



Tax Increment Financing Toolkit

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Tax Increment Financing

Creating a Downtown Investment Tool

Introduction and Background

What is a Tax Increment Financing District?

Tax Increment Financing is an innovative mechanism that allows Montana communities to capture and accrue tax dollars from new investment and development within an identified boundary. These dollars can be reinvested in the district to address deficiencies and blight as allowed by [7-15-4288, MCA](#).

History

Tax Increment Financing is not new to Montana. In 1974, the Legislature approved its first urban renewal law, creating the tool for TIF funding. Since then, many Montana communities have reaped the benefits, spurring growth and economic opportunities in areas that would otherwise be diminished by blight or infrastructure deficiencies.

Tax Increment Financing and Targeted Economic Development Districts

TIF Districts are directly related to blight in a targeted area and have the goal of eliminating or reducing the spread of blight by encouraging redevelopment ([7-15-4202, MCA](#)). A TIF District can only be created in an incorporated area.

Definition of Blight Per [7-15-4205 \(2\), MCA](#)

“Blighted area” means an area that is determined to be detrimental to public health, safety or welfare due to the presence of at least three of the conditions listed below.

Examples of Projects Eligible for TIF Funding

- Bridge replacement and transportation system repair

- Recreation and open space restoration
- Streetscaping projects
- Historic/vacant building restoration or additions
- Public infrastructure replacement/upgrades
- Housing development
- Road resurfacing and repair

Targeted Economic Development Districts are often located outside city limits but can be formed in both unincorporated and incorporated areas. TEDDs address infrastructure deficiencies so secondary, value-added commodities or industries can be served. Infrastructure deficiencies may include:

- Water
- Sewer
- Broadband
- Rail
- Power
- Transportation networks

Definitions of Value-Added Products and Industries

Secondary value-added products and commodities are manufactured, processed, produced or created by changing the form of raw materials into more valuable products or commodities that can be sold or traded.

A secondary value-adding industry produces second value-added products or commodities, or uses technology-based operations within Montana that add value to a product process or export service that results in the creation of new wealth.

Life of the District

TIF Districts sunset no more than 15 years after the date of creation. The life of a district can only be extended if there is a debt service related to the district. When a community undertakes a large project, it may require bonding.

In this case, when the repayment of a bond exceeds the TIF sunset date, the district can continue through the life of the bond. The extension may never exceed 25 years from the time the district is extended.

Eligible projects include, but are not limited to:

- Transportation infrastructure improvements, including multi-modal projects
- Utility infrastructure improvements
- Development of parkland
- Restoration of blighted, vacant or historic buildings
- Streetscape and other beautification projects
- Public art
- Infill and land development

