						-31%	
PV Deficit						(\$4,453,809)	

As shown in Table 9, if the costs of providing city services grow proportionally to the growth in property values within the district, this district would see a larger deficit, growing from 5% to 31% of the costs of providing city services or a present value of \$4.54 million dollars.

For the other districts the results of changing this assumption are as follows:

North Billings 2T3N Service cost deficit of 29%. Present value of deficit: \$3,371,931.

North Billings 2T3A Service cost deficit of 31%. Present value of deficit: \$4,531,443.

EBURD 2T4 Service cost deficit of 31%. Present value of deficit:\$1,552,212.

SBBURD 23T5 Service cost deficit of 31%. Present value of deficit: \$2,465,212.

Laurel 7TI Service cost deficit of 32%. Present value of deficit: \$1,758,141.

The impact of assuming that the costs of providing services grew proportional to that of property values within the district is to drive all of the districts into cost of service deficits for the duration of the district.

One last assumption to relax is the one estimating the annual growth rate in the costs of providing city services (see Table 10). This estimate of 5.2% per year (6.3% for Laurel) is based upon the historic average growth rate in city expenditures. To test the possibility that this growth rate is too high for a TIF district, scenarios were run for each district where the growth rate in future years is 2.6% or one-half the historic average (or 3.15% for Laurel).

Table 10 Tax Revenues and Costs of Service for SBBURD 2T5 - Analysis Assuming Costs of Services Grow Both Proportionally to the Value of TIF Investments and Annually at One-Half the Average Growth Rates.

	Mkt Value		Cost of Services		Unrestricted Tax Revenues	Restricted Tax Revenues	
2010	\$	207,397,799	\$	686,352	\$ 797,569	\$	209,887
2011	\$	215,278,915	\$	704,197.59	\$ 756,164	\$	209,887
2012	\$	223,459,514	\$	722,506.73	\$ 782,506	\$	209,887
2013	\$	231,950,976	\$	741,291.90	\$ 809,848	\$	209,887
2014	\$	240,765,113	\$	760,565.49	\$ 838,230	\$	209,887
2015	\$	249,914,187	\$	780,340.20	\$ 867,690	\$	209,887
2016	\$	259,410,926	\$	800,629.04	\$ 898,269	\$	209,887
2017	\$	269,268,541	\$	821,445.40	\$ 930,011	\$	209,887
2018	\$	279,500,746	\$	842,802.98	\$ 962,958	\$	209,887
2019	\$	290,121,774	\$	864,715.85	\$ 997,158	\$	209,887
2020	\$	301,146,402	\$	887,198.47	\$ 1,032,657	\$	209,887
2021	\$	312,589,965	\$	910,265.63	\$ 1,069,506	\$	209,887
2022	\$	324,468,384	\$	933,932.53	\$ 1,107,754	\$	209,887
2023	\$	336,798,182	\$	958,214.78	\$ 1,147,456	\$	209,887
Difference					\$ 1,583,317		
% Diff					14%		
PV Surplus					\$1,190,604		

For the other districts, the results are as follows:

N. 27th Street 2T3N Service cost surplus is 53%. Present value of surplus is \$2,877,269.

N. 27th Street 2T3A Service cost surplus is 22%. Present value of surplus is \$1,817,699.

EBURD 2T4 Service cost surplus is 6%. Present value of deficit is \$192,972.

SBBURD 2T5 Service cost surplus of 14%. Present value of surplus is \$1,190,604.

SBBURD 23T5 Service cost deficit is 13%. Present value of deficit is \$871,128.

Laurel 7TI Service cost surplus is 30%. Present value of surplus is \$917,469.

The results of these different model runs are summarized in Table 11.

Table 11. Cost of Service Differences for Various Relaxed Assumptions

		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. 27th 2T3	% Diff	33%	-29%	53%
	PV Deficit	\$2,101,603	(\$3,371,931)	\$2,877,269
N. 27th 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
SBBURD 23T5	% Diff	-27%	-31%	-13%
	PV Deficit	(\$2,010,163)	(\$2,465,212)	(\$871,128)
Laurel 7TI	% Diff	5%	-32%	30%

PV Deficit	\$236,722	(\$1,758,141)	\$917,469
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The Opportunity Costs of the TIF Districts

In the previous three scenarios, the final values were an estimate of the present values of the stream of tax revenues or additional costs of services that the city will experience over the lifespan of the existing TIF districts. The size of these estimates does not tell how much the city would receive in tax revenues if these TIFs had never been created. To analyze this, we first modeled the path of tax revenues and costs of service assuming that the TIF had not formed, there was no additional TIF-funded or TIF-inspired capital investment in each district, and that property values and costs of service grew annually at their historic average rates. The results of this analysis for SSBURB 2T5 are presented in Table 12. Note that we are only looking forward in this analysis, thus the number of years remaining for each district varies.

