

## A G E N D A R E P O R T

DATE September 17, 2002

**ITEM** Release of Tax Increment Surplus

**INITIATED BY** Tax Levy Analysis

**ACTION REQUESTED** Authorize Release of Tax Increment Surplus

**PRESENTED BY** Coleen Balzarini, City Conroller CB

**RECOMMENDATIONS**

Staff recommends the City Commission release surplus tax increment to the taxing bodies.

**MOTIONS**

I move the City Commission authorize distribution of the FY 2001/2002 surplus from the Tax Increment Bond Fund, to be apportioned according to the 2001 mill levies of the contributing taxing jurisdictions.

**SYNOPSIS**

Bond fund analysis shows \$ 1,051,000 in surplus tax increments. The existence of this surplus is proof positive that tax increment financing works. The community benefits from the development. The taxing jurisdictions benefit from their willingness to invest in development.

This FY 2001/2002 distribution calculation is based upon 2001 mill levies.

	<u>% Share</u>	<u>Surplus Share</u>
City	19.00 %	\$ 199,690
Library	2.00 %	21,020
County	18.00 %	189,180
School	34.00 %	357,340
State (for schools)	<u>27.00 %</u>	<u>283,770</u>
Total	100.00 %	<u>\$ 1,051,000</u>

**BACKGROUND**

**ATTACHED** are:

1. Tax Increment Surplus – Potential Surplus Analysis
2. Tax Increment Surplus – History of Distributions

When a tax increment district is created, two basic conditions are met:

1. the determination that “but for” tax increment financing, desired development would not occur in the area; and,
2. agreement that local taxing entities will receive the same “base year” level of taxes, but dedicate any incremental tax increases to financing the development of the area.

The release of tax increment surplus is proof that this form of financing does generate the desired development.

## RELEASE OF TAX INCREMENT SURPLUS

### What is Tax Increment?

The *Urban Renewal Tax Increment District* is most of the area in the oldest part of Great Falls. It was *Established in 1979* and will *End at 2010*.

The *Tax Increment* is the increase in property taxes since the District was created.

### What is Tax Increment Used For?

The City has *Issued Bonds for Public Improvements* in the District.

The *Tax Increment Is Used to Pay Back the Bonds*

The City, County and School are investing taxes to *Restore the City Center*

### What is Tax Increment Surplus?

Tax Increment now generates *More than Needed to Pay Bonds -- A Surplus*

The Surplus is returned to tax entities in proportion to their mill levies

Surplus has been released annually since 1987.

### **Tax Increment District History**

The city center Tax Increment District was created in 1979. In FY 86/87 the City initiated annual releases of a portion of the Tax Increments determined to be unnecessary for urban renewal plans. The released levies totaled:

- \$ 96,591 for FY 86/87;
- \$ 114,845 for FY 87/88; and,
- \$ 123,989 for FY 88/89.

All of these releases were made by annual resolutions instructing the County to release any tax increments in excess of \$2,029 per mill.

In 1989 the City issued its major Tax Increment Bond, and in 1993 most of the Tax Increment Bond was refunded. Bond covenants contain Debt Service Reserve requirements, and include a requirement that the City **directly receive** 100% of all tax increments. The purpose was to assure bond holders that first priority for all tax increments would be bond payments and required reserves. Accordingly, the tax levy for FY 89/90 and subsequent years could not provide for any release of Tax Increments through the County. The covenants also stipulate additional reserves before any release of tax increment surplus.

Due to new bond covenants, no Tax Increment release was provided for FY89/90. Since FY 90/91, analysis has shown that the City is able to:

- a. meet Debt Service Reserve requirements;
- b. issue additional bonds for construction of the Health Department Building;
- c. make current bond payments; and,
- d. annually release surplus tax increment.

Bond covenants authorize the City to use the surplus for further urban renewal, debt retirement, and/or distribution to the taxing bodies. When the Tax Increment District was created, the understanding among local government taxing bodies was that any surplus would be distributed.

A new City/County/School agreement provided for additional tax increment bonds to be issued in FY 97/98 for a City-County Health Building. The surplus distributions for FY 98/99 and thereafter are reduced due to the new debt service.

Reserves were built up to required balances through past levies. The "surplus" is derived from the most current tax levies. Accordingly, the proposed surplus distribution is based upon the current annual mill levies of the taxing jurisdictions.

### **Release Of Tax Increments - Relevant Bond Covenants Review**

Section 8 of Resolution No. 8245 details the accounting reserve, bond covenants for the 1989 Tax Increment Bond issue.

Page 51 of the resolution sets the requirements which must be met before release of tax increments to taxing bodies. Financing of three reserves is required before any release:

1. RESERVE ACCOUNT - Section 8.04 (Long-term Debt Service Reserve)  
This reserve is set at \$1,229,919, and relates to the largest total of principal & interest in any calendar year for the scheduled life of the bond.
2. BOND ACCOUNT - Section 8.03 (Current Debt Service Reserve)  
This reserve varies relative to both the principal & interest per year and the point in time during a year. The reserve amount is the interest due at the next interest payment date plus either:
  - a. 100% of the interest due within the next six (6) months; or,
  - b. 50% of the principal due within the next twelve (12) months.
3. DEVELOPMENT ACCOUNT - Section 8.05(e) (Release Reserve)  
In addition to other permitted uses, provision is made for in the Development Account section for release of surplus increments. However, before any release can be made another reserve requirement is added. This additional release reserve is set at 50% of the principal and interest due in the next succeeding fiscal year.