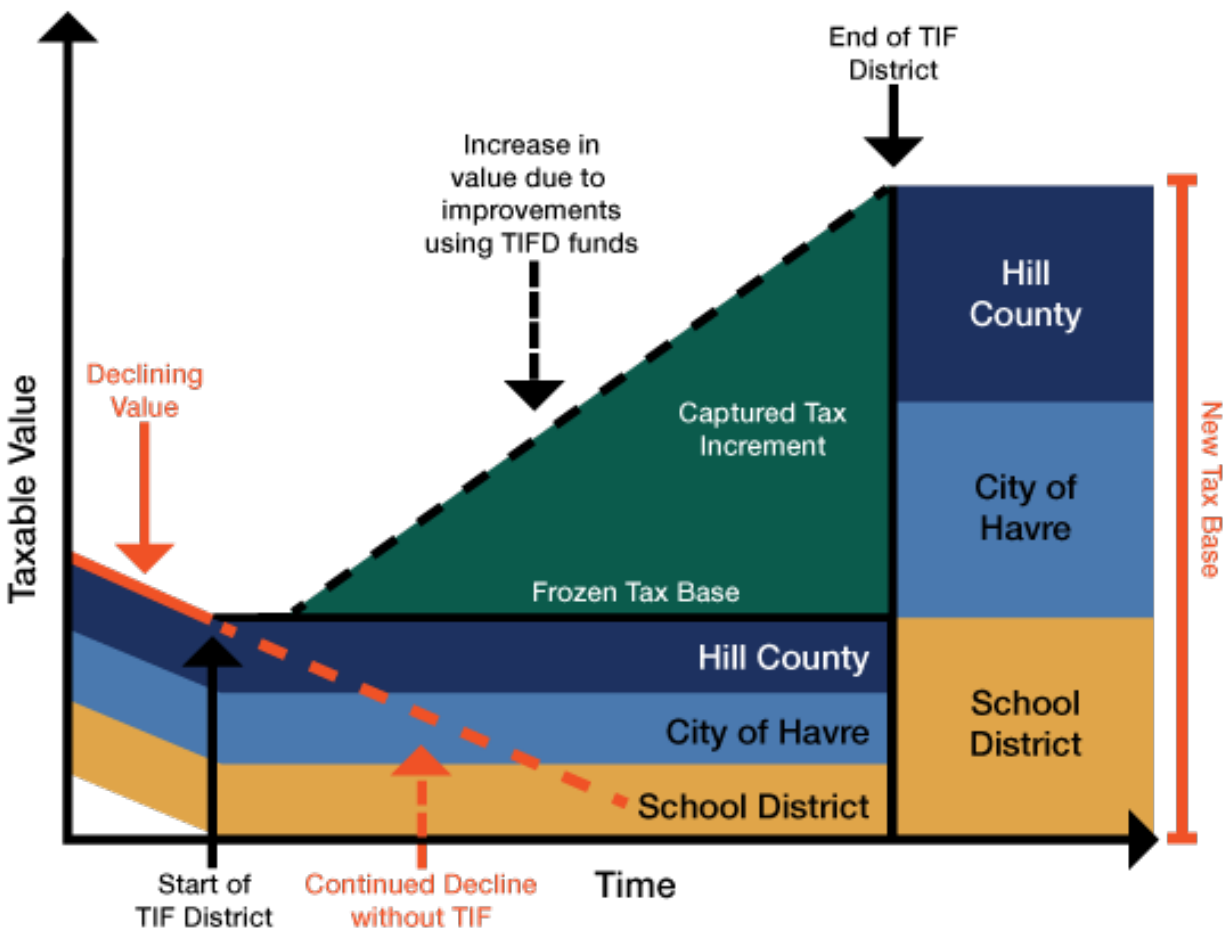
Eligible costs include, but are not limited to:

- Analysis to determine the needs of the district, such as downtown plans, master plans, market analysis and feasibility studies
- Land acquisition
- Demolition and removal of structures
- Acquisition of infrastructure-deficient areas
- Assembly of land for development or redevelopment
- Connection to existing infrastructure located outside the district

Is a TIF District Right for My Community?

A community must understand its needs and the capabilities of a TIF District prior to engaging the community. If comprehensive planning efforts have identified the need for redevelopment or investment into a particular area, the community should explore those findings and document them accordingly.

Tax Increment Financing Theory



Community needs, deficiencies and blight should all be documented, and information supporting those claims should be readily available. Many communities include an inventory of structures and their existing conditions to help support the blight claim. Sources to support these findings could come from demographic information, building stock information or property tax data.

Consider the following:

- Are low or stagnant property values a concern in the area?
- Has little to no new investment been made in the area?
- Would removal of blight increase the potential for development?
- Does the community have a comprehensive growth policy in place that identifies the issues facing the area?
- Is the property properly zoned for suitable redevelopment opportunities?

If **yes**, the local environment is suitable for the creation of a district. If **no**, the community should consider other mechanisms for redevelopment outside of Tax Increment Financing. These may include, but are not limited to, special improvements districts, tax incentive programs and grant funding for specific redevelopment projects.

Consideration of Impacting Other Taxing Entities

The potential impact on other taxing jurisdictions should be considered when determining whether a TIF District would be right for your community. Reach out to local governments, school districts or fire districts that would be affected, or any other entity with the ability to levy mills. Other taxing entities may be concerned that creating a TIF District will take future revenue from their budgets. That's true, but the only dollars withheld from those jurisdictions will be those captured from new investment within the district boundary. Jurisdictions will still receive tax revenue from within the district boundary at the base value which is determined when the district is created. All taxing entities will continue to benefit from new investments outside of the district as well.

The community should document how it includes the other taxing entities in the creation process, as the Urban Renewal Plan or Comprehensive Development Plan requires information on how these entities have been engaged.

Creating the District

Proper Planning

Before a community is ready to create a district, tools must be in place to support the district and ensure its success.