Table 12. Tax Revenues and Costs of Services if SSBURB 2T5 Did Not Exist - Market Values Grow At Average Historical Rates

		Mkt Value		Cost of Services		Total Tax Revenues
2010	\$	45,627,516	\$	209,887	\$	209,887
2011	\$	47,361,361	\$	220,801	\$	217,862
2012	\$	49,161,093	\$	232,282	\$	226,141
2013	\$	51,029,215	\$	244,361	\$	234,734
2014	\$	52,968,325	\$	257,068	\$	243,654
2015	\$	54,981,121	\$	270,435	\$	252,913
2016	\$	57,070,404	\$	284,498	\$	262,524
2017	\$	59,239,079	\$	299,292	\$	272,500
2018	\$	61,490,164	\$	314,855	\$	282,855
2019	\$	63,826,790	\$	331,227	\$	293,603
2020	\$	66,252,208	\$	348,451	\$	304,760
2021	\$	68,769,792	\$	366,571	\$	316,341
2022	\$	71,383,044	\$	385,632	\$	328,362
2023	\$	74,095,600	\$	405,685	\$	340,840
Difference			\$	(384,069)		
% Diff				-9%		-9%
PV Deficit				(\$270,303)		

For the other districts, the results are as follows:

N. 27 th Street 2T3N	Service cost deficit is 7%. Present value of deficit is \$168,613.
N. 27 th Street 2T3A	Service cost deficit is 9%. Present value of deficit is \$275,015.
EBURD 2T4	Service cost deficit is 8%. Present value of deficit is \$88,898.
SBBURD 23T5	Service cost deficit is 9%. Present value of deficit is \$149,614.
Laurel 7TI	Service cost deficit is 9%. Present value of deficit is \$99,232.

As shown by these results, absent the TIF, each of these areas would likely see insufficient tax revenues to cover costs of service, with the present value of service cost deficits averaging 8.5% and totaling \$1.1 million dollars.

In this “No TIF” model we assumed that property values in the areas where TIFs were located will grow at the same rate as for the rest of the city. This may be too strong of an assumption, especially given that the implicit goal of TIF legislation is to help an area recover from a lack of growth and preserve the taxing jurisdiction’s tax base.

To explore the implications of slow future property value and tax revenue growth in these areas if TIF districts were not formed, we altered the model to assume that the market value for properties within the boundaries only grow at one-half the historic average rate. The results of this analysis for SSBURD 2T5 are presented in Table 13.

Table 13. Tax Revenues and Costs of Services if SSBURD 2T5 Did Not Exist - Market Values Grow At One-Half Average Historical Rates

		Mkt Value	Cost of Services	Total Tax Revenues
2010	\$	45,627,516	\$ 209,887	\$ 209,887
2011	\$	46,494,439	\$ 220,801	\$ 213,874
2012	\$	47,377,833	\$ 232,282	\$ 217,938
2013	\$	48,278,012	\$ 244,361	\$ 222,079
2014	\$	49,195,294	\$ 257,068	\$ 226,298
2015	\$	50,130,005	\$ 270,435	\$ 230,598
2016	\$	51,082,475	\$ 284,498	\$ 234,979
2017	\$	52,053,042	\$ 299,292	\$ 239,444
2018	\$	53,042,049	\$ 314,855	\$ 243,993
2019	\$	54,049,848	\$ 331,227	\$ 248,629
2020	\$	55,076,796	\$ 348,451	\$ 253,353
2021	\$	56,123,255	\$ 366,571	\$ 258,167
2022	\$	57,189,596	\$ 385,632	\$ 263,072
2023	\$	58,276,199	\$ 405,685	\$ 268,071
Difference			\$ (840,662)	
% Diff			-20%	
PV Deficit			(\$593,523)	

For the other districts, the results are as follows:

N. 27th Street 2T3N Service cost deficit is 15%. Present value of deficit is \$368,383.

N. 27th Street 2T3A Service cost deficit is 20%. Present value of deficit is \$603,869.

EBURD 2T4 Service cost deficit is 18%. Present value of deficit is \$192,082.

SSBURD 23T5 Service cost deficit is 20%. Present value of deficit is \$328,519.

Laurel 7TI Service cost deficit is 20%. Present value of deficit is \$217,890.

As shown in this model, a lower growth rate in property values and economic activity within these areas, absent a TIF district, the present value of service costs for these areas could of 15% -20% less than total tax revenues generated and total \$2.3 million dollars.

Note that these results can be expanded. For example, if zero growth in property values occurred for the remainder of the TIF districts lifespan, the present value of the expected service cost deficits would total \$4.6 million dollars.

