

Urban Renewal – Tax Increment Financing in Idaho

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Terminology

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Urban Renewal District - AKA: Urban Renewal Area, URD; Area in which urban renewal occurs.

Urban Renewal Agency (URA) – Administrative body for URD

Revenue Allocation Area (RAA) - The portion of the URA in which some of the property tax revenue is allocated to the URA.

Base Value – The value in the RAA that always will be included in taxing district value used to calculate levies. ***Taxes paid on base value allocated to taxing districts.***

Increment Value - Taxable value in the RAA that exceeds the base value. Except for certain levies, taxes paid on this value are allocated to the URA.

Tax Increment Financing (TIF) – Financing based on revenue allocated from taxes on property increment value.

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Beginning 2008, Revenue from Certain Levies does not go to Urban Renewal Agencies

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- ▶ The affected funds are:
 - ▶ 1 – 2 year §63-802 budget override elections
 - ▶ Judgments §63-1305 (assessed value) and §33-802(1) (School district judgments)
 - ▶ Plant Facilities and Bonds
 - ▶ Non-permanent school supplemental elections §33-802(3)
 - ▶ School district emergency funds (beginning 2015)
- ▶ Applies to existing funds (listed above) if there is a new RAA or if fund is new to RAA due to boundary changes of district or RAA or newly formed RAA.
- ▶ Does **not** apply to permanent overrides or supplementals.

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Hierarchy

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- ▶ Municipality (city or county)
 - ▶ May have urban renewal agency (all authorized)
 - ▶ Cannot exercise authority without resolution adopted by local governing body
 - ▶ May then prepare plan for urban renewal projects
 - ▶ Revenue Allocation Area (RAA) is part of plan and used to provide financing through property taxes on increment value
 - ▶ Should be separate plan for each RAA

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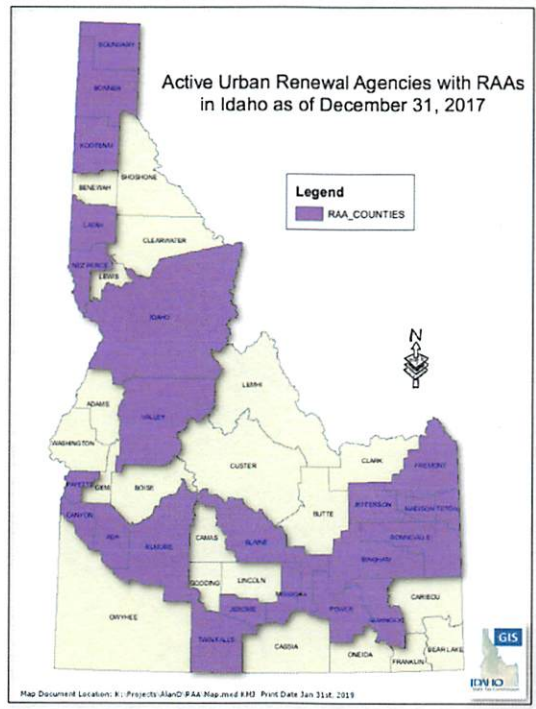
Use in Idaho in 2018 - 2019

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- ▶ Use in Idaho in 2018:
 - ▶ 24 counties
 - ▶ \$5.86 billion in taxable value of increment
 - ▶ \$153.2 billion net taxable value (base only, after subtracting exempt personal property)
 - ▶ 79 separate RAAs
 - ▶ **Will grow to 87 in 2019**

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Active Urban Renewal Agencies with RAAs in Idaho as of December 31, 2017



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Duration of Idaho RAAs

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- ▶ Originally, unlimited (but original Boise RAA dissolved in 2018 after 30 years)
- ▶ 2000 –
 - ▶ 30 years if bonded indebtedness incurred
 - ▶ 24 years without bond
- ▶ 2011 – 20 years
- ▶ 2016 – House Bill 606aa
 - ▶ Terminates use of increment value for RAAs formed July 1, 2016 or later **IF**:
 - ▶ Certain plan modifications occur
 - ▶ Increment based allocation is not necessary to pay debts

Some self limit to shorter duration

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RAA Area Limitations

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- ▶ Cannot extend more than five miles outside city boundary unless operated jointly by city and county
- ▶ Base value in RAA cannot exceed 10% of taxable value in municipality
 - ▶ One annexation allowed (post 2011)
 - ▶ Can only increase original area by 10%
- ▶ No limit on increment value

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Status of Urban Renewal Agencies – re Funding