On page 49 of Resolution No. 8245, Section 8.03 makes specific reference to "all tax increment estimated to be received ... prior to the next succeeding Interest Payment Date" as a factor in measuring conformance with the Bond Account reserve requirement. Accordingly, both cash and estimated revenues should be used to analyze the potential to release tax increments to the taxing bodies. This was also verified through Bond Counsel.

**CITY OF GREAT FALLS**  
**TAX INCREMENT SURPLUS**  
June 30, 2002 Potential Surplus Analysis

**A Sources**

1	Cash Balance	30-Jun-2002	\$ 4,811,298
	Add: Estimated Tax Collections thru	30-Jun-2002	Inc
	Add: Estimated Interest thru	30-Jun-2002	Inc
	<b>Total Estimated Sources @</b>	<b>30-Jun-2002</b>	<b>4,811,298</b>

**B Uses**

1	Debt Service Payment @	15-Aug-2002	
	a Principal		840,000
	b Interest		204,717
	c Fees		2,000
		Debt Payment Subtotal	1,046,717
2	Reserve Requirements @	30-Jun-2002	
	a Reserve Account - L-T Debt Service Reserve		1,229,919
	Bond Account - Current Debt Service Reserve (Resets to \$ 0 at August 15th)		
	b Principal	0 X 50%	0
	c Interest	(see payment above)	0
	d. Development Account -- "Release Reserve"		614,820
	e. Reserve for Broadwater Landscaping		52,000
		Reserves Required Subtotal	1,896,739
	Debt Payment and Reserve Requirements	30-Jun-2002	2,943,456

**C Potential Surplus**

\$ 1,867,842

**D Amount of Surplus to be Released**

**\$ 1,051,000**

**E Distribution**

	Total	City of Great Falls	Great Falls Library	Cascade County	Great Falls School District	State of Montana	Transit District
### Mill Levy	537.23	99.62	11.70	98.55	183.54	143.82	Note 1
Percentage Share	100.00%	19.00%	2.00%	18.00%	34.00%	27.00%	na
<b>Surplus Distribution</b>	<b>1,051,000</b>	<b>199,690</b>	<b>21,020</b>	<b>189,180</b>	<b>357,340</b>	<b>283,770</b>	na

Note 1 Contrary to statute, tax increments related to the Great Falls Transit District were not remitted to the tax increment fund prior to FY 99. T. I. surplus totalling \$152,221 was distributed to the Transit District from FY 92 through FY 97 before the increment error was discovered. Starting in FY 98 Transit District increments will be received and fully retained to recover the increment deficiencies of prior years.

**CITY OF GREAT FALLS  
TAX INCREMENT SURPLUS  
HISTORY OF DISTRIBUTIONS BY THE CITY**

Distribution Date	Fiscal Year	Levy Year	\$ AMOUNT DISTRIBUTED TO TAXING ENTITIES						
			Totals Distributed	City of Great Falls	Great Falls Library	Cascade County	Great Falls School Distr.	State of Montana Exclude Univ. Mills	G.F. Transit District
18-Jun-1991	FY 1990 / 91	1990	180,786.00	59,659.38	5,423.58	43,388.64	72,314.40	0.00	0.00
16-Feb-1993	FY 1991 / 92	1991	113,012.00	21,942.27	1,807.86	16,397.30	31,281.17	38,670.16	2,913.24
16-Feb-1993	FY 1992 / 93	1992	628,220.01	115,537.21	9,519.31	87,523.25	194,289.10	206,011.45	15,339.69
05-Apr-1994	FY 1993 / 94	1993	675,000.00	121,500.00	13,500.00	108,000.00	195,750.00	216,000.00	20,250.00
05-Jul-1995	FY 1994 / 95	1994	1,111,000.00	209,000.00	22,000.00	176,000.00	308,000.00	363,000.00	33,000.00
02-Apr-1996	FY 1995 / 96	1995	1,970,197.00	376,664.00	32,308.00	322,292.00	527,369.00	659,556.00	52,008.00
15-Jul-1997	FY 1996 / 97	1996	1,100,000.00	198,770.00	17,050.00	189,090.00	323,400.00	342,980.00	28,710.00
03-Feb-1998	FY 1997 / 98	1997	706,588.00	143,976.00	4,952.00	134,863.00	257,016.00	165,781.00	0.00
15-Jun-1999	FY 1998 / 99	1998	549,945.00	94,655.00	8,085.00	81,015.00	196,790.00	169,400.00	0.00
15-Aug-2000	FY 1999/00	1999	1,000,000.00	180,600.00	15,500.00	157,000.00	357,500.00	289,400.00	0.00
19-Jun-2001	FY 2000/01	2000	850,000.00	163,795.00	15,895.00	145,350.00	273,870.00	251,090.00	0.00
17-Sep-2002	FY 2001/02	2001	1,051,000.00	199,690.00	21,020.00	189,180.00	357,340.00	283,770.00	0.00
			<b>\$ 9,935,748.01</b>	<b>\$ 1,885,788.86</b>	<b>\$ 167,060.75</b>	<b>\$ 1,650,099.19</b>	<b>\$ 3,094,919.67</b>	<b>\$ 2,985,658.61</b>	<b>\$ 152,220.93</b>