The final step in this analysis was to compare how much of a difference these TIF districts will make in generating city tax revenues compared to if these districts did not exist. Table 14 shows the present value of the difference between each TIFD assuming costs of services did or did not grow due to TIF investments and a future where the districts do not exist and property values grow at historic rates. Table 15 shows similar results where the assumption is that absent the TIF property values grow at one-half the historic rate.

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

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 th 2T3	\$2,270,216	\$2,469,986
N. 27 th 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

As shown on Table 14, if we compare the stream of net revenues from TIF districts assuming that the costs of service did not rise due to TIF investments with the net revenues of these area absent TIF funding, we see that, overall, the city will have more revenue due to these TIFs than they would have if the districts did not exist. This total is even greater if, absent the TIF, property values (and tax revenues) only grow at one-half the historic rate. For example, without a TIF and at average growth rates, the N. 27th 2T3 area is forecast to cost the city a present value of \$168,613 over its remaining lifespan. However, with a TIF and assuming costs of service did not grow due to the TIF investments, this area will be generate \$2,270,216 more in tax revenues. If instead in the 'No TIF' alternative property values grew slow than in the rest of the city, the value of the TIF district to the city is a present value of \$2,469,986 in revenues.

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

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 th 2T3	(\$3,203,318)	(\$3,003,548)
N. 27 th 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 shown in Table 15 present a less optimistic picture for the scenario where the TIF investments within a district increase the costs of providing services proportionally to the property value added. In these cases, service costs grow faster than total tax revenues and the present value of these deficits over the lifespan of all districts is \$16 - \$17 million dollars, depending upon the growth rate in property values in the "No TIF" alternative.

The following generalizations can be drawn from these scenarios.

1. The areas currently covered by TIF districts would cost the city \$1 million over the remaining years of each TIF if these TIFs (and their investments) did not exist and the economic activity within these areas grew at the historic rate. If growth was only at one-half the average rate, total costs would be \$2.3 million.
2. With these TIF districts, if the costs of providing city services do not increase with the new construction that took place following the establishment of each TIF district, three or four of the six districts modeled already show enough growth in unrestricted tax revenues to more than pay for the costs of providing city services, even under different assumptions concerning the growth of property values absent TIF investments. Also, the overall value of this portfolio of revenue-generating TIF districts is positive and estimated at \$1 - \$2 million dollars.

3. On the other hand, if the costs of city services increases proportionally to the increase in property values in a TIF district, none of the six districts show increases in unrestricted property taxes large enough to pay for the costs of city services over the lifespan of each district when compared to the service costs absent TIF districts.
4. If the costs of providing city services only grow by one-half the historic rate, five of the six TIF districts analyzed already show sufficient growth in unrestricted tax revenues to pay for the costs of city services over the lifespan of each district, and compared to a “No TIF” alternative, the value to the city would be even greater.

And What About After the TIF Sunsets?

This analysis only explores the time period during the expected period of performance for each TIF district. After the TIF districts sunsets, the diverted tax revenues again flow to the original taxing authority. So, if a district is generating more property taxes than its share of service costs, over the following years post-district this deficit will be covered. The length of time depends upon the size of the surplus returned and how far in the future this takes place (think inflation).

How Do These Effects Hold For Other Taxing Jurisdictions?

The processes applied to estimate the city-level impacts can be applied to other taxing jurisdictions. In the case of Yellowstone County, there are both county and school districts whose boundaries may overlap TIF districts.

The key feature in examining these other taxing jurisdictions is how large is property taxes as a percentage of total tax revenues. As we have already seen, in Billings property taxes represents around 30% of its total tax revenues, and while a TIF district may limit the additional unrestricted property tax revenues that flow to the city, the majority (70%) of new tax revenues from new economic activity within the TIF district still flows to the city.

Other taxing jurisdictions rely more heavily upon property taxes. In the case of Yellowstone County, we estimate that 66% percent of its total operating budget comes from property taxes, and in the case of the School District #2, this value is similarly large.

With this increased reliance upon property taxes, there are greater impacts when a TIF district is formed which freezes unrestricted property tax revenues coming from district. In the case of Yellowstone County, the growth rate in unrestricted tax revenues due to economic growth within the district is less than half that of Billings.

As was shown in the analysis of Billings TIF districts, if the growth in the costs of providing county services is greater than the growth rate in unrestricted county tax revenues coming from new economic activity in the district, Yellowstone County may need to use funds generated outside the district to cover county services for residents within the district. For the county, tax revenues have grown at an average of 3.7% per year between 1994 and 2009. With property taxes representing two-thirds of total county tax revenues, unrestricted county tax revenues from new economic activity within a TIF district would only grow by 1.2% (or one-third of the overall average). Concerning costs, the costs of providing county services have grown by an average of 2.9% per year for the same time period.