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- ▶ Not Taxing Districts
 - ▶ Have no independent levying authority
 - ▶ Derive revenue from application of most taxing district levy rates to increment value
- ▶ Generally, do not directly reduce taxing district revenue or take away from amounts budgeted by taxing districts
- ▶ Often lower near term budget capacity
 - ▶ Delay use of new construction
 - ▶ Capture of general property value inflation in increment value

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Overall Effects of Urban Renewal - Taxpayers

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- ▶ Neutral effect on tax rates – **if**
 - ▶ Property values in RAA area would not have increased without urban renewal, and
 - ▶ New construction within RAA would not have occurred without urban renewal
- ▶ Increased tax rates – **if**
 - ▶ Property values in RAA area would have increased without urban renewal, or
 - ▶ New construction within RAA would have occurred without urban renewal

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Tax Increment financing (TIF) concepts – Starting Point

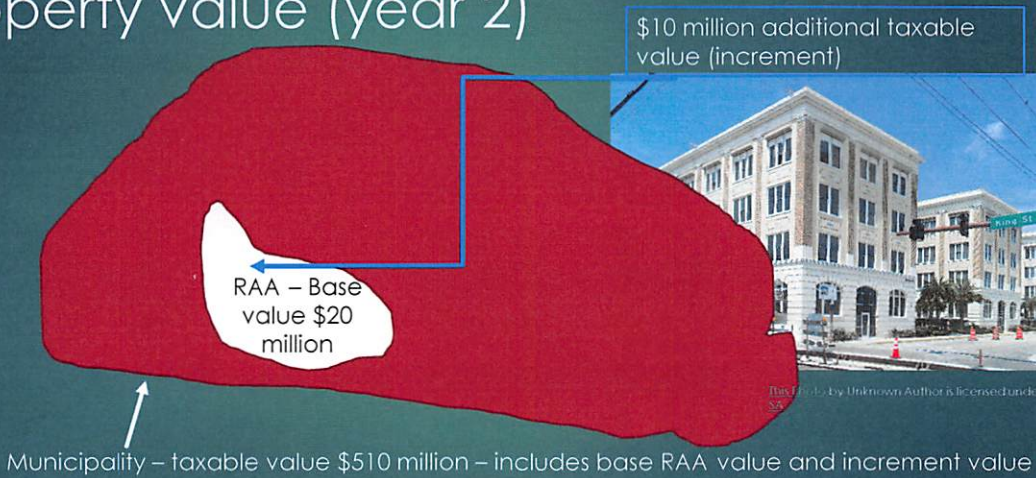
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TIF concepts – After adding property value (year 2)

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Urban Renewal Areas – Generally No Loss of Revenue to Taxing Districts

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- ▶ **Example:** Taxing district sets its property tax budget

$$\frac{\$ 2 \text{ million property tax budget}}{\$500 \text{ million value including base}} = 0.004 \text{ tax rate}$$

- ▶ Base included to compute levy rate does not include increment (part that goes to Urban Renewal District and provides funds for URA)
 - ▶ If there is \$10 million in increment,
 - ▶ $0.004 \times \$10 \text{ million} = \$40,000$ → Goes to Urban Renewal Agency
 - ▶ $0.004 \times \$500 \text{ million} = \$2,000,000$ → Goes to taxing district
 - ▶ Total property tax raised is \$2,040,000 even though levy rate was set to raise \$2,000,000

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How does this affect taxing district budget increase limits?

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- ▶ General rule: Provided taxing district levy rate does not hit limits, under §63-802, property tax budgets can increase:
 - ▶ 3%, plus
 - ▶ New construction value X prior year's levy rate, plus
 - ▶ Annexation value X prior year's levy rate, plus
 - ▶ Forgone amount of unused prior increases
- ▶ New construction component is affected by urban renewal
 - ▶ Not allowed until dissolution of RAA or de-annexation from RAA

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New Construction (NC) Budget Component – NC Outside RAA

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How much can taxing district budget increase due to new construction outside RAA?

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- ▶ Prior year's budget: \$2 million
- ▶ Prior year's levy rate: 0.004
- ▶ New construction value: \$10 million
- ▶ Total taxable value: \$510 million
- ▶ Calculation:
 - \$10 million X .004 = \$40,000
 - Additional budget capacity that may be levied
- ▶ New levy rate:
 - \$2,040,000 / \$510 million = 0.004
- ▶ New construction budget allowances are neutral in terms of tax rate effects

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What if the new construction had been within the RAA?

