



**Item:** Prepayment of Debt Service Interest Payable Through 2020 to Great Falls Development Authority for N.E.W. Loan; and Annual Release of Urban Renewal Tax Increment District Surplus Funds

**From:** Coleen Balzarini, Fiscal Services Director

**Initiated By:** Analysis of Urban Renewal Tax Increment District Revenue Collections and Bond Covenant Reserve Requirements

**Presented By:** Coleen Balzarini, Fiscal Services Director

**Action Requested:** Authorize the use of available Tax Increment funds to prepay Loan Interest Payable to the Great Falls Development Authority related to City participation in loan to N.E.W.; and, Authorize release of Surplus Tax Increment Funds to the State, City, County, and School District

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**Suggested Motion:**

1. Commissioner moves:

“I move that the City Commission (authorize/deny) the use of available tax increment funds to prepay \$280,324 in loan interest payable at the discounted amount of \$235,000 to the Great Falls Development Authority, as it relates to City participation in an economic development loan to N.E.W.; and, (authorize/deny) the release and distribution of \$1,000,000 of surplus tax increments from the Tax Increment Debt Service Fund to the City, Cascade County, School District 1, and the State”

2. Mayor calls for a second, discussion, inquiries from the public, and calls the vote.

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**Background:**

At this time there is one principle payment remaining on the Urban Renewal Tax Increment Bonds, due August 15, 2009. The Urban Renewal Tax Increment District will cease to exist when all bonded debt is satisfied. Reductions in the amount of required reserves are attributable to the minimal amount of debt service payments remaining on the Tax Increment Bonds. Funds no longer required to be held in reserve are available for other purposes: including payment of finance costs incurred to promote construction of eligible projects, and release of funds back to the County, School District, State, and City of Great Falls.

**Use of Tax Increment Funds to Prepay \$235,000 in loan interest payable to the Great Falls Development Authority related to City participation in an economic development loan to N.E.W.:**

Tax increment debt reserve funds are now available to spend on eligible expenditures within the Urban Renewal Tax Increment District. It is Staff's recommendation that \$235,000 of available funds be used to prepay loan interest payable to Great Falls Development Authority. Doing so will relieve the Economic Development Fund of future interest payment obligations through July 1, 2020.

On January 18, 2000, the Commission voted to approve a Development Agreement between the City of Great Falls, High Plains Development Authority (now the Great Falls Development Authority), National Electronics Warranty Corporation, and 321 Associates LLC. The agreement provided for the redevelopment of the former Bon Building. Application for an EDA loan of \$2,000,000 was granted to assist in funding the extensive remodeling. The City agreed to pay the portion of the EDA loan interest payments that exceeded 2%. The final interest rate on the loan was 4.75%, resulting in an annual City obligation to pay GFDA \$25,484/year. The final City payment is due in 2020, and if carried to term would result in a total cash expenditure of \$280,324. Benefits derived from N.E.W.'s location and expansion in the Bon building, include annual incremental property tax increases of \$14,000, a total annual property tax payment of \$36,000, retention of a major employer in Great Falls with over 560 employees, and attractive rehabilitation of a prominent downtown facility.

City and GFDA Staff have developed a plan in which GFDA would receive \$235,000 on June 30, 2009, as payment in full of the City's obligation, utilize the \$235,000 to pay down a portion of the outstanding principal on the N.E.W. loan, which in turn reduces future interest expense, which then frees up approximately \$75,000 to put out into a new loan. The long term savings to the City is \$45,324 in total cash outlay. The immediate benefit to the City is in the retirement of a long term debt obligation that has placed budgetary limitations on its small, but important Economic Development Fund. This plan is mutually beneficial to the City and to GFDA.

**Annual Analysis and Release of Surplus Tax Increment Funds:**

The annual analysis of the Urban Renewal Tax Increment Debt Service Fund indicates there is \$1,000,000 in surplus tax increment revenue available for release to the various taxing jurisdictions. The existence of this surplus is proof positive that the use of tax increment financing works to increase the taxable value of areas such as downtown Great Falls. The community benefits from the development activities in the form of infrastructure upgrades and improved aesthetics in a previously blighted area of the community. The willingness of the taxing jurisdictions to forego receipt of incremental tax revenues during the period in which the district exists indicates a commitment to invest in development today in order to increase tax revenues in the future.

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 FY 2008/2009 surplus release allocation is based upon 2008 mill levies.

	<u>% Share</u>	<u>Surplus Share</u>
City	25.16 %	\$ 251,600
Library	2.04 %	20,400
County	20.47 %	204,700
School	29.89 %	298,900
State (for schools)	<u>22.44 %</u>	<u>224,400</u>
Total	100.00 %	<u>\$ 1,000,000</u>

**Concurrences:** A tax increment surplus release cannot occur unless all reserve requirements contained within the bond resolution are met. An analysis of existing funds, anticipated funds, and the amount of required reserves confirms compliance with the requirements.

**Fiscal Impact:**

Prepayment of \$235,000 in discounted debt obligation to Great Falls Development Authority, with existing, eligible to be expended, and no longer required to be held as tax increment reserve funds, will relieve the Economic Development Fund of future interest payment obligations through July 1, 2020.