Using these past averages as estimates of future performance, Yellowstone County will see the costs of services for TIF residents grow by 1.7% more than the growth in county tax revenues from this district. In effect, with these parameters, TIF districts represent a built-in deficit of 1.7% of the cost of providing county services associated with the residents and businesses located in TIF districts. This deficit is considerably larger than that estimated for the City of Billings (1.3%) (but not as large as Laurel's) and it increases the benchmark level at which the district must grow in order to even match overall growth rates for the rest of the county, and the minimum size of the TIF district project necessary to overcome this deficit.

Another jurisdiction depending upon property tax revenues are Yellowstone County school districts. One-quarter of School District #2's 2010 funding (\$35 million) come directly from property taxes and another 28% came from state aid, some of which may have been derived from property taxes returned to the state. This puts the school systems' direct reliance upon property taxes roughly the same as Billings'. However, unlike Billings' city government, the school system doesn't have the ability to collect additional taxes or service fees. Most of its other revenue sources are externally set. Given this, the impact of TIF-enabled freezes in property tax revenues upon the ability of the system to benefit from economic development within a TIF is larger than that of Billings.

Two Additional Complicating Factors

There are two additional factors which complicates analyzing TIF district performance. The first is the fact that all of these forecasts assume that the tax increment represents new economic activity for the community. If this assumption is wrong for a particular TIFD, total city and/or county revenues could be substantially smaller or even unchanged, and the TIFD project will produce a deficit instead of positive net revenues.

The simplest way to describe this is if a TIFD is formed and the majority of new business activity is either businesses relocating from another area in the same taxing jurisdiction or is a new competitor to existing local businesses. In either case the additional revenues generated within the TIFD will be matched with a decrease in tax revenues, either from the former location of the business or from the competing local businesses.

This represents a potential problem for the SSBURD TIFDs and to a lesser extent the Laurel TIFD. To date, the new businesses attracted are mostly retailers that are competing against existing retailers. Even with the large positive estimates of net revenues suggested by the model, if the 'new' businesses cannibalize existing economic activity, the overall impact to the city or county could turn negative.

A second potential complication concerns the estimated costs of providing public service. In the analysis model service costs are estimated to grow at different rates proportional to the size of TIFD investment. While the author feels that this is a reasonable assumption, it doesn't have to be the case. If by design or accident a TIFD includes geographic areas that absorb a disproportionate share of government funding, costs of service can expand at a much quicker pace than new TIFD revenues and again the project can create a deficit instead of positive cash flow.

While any of the existing TIFDs may in the future find itself in this situation, the SSBURD project seems relatively more likely to experience this problem. Unlike the other districts, the SSBURD TIFDs include a large number of residences, and while in this study we did not estimated the cost of providing services to residences compared to businesses, past research has shown that businesses cost relatively less than they pay in property taxes while residential homes demand more than \$1 in services for each \$1 they pay in property taxes.

This possibility represents another way in which a TIFD could shift costs (at least temporarily) from one taxing jurisdiction to another. A new city TIFD business could be in an industry which pays low salaries. The new residents moving into Billings to take these jobs are unlikely to contribute as much property tax revenues as they consume in city services (education is of course a prime example of this). Or these new residents, in search of more affordable housing, could choose to locate outside of Billings, which places the service cost burden upon Yellowstone County while Billings (or Laurel) reaps more of the benefits.

As was mentioned in the discussion of overall growth rates, the parameters used in the model embed the existing level of the urban-worker, rural-resident dynamic. But if for whatever reason a TIFD attracts a disproportionate share of businesses paying low wages, cost-shifting is possible if not likely.

What Does This Type of Analysis Miss?

The methodologies used in this analysis use the prices of properties and the costs of services as measuring gauges of economic growth and implicitly assume that economic growth is the only statistic worth keeping track of. With this approach, we assume that most if not all of the impacts of TIF operations can be seen as incremental changes in property values or service costs. For example, the North 27th TIF administered by the Business Improvement District (BID) funds additional police protection and other quasi-public services. Assuming that the City of Billings does not use BID involvement as an excuse to shift other police resources away from downtown, this would suggest that downtown Billings was relatively safer than it would have been without this additional protection. The methodologies used in this analysis assume that the efforts of the BID to increase the benefits of living, working, and visiting downtown relative to the rest of the community are shown in higher growth rates for property values within the district. If for various reasons the full value of these actions is not captured in property prices, then this methodology can undervalue these benefits.

