GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title:	**HB0451.01: Revise tax increment financing districts to exclude debt service and certain school levies**
Primary Sponsor:	Mark Thane
Status:	As Introduced

☐ Included in the Executive Budget ☐ Needs to be included in HB 2 ☒ Significant Local Gov Impact

☒ Significant Long-Term Impacts ☐ Technical Concerns ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$0	($11,000)	($16,000)	($25,000)
State Special Revenue (02)	$0	$0	$0	$0
Revenues				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$11,000	$16,000	$25,000
Net Impact General Fund Balance	$0	$11,000	$16,000	$25,000

Description of fiscal impact

HB 451 revises the tax increment financing laws in Montana, specifically the calculation of tax increments for newly created urban renewal areas and targeted economic development districts. New TIF districts will not receive the revenue from certain mills applied to the increment. These are the mills for general obligation bonds or school building fund levies. New Urban Renewal Districts (URDs) will not receive half of the state school equalization mills. The state equalization levies will bring additional revenue into the School Equalization and Property Tax Relief (SEPTR) state special revenue fund based on the exclusion from the increment calculation for URDs.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. There are two types of TIF districts that may be created under current laws: Urban Renewal Districts (URDs) and Targeted Economic Development Districts (TEDDs).
2. A TIF district generates revenue by taking a snapshot of the value of property within its district boundaries. Any increase in value beyond the base year of district creation is considered incremental value.
3. Taxing jurisdictions with mill levy authority remove tax increment from their taxable base, and then set their mills to fund their authorized revenue.
4. These mills are then applied against the incremental value of the district. The product of the applicable mills and the incremental value of the district yields increment, or property tax revenue specifically for the purposes of the TIF district.

5. The 6 mills levied for the Montana University System and the 1.5 vo-tech mills are not levied against the incremental value for the benefit of the TIF district. The full amount of tax revenues generated from these mills within the boundaries of a TIF district is remitted to the taxing jurisdiction.
6. The legislature has multiple times restricted the mills that are applied against incremental value to generate increment. In each case of adding further restrictions to new TIFs, the prior restrictions were also maintained.
7. HB 30 in 2017 removed newly voted mills from being applied to increment. Any TIF created after April 6, 2017 does not receive increment from a mill that is voted in after the district creation.
8. SB 388 in 2021 removed half the state equalization 95 mills from being levied against incremental value for any TEDD created after June 30, 2022. This change was not imposed on new URDs.
9. HB 451 extends the half of state equalization mills treatment of TEDDs to new URDs.
10. HB 451 also exempts any mill levy for repayment of general obligation bonds or mill levy for school building funds from being subject to incremental capture by new TIF districts.
11. The table below summarizes the exempt mills by adoption date of the TIF district.

TIF Type	Prior to April 6, 2017	April 6, 2017	June 30, 2022	HB 451
URD	University + Vo-Tech	University + Vo-TechNewly Voted	University + Vo-TechNewly Voted	University + Vo-TechNewly Voted Half of State EqualizationG.O. Bonds + School Building
TEDD	University + Vo-Tech	University + Vo-TechNewly Voted	University + Vo-TechNewly Voted Half of State Equalization	University + Vo-TechNewly Voted Half of State EqualizationG.O. Bonds + School Building

12. The state equalization mill levy will receive more money under HB 451 than current law for any newly created URD since only half the equalization mills will be subject to the incremental taxable value of the district under HB 451.
13. There has been one URD created since 2022. This URD had an increment value of $233,017 in 2023 and $332,136 in 2024.
14. If HB 451 had been in place, half of the equalization mills levied against this incremental value would have flowed to the SEPTR account rather than the URD. This is equal to $11,068 in 2023 and $15,777 in 2024.
15. Taking the average growth of increment in the two years, it is expected this URD would have an incremental value of $520,521 in TY 2025. Half the equalization revenue associated with an incremental value of this size yields $24,725.
16. The bill is effective on passage and approval, so the earliest base year for a URD subject to HB 451 limitations would be 2025 (FY 2026).
17. Assuming a URD was established in 2025 and saw an increment growth similar to the URD created in 2022, the SEPTR account would see an additional $11,000 in FY 2027; $16,000 in FY 2028, and $25,000 in FY 2029.

18. There are no implementation costs to the Department of Revenue.

Office of Public Instruction

19. The revenue increases in the school equalization and tax relief (SEPTR) fund from the 95 mills reduces general fund expenditures relative to present law receipts.
20. HB 451 creates property tax shifts that are small and the change in distribution of guaranteed tax base aid (GTB) payments to school districts will be minimal.

Fiscal Analysis Table

Department of Revenue	**FY 2026 Difference**	**FY 2027 Difference**	**FY 2028 Difference**	**FY 2029 Difference**
Fiscal Impact				
Expenditures				
Transfers	$0	$0	$0	$0
SEPTER Offset	$0	($11,000)	($16,000)	($25,000)
TOTAL Expenditures	**$0**	**($11,000)**	**($16,000)**	**($25,000)**
Funding of Expenditures				
General Fund (01)	$0	($11,000)	($16,000)	($25,000)
TOTAL Funding of Expenditures	**$0**	**($11,000)**	**($16,000)**	**($25,000)**
Revenues				
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$11,000	$16,000	$25,000
TOTAL Revenues	**$0**	**$11,000**	**$16,000**	**$25,000**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	$0	$11,000	$16,000	$25,000
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$11,000	$16,000	$25,000

Effect on County or Other Local Revenues or Expenditures

Department of Revenue

1. Taxing jurisdictions subject to 15-10-420 and school districts generate the same revenue regardless of the existence of TIF incremental value. However, by being able to tax that incremental value for their own purposes, mill amounts for general obligation bonds and school building funds will be lower.
2. The exclusion of these mills from the increment reduces revenue for the purposes of the TIF district where these mills have been authorized and increases the revenue due to the original purpose of the levied mills.

MACO

3. HB 451 amends 7-15-4286, MCA to exclude certain school levies and debt service levies from the tax increment calculation. The new provisions specify that for districts created on or after the effective date of the act, the combined mill rates used to calculate the tax increment will not include mill rates for university system mills, one-half of the elementary, high school, and state equalization mills, new voter-approved mill levies, any portion of existing mill levies designated as excluded, school district levies imposed under specific statutes, and mills for debt service on voted general obligation bonds.

Significant Long-Term Impacts

Department of Revenue

1. The incremental value in a TIF district grows over the lifetime of the district, which may extend up to 30 years. The effect of exempting certain mills from calculation for the district's increment slow the growth of revenue available to the tax increment financing district relative to the value of the increment, relative to present law.

	2-21-25		2/17/2025
Sponsor's Initials	Date	Budget Director's Initials	Date