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Tax-increment district heads for sunset

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An era in Billings history, when local tax dollars instead of federal grants fueled urban renewal and helped reshape the downtown skyline, will officially end at midnight Saturday.

That's when the downtown and South 27th Street tax-increment district will cease existence after a 12-year life marked by occasional turbulence.

The Magic City's largest redevelopment effort began in the mid-1970s when the downtown area had taken on a moth-eaten look.

Blight had appeared on the edges and even inside the central business district. Concerned that the trend might worsen, city officials and downtown property owners joined forces. Five days before Christmas 1976, that partnership resulted in the launching of a complex and frequently controversial tool for redevelopment called tax-increment financing, or TIF.

TIF, used in about 45 states, allows a city or another local government to reserved property or sales taxes collected on growth – the increment – in the tax base of a designated district. Revenue from the increment then pays for redevelopment projects.

In Billings, property taxes from post-1976 growth in the downtown tax base have paid for City Council-approved redevelopment projects within the 110-block district.

Seeing it heading for a Dec. 31 sunset brought expressions of regret as well as relief from a wide-ranging group of community leaders interviewed recently by The Gazette.

Most city officials and many prominent business people praise the district and the downtown revitalization that has accompanied it. They say an estimated $75 million in private investment since 1976 would not have happened without a $25-million infusion of tax-increment money. Prominent examples of the private investment include the Sheraton Hotel, the Norwest Bank building and the First Interstate Center.

"I'd say it has been an unqualified success," said Billings Mayor Jim Van Arsdale, who has been a council member and mayor for the past 11 years. "It has let us invest in assets that we would have never been able to do otherwise. By investing in new assets like parking garages, we've definitely added to the growth factor of the city and gotten new employment and new buildings."

Others, however, welcome the end of the district and the flow of extra dollars to the county and the schools starting on Jan. 1

Top county and school officials agree that the community has benefited and will continue to benefit from improvements funded with tax-increment dollars. The school district and the county could forgo the money earlier in the decade and still balance budgets that provided most services residents wanted because the region's energy boom was filling local-government coffers.

But now, as school officials try to avoid further teacher layoffs and county officials try to keep the jail's population from soaring above budgeted levels, the two governments sorely misses they would collect if the tax-increment district didn't exist.

"We have to look at it in terms of the long-range picture," said Katherin Kelker, chairwoman of the Billings School Board. "But, in the short range, it's a little tough, especially lately with our economy."

Kelker said the tax-increment concept has been successful. "We won't see the fruit of some improvements for some time. But I'm convinced they will bear fruit."

She said the most tangible benefit for the school district has been the $3.5 million remodeling of the former Lincoln Junior High School, which will become the district's administrative and adult-education center. "We could have never paid for that with district funding."

Kelker said she hasn't received exact figures on taxes that will begin flowing to the school district after the tax-increment financing ends. She said school district and city representatives are calculating the numbers.

"It's a matter of some concern to us. We're talking about (finding money for) one teacher or one librarian. Any new revenue we could get in the budget would be very helpful," Kelker said.

Grace Edwards, who chairs the county commissioners, said tax-increment financing has been a "useful too," but she says other community needs have become more pressing than downtown redevelopment.

"I believe it's time to sunset the district," said Edwards, who was on the City Council in 1976 and was part of a 7-3 majority that approved TIF. "It's time for our entrepreneurs to pick up the slack and carry on in the good old free-enterprise spirit."

"The school district and the county could use those taxes," she said.

Although Van Arsale agreed that the county and the schools "do not gain readily" from assets financed by tax-increment, "I don't think in the city of Billings' case this was taken advantage of. I think we have been reasonable in spending tax-increment money, and they (county and schools) will get a return early in the next several years."

Van Arsdale, a self-described champion of TIF, said, "I know we're going to miss it."