There is also a long list of non-monetary benefits expressed by those individuals contacted in the course of this analysis which are also missed by this analysis. These include:

- Increased civic pride
- Increased cooperation and involvement in local development
- Decreased stress in dealing with day-to-day issues such as downtown parking, etc.

Issues and concepts such as these very likely contribute to the value residents and businesses place upon living and working in our communities and the TIF districts. In the course of this research project, many individuals and groups independently expressed these as important benefits of TIFDs. But these concepts are only valued by the chosen analysis methodology to the extent that they systematically change costs or prices.

Conclusions

This economic analysis of the performance of Yellowstone County TIF districts relative to the rest of the community shows that the economic growth rate within TIF districts will tend to be larger than that of the rest of the overall community. In this way, TIF districts have been successful at fostering economic growth. However, during their remaining lifespan, this amount of economic growth is not yet large enough to outweigh forecasted future increases in the costs local governments will face in providing city-, county-, or educational services. These districts must continue to attract and maintain business activity at above-average rates in order to reach this hurdle.

Appendix A. Survey Results

The Center for Applied Economic Research conducted a survey as part of the TIF district analysis being done for the City of Billings. The survey was open to residents of Yellowstone County from December 1st through December 17th. Respondents could access the survey by going to the City of Billings website and opening up the survey link. Maps of the TIF districts were available for respondents to look at while taking the survey. The four TIF districts in the survey included the North 27th District, the East Billings Urban Renewal District, the South Billings Boulevard District, and the Laurel District. A total of 36 people completed the survey. Below are the results of the survey.

The first section of the survey asked about commercial property in any of the TIF districts in Yellowstone County. If respondents answered that they do not own commercial property within a TIF district, the survey skipped them to the next section.

Do you own commercial property within a TIF district?

Yes	5
No	31
Total	36

In which TIF district do you own commercial property?

North 27 th	
East Billings	5
South Billings	
Laurel	
Total	5

How long have you been a property owner there?

5 plus years	2
10 years	1
20 years	1
23 years	1
Total	5

The next section asked about residential property in any of the TIF districts in Yellowstone County. Respondents were skipped to the next section if they answered they did not own residential property within a TIF district.

Do you own residential property within a TIF district?

Yes	2
No	33
Total	35

In which TIF district do you own residential property?

North 27 th	
East Billings	1
South Billings	1
Laurel	
Total	2

How long have you been a property owner there?

3 years	1
10 years	1
Total	2

The following section asked respondents if their place of work was within a TIF district. Again, if they answered no, the survey skipped them to the next section.

Is your place of work within a TIF district?

Yes	10
No	25
Total	35

In which TIF district is your place of work?

North 27 th	4
East Billings	5
South Billings	1
Laurel	
Total	10

How long have you worked there?

3 years	1
5 plus years	1
6 years	1
10 years	2
13 years	1
15 years	1
18 years	1
20 years	1
20 plus years	1
Total	10

The last section asked respondents if they lived within a TIF district. Like previous questions, if they answered no, the survey skipped them to the next section.

Do you live within a TIF district?

Yes	2
No	32
Total	34

In which TIF district do you live?

North 27 th	
East Billings	1
South Billings	1
Laurel	
Total	2

The next questions asked respondents if the TIF funding has improved the districts and if respondents thought the area would have improved without the TIF funding. Both of these questions were followed with an open-ended question asking the respondent to explain why or why not they answered the way they did. The reasons the respondents gave were categorized by similarities. There is a total number of respondents who answered each particular way after the reasons.

Do you believe that TIF funding has improved the district?

Yes	30
No	3
Total	33

An open-ended question was asked why or why not respondents believed that TIF funding has improved the district.

The following are reasons respondents listed as to why TIF funding has improved the district.

- Cleaned up area/Improved infrastructure: 6
- Creates new jobs/Aids in development & redevelopment: 9
- Increased property values: 3
- General upkeep benefits areas both short & long term: 2
- Funding is available for projects that normally wouldn't be: 2
- Enhanced overall value of downtown: 2

The following are reasons respondents listed as to why TIF funding has not improved the district.

- Have seen no visible changes: 1
- No money has been spent from the North 27th TIF yet: 1
- It's a new district: 1

Do you believe the area would have improved if TIF funding had not been received?

Yes	9
No	24
Total	33

An open ended question asked respondents why or why not they believe the area would or wouldn't have improved if TIF funding had not been received.

The following are reasons respondents listed as to why the area would have improved had TIF funding not been received.

- Growth would happen, it would just be slower without TIF funding: 2
- At some point, something would have been done: 1
- Things can be done with private dollars as opposed to public dollars: 1
- Investments had been made before TIF was created: 1
- If location is desirable, businesses will move to area: 1

The following are reasons respondents listed as to why the area would not have improved had TIF funding not been received.