Growth Policy

A growth policy is an official public document adopted and used by the local government as a guide for decisions regarding the physical development of a community. Growth policies evaluate and guide many facets of local government including land-use, economic development and housing. All could have an influence on the proposed district. If a community is considering creating a district, it would be wise to include supporting language in the growth policy. If a community has an existing district, include language about the district in the growth policy, ensuring a variety of mechanisms support the work the TIF District is committed to carrying out.

Zoning

It is important for the local community to make sure the appropriate zoning measures are in place to support the redevelopment of the district. If zoning is not in place in the proposed district, the community will need to develop a zoning ordinance for the district prior to its creation. This is also a requirement of a TEDD, even if the proposed TEDD is not located within an incorporated area. Zone changes must occur in accordance with Title 76, Chapter 2, MCA.

Proposing a Boundary

One of the first steps is determining a proposed boundary for the district. The district should clearly define the appropriate area, along with consideration of transportation infrastructure, types of land use and evaluation of deficiencies in infrastructure, or the identification of blight.

Important questions to consider when determining a district boundary:

- Does the proposed district include an area large enough for multiple new development or redevelopment opportunities?
- Is the proposed district taking advantage of new investment that will not benefit from participating in the district?
- Does the size of the district place a financial strain on other taxing jurisdictions?

Public Involvement

Once a community has decided there is reasonable need and the infrastructure to support such a district, it is important to provide opportunities for public input. A variety of stakeholders should be included, and a series of meetings should be part of the public involvement process. These meetings should convey information about TIF Districts and how they can satisfy the needs of the community. Information should be shared on eligible TIF projects. Focus on how the district can help implement planning measures like downtown plans, goals identified in the local growth policy, construction of new infrastructure or improvements to existing infrastructure.

Who should attend these meetings?

- Elected and appointed officials
- Property and business owners from the affected area
- Other organizations or interested members of the public such as economic development groups, local chambers of commerce and other special interest groups

Important topics for discussion:

- What is a TIF District?
- How does it work?
- How can it meet the needs of this community? Highlight whether your community will be creating a TIF District or a TEDD.
- What can and cannot be paid for with TIF dollars?
- What is the timeframe?

Finalizing the Boundary

Finalize the boundary and compile property information for proper notice. Note that a boundary may be changed as a community moves through the process, if further analysis and findings support such a change.

- Create an accurate map depicting the district boundary in its entirety. Be sure to include all adjacent rights-of-way.
- Compose a legal description of the boundary
- Compile property tax information, both centrally assessed and personal, for all property owners within the district, including geocode and TAXIED. This information will be key in giving proper notice to all property owners within the proposed district. This is a requirement once the governing body is ready to consider an ordinance creating the district, including the adoption of the Urban Renewal or Comprehensive Development Plan.

Creating the District

Local Government Action

Resolution of Necessity: Prior to proposing an ordinance to create the district or holding a public hearing, the local governing body shall, by resolution, pass a Resolution of Necessity. Any documentation of blight or infrastructure deficiency must be attached.

TIF District 7-15-4210, MCA	TEDD 7-15-4280, MCA
Findings should be presented in Resolution of Necessity specifically stating that one or more blighted areas occur within the community, and rehabilitation and/or redevelopment is necessary in the interest of public health.	Findings should be presented in the Resolution of Necessity specifically stating the relations to one or more infrastructure deficient areas existing in the municipality and that the infrastructure improvements of the area are a necessity

	to the welfare of the residents of the community.
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District Development Plan

When creating a district, the community must prepare and formally adopt a written development plan specifically for the proposed district. These plans can take many different shapes. For instance, in an urban TIF District, the plan may be an Urban Renewal Plan. For the creation of a TEDD, a Comprehensive Development Plan would be required.

Before the local governing body can adopt these plans, they must be reviewed and recommended by the planning board for the jurisdiction where the proposed district is located. Before adopting the plan, a public hearing must be held, and written notice must be given to all property owners within the district ([7-15-4215](tel:7-15-4215), [MCA](#)).