The taxing jurisdictions, including the City, will apply the released surplus funds of \$1,000,000 to needs specific to that governmental entity. For example, in recent years the City has used the surplus release to fund operational expenses of the General Fund.

**Alternatives:**

**Debt Prepayment:** If prepayment of the debt obligation is not authorized there will continue to be an annual obligation of \$25,484 and a total remaining payment amount of \$280,324 through 2020.

**Surplus Release:** The Commission may opt to delay release of surplus funds back to the taxing jurisdictions.

**Attachments/Exhibits:**

1. Tax Increment Surplus – Analysis
2. Tax Increment Surplus – History of Distributions
3. The Urban Renewal Tax Increment District, Related Debt Financings, and Release of Tax Increment Surplus Funds

CITY OF GREAT FALLS									
TAX INCREMENT SURPLUS									
<b>Sources</b>									
1	Cash Balance	11-Jun-2009							\$ 1,772,415
	Add: Estimated Tax Collections thru	15-Aug-2009							973,180
	Add: Estimated Interest thru	15-Aug-2009							8,000
	<b>Total Estimated Sources @</b>	15-Aug-2009							2,753,595
<b>Uses</b>									
*****									
1	Debt Service Payment @	15-Aug-2009	15-Feb-2010		15-Aug-2010	Total			
a	Principal	1,105,000	0		0	1,105,000			
b	Interest	19,799	0		0	19,799			
c	Fees	750	0		0	750			
	<b>Debt Payment Subtotal</b>								1,125,549
2	Reserve Requirements @	15-Aug-2009							
a	Reserve Account - L-T Debt Service Reserve					0			
	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"					0			
e.	Restricted for Broadwater Landscaping (52,000), Misc Development (388,919)					608,919			
	Water Attraction D/S 2010 (168,000)								
	<b>Reserves Required Subtotal</b>								608,919
	Debt Payment and Reserve Requirements	15-Aug-2009							1,734,468
<b>Potential Surplus</b>									\$ 1,019,127
<b>Amount of Surplus to be Released</b>									\$ 1,000,000
<b>Distribution</b>									
		<b>Total</b>	<b>City of Great Falls</b>	<b>Great Falls Library</b>	<b>Cascade County</b>	<b>Great Falls School District</b>	<b>State of Montana</b>	<b>Transit District</b>	
2009	Mill Levy	598.51	150.56	12.20	122.54	178.89	134.32	Note 1	
	Percentage Share	100.00%	25.16%	2.04%	20.47%	29.89%	22.44%	na	
	Surplus Distributor	1,000,000	251,600	20,400	204,700	298,900	224,400	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	Totals Distributed	\$ AMOUNT DISTRIBUTED TO TAXING ENTITIES					
				City of Great Falls	Great Falls Library	Cascade County	Great Falls School Distr.	State of Montana	G.F. Transit District
								Exclude Univ. Mills	
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	174,572.00	339,597.00	232,455.00	0.00
06-Dec-2005	FY 2005/06	2005	1,000,000.00	214,500.00	20,760.00	183,690.00	339,390.00	241,660.00	0.00
19-Jun-2007	FY 2006/07	2006	1,000,000.00	217,140.00	20,580.00	205,010.00	317,470.00	239,800.00	0.00
17-Jun-2008	FY 2007/08	2007	1,000,000.00	239,970.00	20,050.00	200,550.00	302,970.00	236,460.00	0.00
16-Jun-2009	FY 2008/09	2008	1,000,000.00	251,600.00	20,400.00	204,700.00	298,900.00	224,400.00	0.00
			\$ 18,035,748.01	\$ 3,605,479.86	\$ 336,205.75	\$ 3,203,601.19	\$ 5,802,746.67	\$ 4,935,493.61	\$ 152,220.93

# THE URBAN RENEWAL TAX INCREMENT DISTRICT, RELATED DEBT FINANCINGS, AND RELEASE OF TAX INCREMENT SURPLUS FUNDS

## What is Tax Increment?

This *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 1989 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. 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 tax collections 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 increased debt service obligations.

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 or directly through debt financing. 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 related to required reserves, which are 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. Funding of three reserves are 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....NOTE: THE RESERVE ACCOUNT IS NO LONGER REQUIRED, ONLY CURRENT DEBT SERVICE OBLIGATIONS REMAIN
2. BOND ACCOUNT - Section 8.03 (Current Debt Service Reserve)  
This reserve varies relative to both the principal & interest paid per year as well as the point in time during the year when the balance is reviewed. 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.

NOTE: ALL FUNDS NECESSARY FOR THE FINAL DEBT SERVICE PAYMENT DUE AUGUST 15, 2009, HAVE BEEN RESERVED IN THE BOND ACCOUNT.

3. DEVELOPMENT ACCOUNT - Section 8.05(e) (Release Reserve)

In addition to other permitted uses, including the payment of eligible project expenditures, provision is made 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. NOTE: THIS ACCOUNT IS NO LONGER REQUIRED, ALL REMAINING DEVELOPMENT ACCOUNT FUNDS ARE AVAILABLE FOR ELIGIBLE PROJECT EXPENDITURES.

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.