- No motivation/incentive/funds to change: 6
- Values would have deteriorated too far to fix: 2
- Won't develop as fast on private money: 2
- Improvements take place without tapping all the residents: 2
- No money would be available: 1
- Nothing has been spent: 1
- Cost prohibitive to reclaim property in this part of town: 1
- More improvement means more opportunity for improvement: 1
- Projects have happened that could not have been done without TIF funding: 1
- Economic conditions: 1
- It was dying: 1

The next few questions covered the topic of if respondents felt the TIF benefited or harmed them in any way. Again, these numbers were placed in similar categories and totaled based on how many respondents answered each way.

Please give specific examples of how TIF funding has benefited your household or business.

- Revitalization of downtown: 3
- Business development/New business connections: 2
- Money available for infrastructure: 2
- N/A: 2
- Lower crime rate: 1
- Parking garages: 1
- Ability to sell real estate for development: 1
- Increase value of properties due to improvements: 1
- First Interstate building on 6th: 1
- Implementation of quiet zone: 1
- Community expansion: 1
- Improvement of Montana Avenue: 1
- Put people back to work: 1
- Awarded TIF money to provide exterior improvements for our building: 1
- Paint/construction products purchased has benefited job and income: 1
- Nothing has been spent: 1

Please give specific examples of how TIF funding has harmed your household or business.

- NA/None/Has not harmed: 20
- Increased taxes: 1

Please give specific examples of how TIF funding has benefited or harmed Billings or Yellowstone County.

- Revitalized downtown: 6
- Benefit to the whole community: 3
- Improved tax base in downtown Billings: 2
- Lower crime: 1
- Helped economy of Billings: 1
- New business: 1
- Provides alternative funding source rather than back of residents: 1
- Harmed: people personally profiting from TIF funds: 1
- Harmed: More tax burden on other residents of Yellowstone County: 1
- Harmed: too many TIF projects at same time it may present “cost” restrictions to some: 1
- Harmed: Billings reputation with legislators and state agencies: 1

The final question of the survey asked respondents if they had any other comments.

Any other comments:

None: 3

- TIF funding is vital and a useful tool for our community: 2
- Look at resetting timelines so taxing entities will receive benefits earlier: 2
- Without TIF funding, there would be a declining tax base: 1
- Get facts to the public: 1
- Look at how TIFs have been used in other cities in Montana and in other states: 1
- Important to properly “sell” any TIF project to the voters: 1
- Look at before and after picture: 1
- Analysis is necessary to quantify the benefits of the TIF districts as much as possible: 1

Appendix B. Maps of Yellowstone County TIF Districts

The following maps describe the boundaries of the existing TIF districts in Yellowstone County.