Fiscal Year 1997/98 Distribution Adjusted for Prior Year Corrections							
Computed from Mill Levies	700,848.00	128,808.00	11,016.00	120,960.00	224,352.00	215,712.00	0.00
Correction for University Levy & rounding	5,740.00	15,168.00	(6,064.00)	13,903.00	32,664.00	(49,931.00)	0.00
Corrected Surplus	706,588.00	143,976.00	4,952.00	134,863.00	257,016.00	165,781.00	0.00
Note: FY 97/98 is distributed according to the 1997 tax levies, and adjusted to correct for the State University Mill Levy exemption and rounding effects in past calculations.							

**CITY OF GREAT FALLS  
TAX INCREMENT SURPLUS  
HISTORY OF DISTRIBUTIONS BY THE CITY**

Fiscal Year	Levy Year	Totals	ANNUAL MILL LEVIES USED FOR DISTRIBUTION					G.F. Transit District
			City of Great Falls	Great Falls Library	Cascade County	Great Falls School Distr.	State of Montana	
FY 1990 / 91	1990	260.81	86.54	7.00	63.18	104.09	0.00	0.00
FY 1991 / 92	1991	437.58	84.96	7.00	63.49	121.12	149.73	11.28
FY 1992 / 93	1992	461.96	84.96	7.00	64.36	142.87	151.49	11.28
FY 1993 / 94	1993	447.32	81.85	7.00	71.86	131.70	143.63	11.28
FY 1994 / 95	1994	437.60	81.83	7.00	69.68	124.37	143.44	11.28
FY 1995 / 96	1995	428.07	81.83	7.00	70.05	114.58	143.33	11.28
FY 1996 / 97	1996	452.56	81.79	7.00	77.80	133.06	141.12	11.79
FY 1997 / 98	1997	445.05	81.79	7.00	76.80	142.46	137.00	12.20 (Note 1)
FY 1998 / 99	1998	475.13	81.79	7.00	69.99	170.02	146.33	10.25 (Note 1)
FY 1999/00	1999	473.10	85.46	7.31	74.27	169.13	136.93	10.97 (Note 1)
FY 2000/01	2000	511.47	98.54	9.58	87.44	164.81	151.10	12.68 (Note 1)
FY 2001/02	2001	537.23	99.62	11.70	98.55	183.54	143.82	13.31 (Note 1)

Note 1     Contrary to statute, tax increments related to the Great Falls Transit District were not remitted to the tax increment fund prior to FY 99. T. I. surplus totalling \$152,221 was distributed to the Transit District from FY 92 through FY 97 before the increment error was discovered. Starting in FY 98 Transit District increments will be received and fully retained to recover the increment deficiencies of prior years.

**CITY OF GREAT FALLS  
TAX INCREMENT SURPLUS  
HISTORY OF DISTRIBUTIONS BY THE CITY**

Fiscal Year	Levy Year	PERCENTAGE SHARE - DERIVED FROM MILL LEVIES						
		Totals	City of Great Falls	Great Falls Library	Cascade County	Great Falls School Distr.	State of Montana	G.F. Transit District
FY 1990 / 91	1990	100.00%	33.00%	3.00%	24.00%	40.00%	0.00%	0.00%
FY 1991 / 92	1991	100.00%	19.4159%	1.5997%	14.5093%	27.6795%	34.2177%	2.5778%
FY 1992 / 93	1992	100.00%	18.3912%	1.5153%	13.9319%	30.9269%	32.7929%	2.4418%
FY 1993 / 94	1993	100.00%	18.00%	2.00%	16.00%	29.00%	32.00%	3.00%
FY 1994 / 95	1994	101.00%	19.00%	2.00%	16.00%	28.00%	33.00%	3.00%
FY 1995 / 96	1995	100.01%	19.12%	1.64%	16.36%	26.77%	33.48%	2.64%
FY 1996 / 97	1996	100.00%	18.07%	1.55%	17.19%	29.40%	31.18%	2.61%
FY 1997 / 98	1997	100.00%	18.38%	1.57%	17.26%	32.01%	30.78%	0.00%
FY 1998 / 99	1998	99.99%	17.21%	1.47%	14.73%	35.78%	30.80%	0.00%
FY 1999/00	1999	100.00%	18.06%	1.55%	15.70%	35.75%	28.94%	0.00%
FY 2000/01	2000	100.00%	19.27%	1.87%	17.10%	32.22%	29.54%	0.00%
FY 2001/02	2001	100.00%	19.00%	2.00%	18.00%	34.00%	27.00%	0.00%