


AGENDA REPORT

DATE June 21, 2005

ITEM Release of Tax Increment Surplus

INITIATED BY Tax Levy Analysis

ACTION REQUESTED Authorize Release of Tax Increment Surplus

PRESENTED BY Coleen Balzarini, Fiscal Services Director/City Controller 

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 2004/2005 surplus from the Tax Increment Bond Fund, to be apportioned according to the 2004 mill levies of the contributing taxing jurisdictions.

SYNOPSIS

A Bond fund analysis shows \$ 960,000 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 2004/2005 distribution calculation is based upon 2004 mill levies.

	<u>% Share</u>	<u>Surplus Share</u>
City	20.17 %	\$ 193,601
Library	2.06 %	19,775
County	18.18 %	174,573
School	35.37 %	339,597
State (for schools)	<u>24.21 %</u>	<u>232,454</u>
Total	100.00 %	<u>\$ 960,000</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 in FY 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 or to directly finance eligible activities*.

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

What is Tax Increment Surplus?

Tax Increment now generates *More tax revenue 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.

Additional debt service savings occurred in November 2002 when the 1993 T/I bonds were refunded.

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 was amended with the adoption of Resolution No. 9268. This section prescribes the 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 \$771,000, and relates to an amount equal to the lesser of (1) the maximum Principal and Interest Requirements on outstanding bonds for the then current or any future calendar year or (2) ten percent (10%) of the aggregate original principal amount of all series of bonds then outstanding.
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 1, 2005 Potential Surplus Analysis

A Sources

1	Cash Balance	01-Jun-2005			\$ 3,017,682
	Add: Estimated Tax Collections thru		30-Jun-2005		825,000
	Add: Estimated Interest thru		30-Jun-2005		13,394
	Total Estimated Sources @		30-Jun-2005		3,856,076

B Uses

1	Debt Service Payment @	15-Aug-2004	15-Feb-2005	15-Aug-2005	Total
a	Principal	0	0	970,000	970,000
b	Interest	0	0	82,533	82,533
c	Fees	0	0	1,000	1,000
	<u>Debt Payment Subtotal</u>				<u>1,053,533</u>
2	Reserve Requirements @	15-Aug-2005			
a	Reserve Account - L-T Debt Service Reserve				771,000
	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"				560,508
e.	Reserve for Broadwater Landscaping (52,000) and Misc Development (458919)				510,919
	<u>Reserves Required Subtotal</u>				<u>1,842,427</u>
	Debt Payment and Reserve Requirements	15-Aug-2005			2,895,960

C Potential Surplus

\$ 960,116

D Amount of Surplus to be Released

\$ 960,000

E Distribution

	Total	City of Great Falls	Great Falls Library	Cascade County	Great Falls School District	State of Montana	Transit District
2004 Mill Levy	592.26	119.44	12.20	107.70	209.51	143.41	Note 1
Percentage Share	100.00%	20.17%	2.06%	18.18%	35.37%	24.21%	na
Surplus Distribution	959,999	193,601	19,775	174,572	339,597	232,454	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
24-Jun-2003	FY 2002/03	2002	1,640,000.00	314,880.00	36,080.00	298,480.00	574,000.00	416,560.00	0.00
24-Jun-2004	FY 2003/04	2003	1,500,000.00	288,000.00	31,500.00	286,500.00	535,500.00	358,500.00	0.00
21-Jun-2005	FY 2004/05	2004	960,000.00	193,601.00	19,775.00	174,573.00	339,597.00	232,454.00	0.00
			\$ 14,035,748.01	\$ 2,682,269.86	\$ 254,415.75	\$ 2,409,652.19	\$ 4,544,016.67	\$ 3,993,172.61	\$ 152,220.93

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.							

ATTACHMENT 2

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