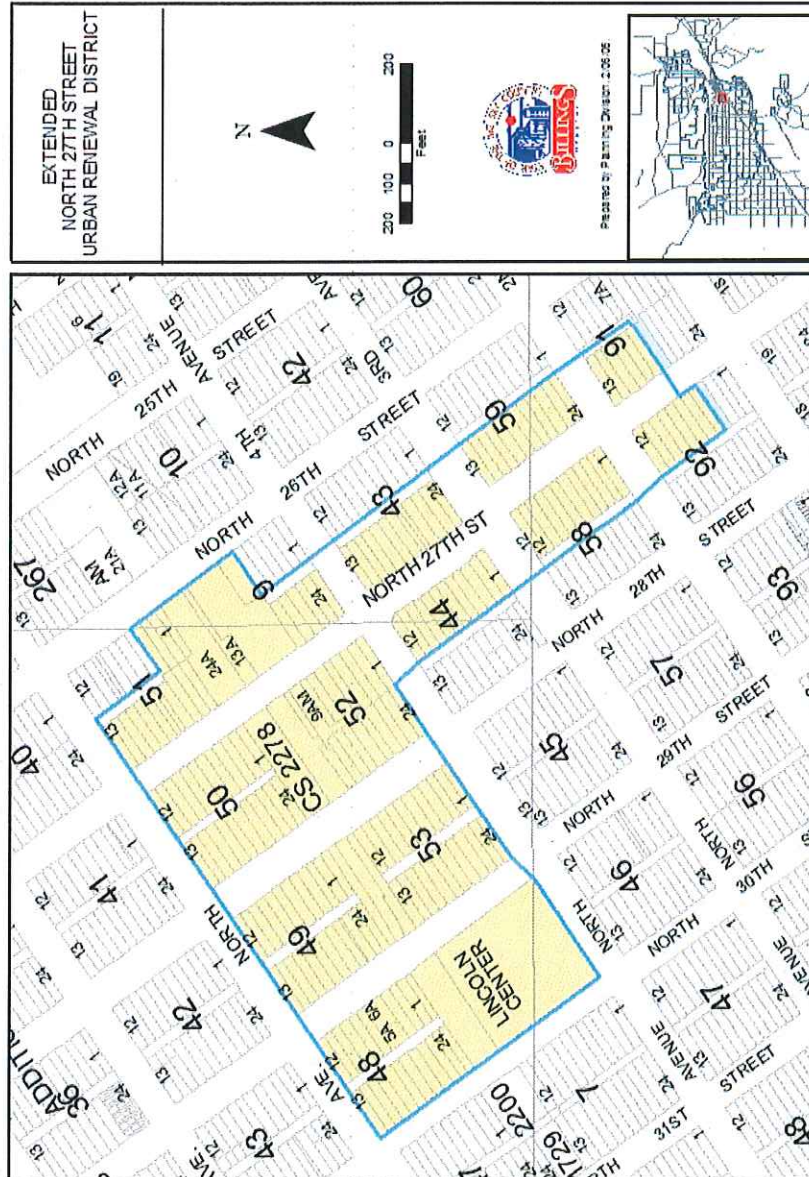


Figure 4 N. 27th Street Urban Renewal District

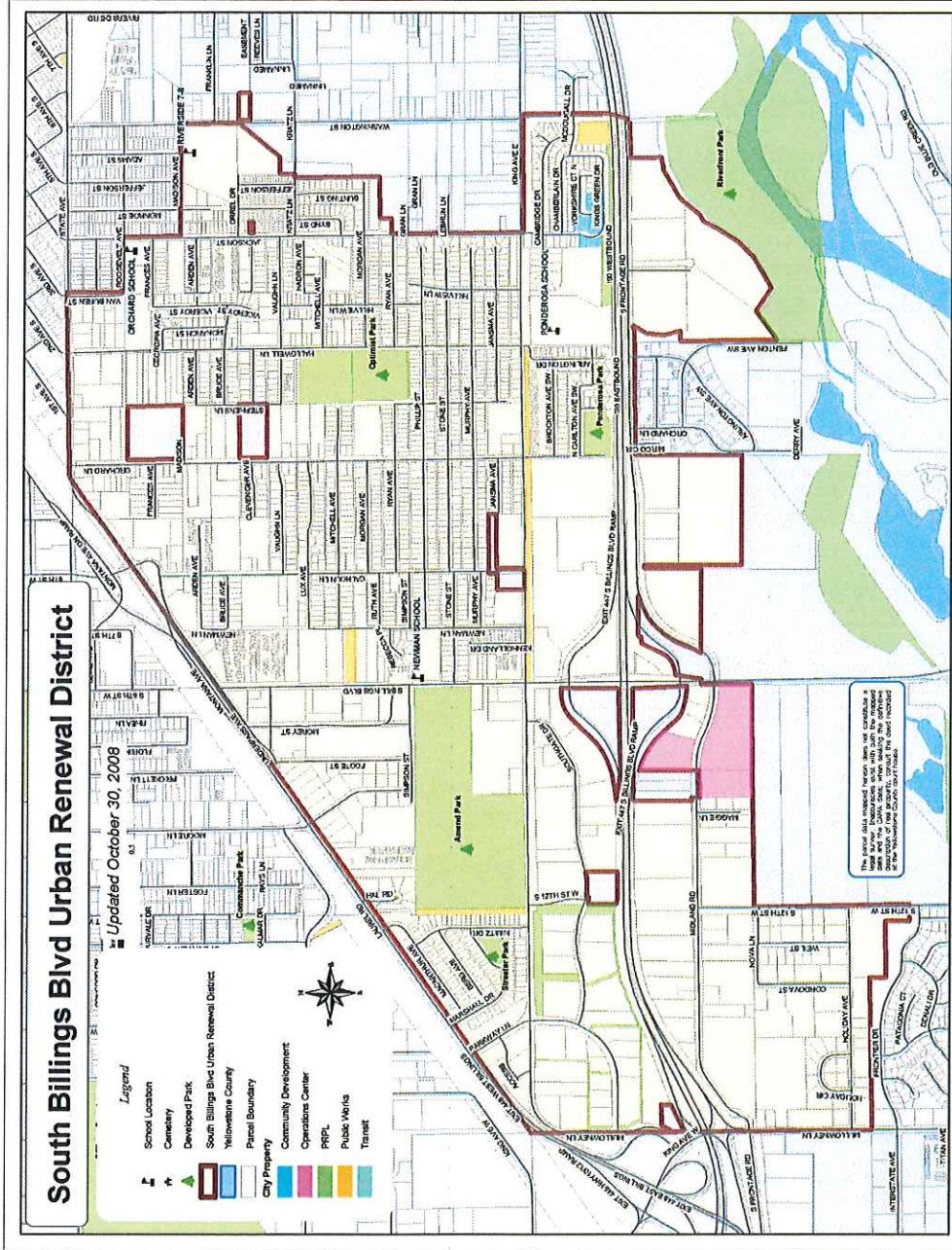


Figure 6 South Billings Blvd Urban Renewal District
Analysis of TIF Districts

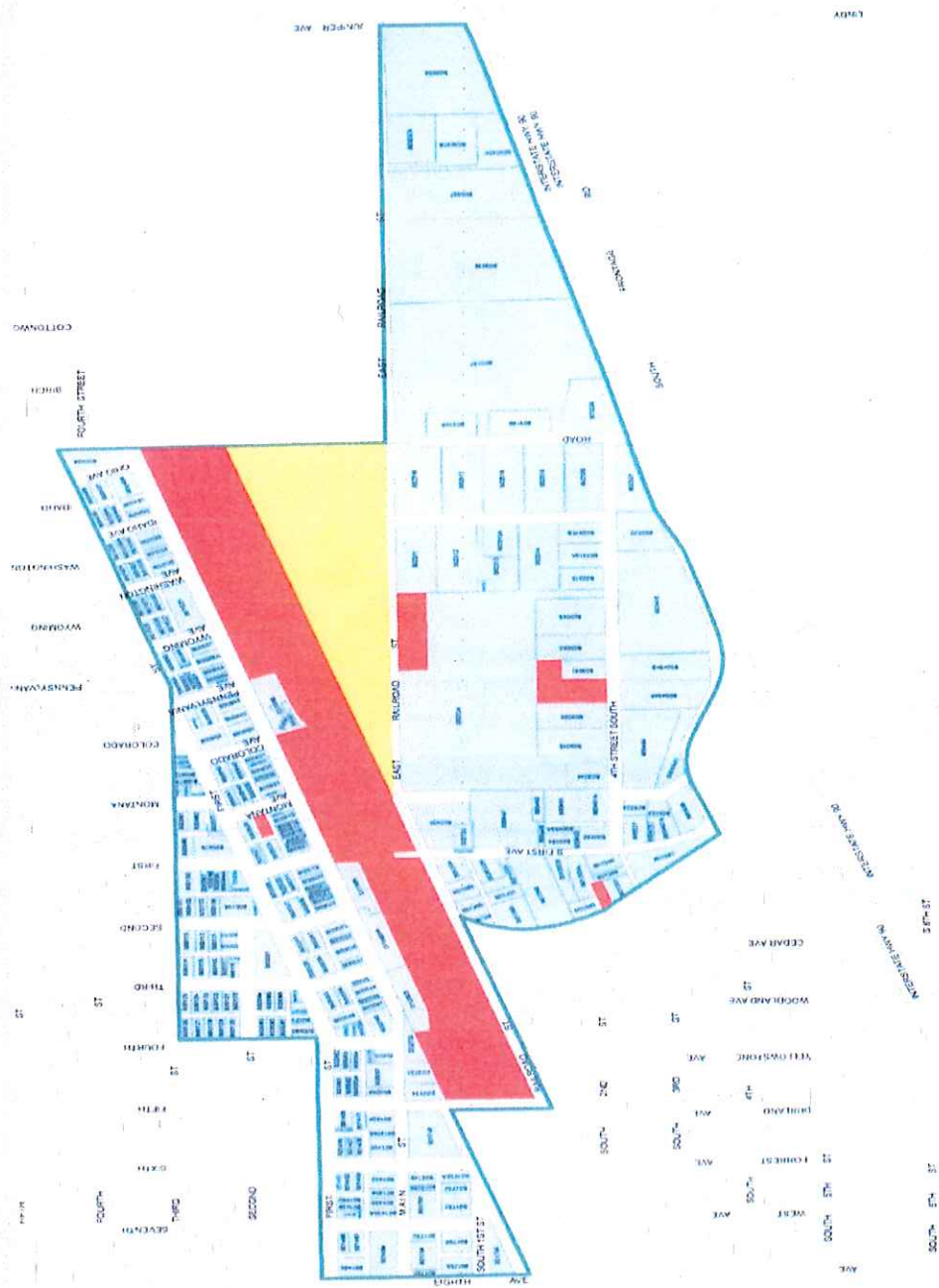


Figure 7 Laurel TIF District

¹ Assuming that it is new economic activity generating higher property values does not come without risks, especially given that TIF programmatic funding favors helping private enterprises build things which become part of the tax base. However, in Montana many commercial properties are appraised based upon the value of the business housed on this property, and in this way increases in economic activity is transmitted into rising property values.