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- ▶ Statute prohibits including this new construction in budget capacity
 - ▶ Until the RAA dissolves or the property is removed from the RAA by de-annexation (63-301A)
 - ▶ At that time, any value that went into increment is included as new construction, except
 - ▶ Value already included as new construction prior to the statutory restriction, which was passed in 2007
 - ▶ To guard against including value twice, Dec. 2006 increment value is subtracted from final (current) increment value

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What Happens at Dissolution of RAA?

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- ▶ Excess funds distributed to taxing districts
- ▶ Increment value added back to base
 - ▶ All future levies calculated against full market value – begins in current year
 - ▶ All future taxes go to taxing districts
 - ▶ Post 2006 increment value added to next available new construction roll
- ▶ Similar effects upon de-annexation of part of RAA (but no excess fund distribution)

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Potential Losses to Taxing Districts – Related to §63-602NN Development Exemption

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- ▶ Property granted the exemption
 - ▶ Cannot include value already on tax rolls (applies to new value related to investment)
 - ▶ Does not count as new construction during exemption
 - ▶ After exemption (5 Yr. max.) value is counted on new construction roll, but unclear whether it can be included if property within RAA
 - ▶ Proposed rule would clarify inclusion **only if** property brought into RAA after exemption granted (value would be added to base, not increment)

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New Construction Intersection with §63-602NN Development Exemption (current statute and rule)

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Example:

Property has taxable value of \$1 million.

Additional \$2 million is added – exempt for five years

After five years, taxable value is \$4 million, including original and new property

Maximum amount that can be added to new construction roll would be \$2 million

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Treatment of Property Losing NN Exemption (current statute and rule)

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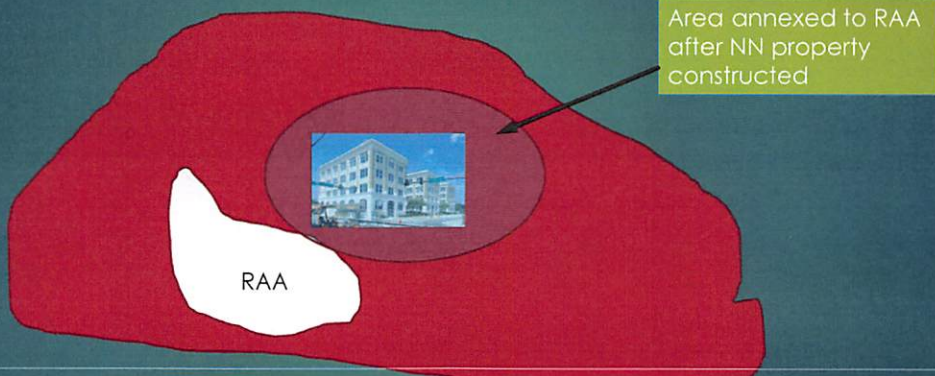


Property granted NN exemption is **outside** the RAA and is added to new construction roll after loss of exemption (based on value when exemption granted)

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Treatment of Property Losing NN Exemption – proposed rule 802

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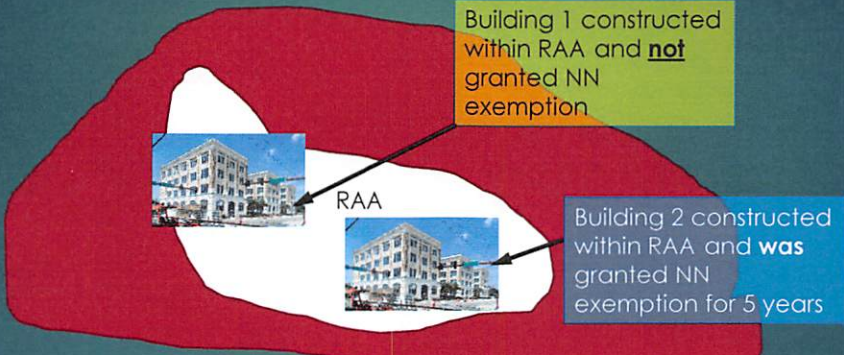


Property granted NN exemption was outside RAA **when built and exemption granted**, then annexed before losing exemption. It should be added to the base value and new construction roll after loss of exemption. Since value is added to the base (not the increment), it is rate neutral when added to the new construction roll.

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Treatment of Property Losing NN Exemption – proposed companion rule 804

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Building 1 is added to increment value. The rule would clarify that Building 2 is to be added to increment value once it loses the NN exemption. Neither building is added to the new construction roll until RAA dissolution or de-annexation.