Suggested items to include in the plan:

TIF District	TEDD
Urban Renewal Plan: <ul style="list-style-type: none"> • Intent of the district • Statement of need, statement of intent to use tax increment funds and the base year to begin capturing dollars • Identify structure for the TIF to be administered* • Description of blighted conditions • Explanation of specific issues within the district 	Comprehensive Development Plan: <ul style="list-style-type: none"> • Intent of the district • Statement of need, statement of intent to use tax increment funds and the base year to begin capturing dollars • Identify structure for the TEDD to be administered* • Description of infrastructure deficiencies

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<ul style="list-style-type: none">• goals and objectives to overcome the issues identified• Specific strategies to successfully achieve the goals and objectives• Identification of planned or future projects the community hopes to complete• Identification of additional funding source, if necessary, to complete identified projects• Identification of administrative provision to amend the plan if necessary	<ul style="list-style-type: none">• Explanation of specific issues within the district• goals and objectives to overcome the issues identified• Specific strategies to successfully achieve the goals and objectives• Identification of planned or future projects the community hopes to complete• Identification of additional funding source, if necessary, to complete identified projects• Identification of administrative provision to amend the plan if necessary
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*See “Administering a District”

The governing body should only adopt the plans if:

- The plan conforms to the local growth policy.
- The plan affords the maximum opportunity for revitalization or rehabilitation.
- A sound financial program exists to support identified projects within the plan.
- A workable and feasible plan exists in the event projects will cause people to be displaced.

Ordinance to Create the District

Using the adopted local procedure, the local governing body will need to adopt an ordinance to create the district. Prior to passing the ordinance, a public hearing must

occur. An ordinance is not effective until 30 days after it has received governing body approval.

Once the District is Created

Specific filing requirements have been identified in Montana Code Annotated and the Administrative Rules of Montana. Specifically, the clerk of the local government shall provide a certified copy of the ordinance for each Urban Renewal Plan or Comprehensive Development Plan to the Montana Department of Revenue.

The same information must also be given to the clerk or appropriate officer of any other affected taxing entity. Additionally, documentation on each step in creating the district should be supplied to the DOR no later than Feb. 1 of the year following the creation of the district. Upon receipt of all information, DOR will certify the district and provide the base taxable value.

Checklist of Documents to Provide to DOR

- Adopted map and property owner data within the district boundary
- Resolution of Necessity with attached findings
- Documentation showing compliance with growth policy and zoning ordinances
- Public notices
- Ordinance and Urban Renewal Plan or Comprehensive Development Plan

Administration of the District

Through the creation process, the governing body should determine how the district will be administered. The governing body can create and assign powers to the board, urban renewal agency or commissioners that will oversee the district. This should be a separate ordinance process.



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Ordinance Creating an Urban Renewal Agency or Body to Govern the District

If a community elects to create a separate urban renewal agency per [7-15-4232, MCA](#) to exercise the powers enumerated in Montana law, a local ordinance will be necessary.

The ordinance, which should stand alone, must include the information listed below:

To Be Included in the Ordinance	Explanation
Background information on the establishment and creation of the agency	A brief overview naming the agency and its role
Agency composition and term of offices	Provide information on the number of voting commissioners and advisory members. Specifically state the term limits of each seat and how the appointment or reappointment of positions occur.
Commissioners	Clearly define, in detail, the role of the voting commissioner on the agency board. Be sure to identify criteria that make an individual eligible to be a voting member. Perhaps the community wishes to see someone who lives within or owns a business in the district boundary. Provisions for removing a commissioner should also be identified.
Advisory members	The structure of the board may also include advisory or non-voting members. Clearly identify the expectations of these members and include provisions for eligibility and removing a member. Advisory members can also be identified as staff support supplied by the local



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	<p>government. Planning and community development should be key support roles for the district.</p>
Operation	<p>A statement referencing the bylaws is needed. Include language regarding open meeting laws and how the agendas for meetings are posted. These meetings should always be open to the public, and a clear record of minutes must be maintained by the governing body.</p>
Agency authority and duties	<p>The agency authority and duties should be detailed. Language should include whether the board acts as advisory to the local governing body or has direct authority to make decisions. In some cases, it may be a combination. An example would be spending limits. The governing body may allow the agency to allocate funds to project, but these funds may not exceed a certain amount without the approval of the local governing body.</p> <p>Other topics that should be identified include whether the agency is required to issue an annual report and what it should contain, as well as the role of the agency in identifying a work program and budget.</p>
Control of conflict of interest	<p>Include information regarding what constitutes a conflict of interest within the district. Provide clear language about</p>

	direct or indirect interests of any board members advisory or voting, and any elected official with oversight of the district.
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Calculating Increment

Many factors determine the increment that is accrued in the district, including property classification and the base year value determination. Important things to remember about calculating increment:

- Tax increment is not determined per individual property, but the district in its entirety.
- Base value is determined for the year of creation.

