

Bozeman Public Schools



2016-17 Adopted Budget

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Tax Increment Finance District Receipts

Tax Increment Financing Districts ("TIFDs", or more simply "TIF"s) are a local sustaining revenue source that will undergo significant changes in 2016-17.

TIFs are a technique that allows a Montana local governments (i.e., cities or counties) to generate revenue for a group of blighted properties targeted for improvement, known as a TIF district. A base year is established from which "incremental" increases in property values are measured. As improvements are made within the district and property values subsequently increase, the incremental increases in property tax revenue are earmarked for a fund that is used for improvements within the TIF district. Virtually all of the resulting new property tax dollars (with the exception of the six mill state-wide university levy) can be directed to redevelopment and economic revitalization activities within the area in which they are generated. Taxpayers located within a TIF district pay the same amount as they would if the property were located outside the district. TIFs do not directly increase property taxes. Rather, they affect the way taxes, once collected, are distributed.

Expenditures of TIF-generated revenues are subject to certain restrictions and must be spent within the TIF district.

Five separate TIFDs exist within the Bozeman School District boundary. The oldest TIFD, the Downtown Bozeman TIFD, has revenues in excess of its debt requirements. Gallatin County, the City of Bozeman, and the Bozeman School District agreed when the Downtown TIF was created that once any debt servicing requirements are met, excess revenue would be reverted back to the taxing jurisdictions based on the proportionate share of mills levied by each. The District has been receiving non-levy revenue distributions for the last seven years:

Year	TIFD Revenue
2009-10	\$ 43,041
2010-11	\$ 38,685
2011-12	\$ 321,585
2012-13	\$ 443,363
2013-14	\$ 546,192
2014-15	\$ 521,028
2015-16	\$ 697,023

The Downtown TIFD will continue to exist until 2031, and the District anticipates our receipts will increase over time.

Prior to this year, the District accounted for TIF proceeds in the Building Fund (a nonbudgeted fund) and used those amounts to offset facility maintenance and improvement costs. However, the 2015 Legislature passed [HB114](#) which requires school districts to use TIF proceeds to either

increase General Fund operating reserves or provide tax relief. This change did and will continue to impact the Bozeman School District in three primary ways:

1. The General Fund will now need to finance costs previously paid through the Building Fund using TIF proceeds. The General Fund is capped, however, so this shift will ultimately mean fewer resources are available for instructional programs.
2. The District is able to use TIF proceeds to increase General Fund operating reserves. Adequate reserves are necessary for cash flow purposes, to protect the District against revenue shortfalls, and to provide a last-resort funding source for unforeseen emergencies. Strong fund balances also improve the District's bond rating, which minimizes the interest costs of future debt issues.
3. HB114 also allows district to use TIF receipts to provide tax relief in any budgeted fund. While this is a valuable tool, it is important to remember that TIF proceeds are short term in nature and they will expire. When that happens, the relief that taxpayers have enjoyed to that time will no longer be available. Without planning, the loss of non-levy revenue will cause a sudden and drastic increase in tax levies.
4. Facility needs within the TIFD boundaries may be addressed. The District has two facilities within the boundaries of the Downtown TIF (the Willson and Hawthorne buildings), and both that have deferred maintenance needs. The existing Downtown TIF agreement allows the City to pay for these improvements directly, without passing the funds through to the District. The District did not use FY16 TIF proceeds in this manner; however, the option may be exercised for future receipts.

As noted above, the District received \$697,023 in TIF receipts in 2016. The District used 100% those receipts to impact taxes, both immediately and into the future. In accordance with HB114, the 2016 TIF proceeds were distributed as follows:

- Elementary Debt Service Fund: \$475,050. In November 2015, Bozeman Elementary voters approved a \$5.5 million bond issue to expand, renovate, and improve Hawthorne Elementary—one of the facilities located within the Downtown TIF boundary. Although those bonds are General Obligation bonds and therefore the responsibility of the taxpayers, the District plans to use the Downtown TIF proceeds to reduce their tax impacts.

The Hawthorne bonds were intentionally structured with a 16-year maturity—rather than the maximum 20-year term—to match the anticipated receipt of the TIF proceeds. Administration expects that the Downtown TIF proceeds will be sufficient completely offset the debt service requirements of the Hawthorne bond. For 2016-17, the Hawthorne bond payment is \$475,050 and 2015-16 TIF proceeds were sufficient to cover the entire balance. As a result, there will be no taxpayer cost for the Hawthorne bonds in 2016-17.

- High School General Fund: \$101,062. Although revenue collections exceeded the budget for the second consecutive year, strong growth in the District's spending authority initially caused General Fund reserves to decline as a percentage of the ensuing year budget. To offset this growth, the District deposited a portion of the TIF proceeds in the both the Elementary and High School General Funds. Prior to the distribution, High School General Fund reserves totaled 9.39% of the FY17 budget; after the distribution, they totaled 10%--the legal maximum.

General Fund reserves are important because they directly impact the District's bond rating. This is particularly important in the High School District, because the Board recently opted to move ahead with plans for a second comprehensive high school. Preliminary estimates indicate the project could approach \$100 million—roughly 56 mills. Strong General Fund reserves are critical to minimize the interest cost and tax impact of the project. The issue is slated to be decided at the May 2, 2017 election.

- Elementary General Fund: \$120,911. As with the High School, the District deposited also TIF revenue in the Elementary General Fund. Prior to the distribution, Elementary General Fund reserves totaled 8.97% of the FY17 budget; after the distribution, they totaled 9.35%. Elementary bonds are not expected in the immediate future; however, current projections indicate the District will need to begin planning for a ninth Elementary school as early as 2020. As a result, it is very important to maintain strong Elementary General Fund reserves as well.

In summary, District taxpayers received both immediate and ongoing future benefit from this year's TIF proceeds. The proceeds completely paid for the 2016-17 Hawthorne bond payment, which provided immediate and direct relief to taxpayers. They also allowed the District to increase General Fund operating reserves, enabling both districts to be at or near the 10% legal limit. These reserves will enable the District to minimize the interest costs and long-term taxpayer cost of large bond issues on the immediate horizon.

If the TIF proceeds continue to increase as anticipated, they will continue to benefit District taxpayers. However, the District will need to carefully manage future TIF receipts and balance our stakeholders' competing priorities.