For detailed information on calculating increment, use [“Tax Increment Financing in Montana: A Manual for Local Governments and Economic and Community Development Agencies”](#) by Janet Cornish.

Utilizing TIF Funding

Cash	Bonds
Assumes increment is happening	Catalyst to create more increment
Low risk	Moderate to high risk; variable interest rates
Involves time to let the increment accrue	Provides up-front capital to complete projects

Financing Improvements

Communities wishing to make large capital improvements where the resources are not readily available have the option of financing improvements through traditional methods

like loans or through the sale of bonds. No matter what method of financing a community chooses to use, it is important to consider the timing of incurring debt.

To Bond or Not to Bond?

Each community has different needs, and each project need is different. A municipality may issue tax increment bonds only if it can establish that there is sufficient tax increment revenue each year to pay the principal and interest on the tax increment bonds. Choosing to bond a project early in the life of the district could require substantial future increment to go towards debt service payments, potentially minimizing the opportunity to fund additional projects. For some districts this may be ideal, especially if a catalyst project is needed to immediately spur development or redevelopment. If a community wishes to delay bonding until later in the life of the district, this could give the community the opportunity to accrue revenue and complete small-scale projects while saving for large scale projects later. This method is sometimes necessary if a district develops slowly.

Maximizing a District With Other Funding Mechanisms

Over time, a successful district will begin capturing substantial revenue. Communities can use TIF dollars as a local match to grant programs or to leverage other funds. TIF dollars can also be used to encourage public-private partnerships.

Local Match for Grants

Increment does not have to be the sole financing mechanism for projects within the district. In fact, the best way to maximize the dollars is to use TIF funds as local match for grants that require match funds. Many Montana grant programs require a local match, and eligible grant costs must align with allowable TIF expenditures.

An eligible example would be applying for Community Development Block Grant planning funds to support an effort specifically for the TIF District. Hypothetically, to receive a \$50,000 grant for planning activity, the TIF could contribute \$12,500 or 25%.

Successful TIF Projects Throughout Montana

East Billings Urban Renewal District

The East Billings Urban Renewal District is a 300-acre TIF District on the east end of Billings. In 2006, a group of property owners partnered with the City of Billings, Big Sky Economic Development and other entities to address the area's challenges. Most important to the success of any district is the need for a signature project to serve as the catalyst for both development and TIF revenue. The EBURD's catalyst occurred when First Interstate Bank replaced two city blocks of what had been a rundown mobile home park with an \$18 million, 65,000-square-foot operations center.

While their investment in the area was largely due to a desire to reinvest in the Billings community, the EBURD was able to offer development incentives. In this case, the EBURD crafted an agreement that would refund some of the costs First Interstate Bank would incur out of future revenues resulting from their increased property taxes. Once First Interstate Bank began paying taxes, the EBURD saw its first increment. Increment grew as they were able to entice other investments in the area — some small and some significant — using similar agreements or smaller cashback arrangements.

The EBURD has been a landowner-driven and successfully managed TIF District; however, the project has required substantial volunteer time, resources and perseverance from the Billings Industrial Revitalization District's membership. Without a shovel-ready signature project, a new district should expect a four- to eight-year timeframe with little or no revenue.

Kalispell TIF District

Kalispell's West Side TIF District was expanded to include the 365-acre Core Area in December 2012. The Urban Renewal Agency, a volunteer board tasked by the city council to review projects and make recommendations, held a series of meetings to develop TIF programs and guidelines specific to the goals adopted by the council for the Core Area.

In December 2012, a local entrepreneur acquired a prominent, blighted property on Main Street in Kalispell which had been vacant for over a decade. This property was challenged in part by its ad hoc construction resulting in a lack of water service. The TIF application requested a reimbursable grant up to 50% of project costs to cut into Highway 93 — Kalispell’s Main Street — and extend a fire line to serve the project building and its neighbors. This allowed for installation of fire suppression systems to comply with fire code, enhancing the long-term viability of the structures on the entire city block. The project was successful in allowing business to move into the previously vacant site on Main Street and attract development of a neighboring property.

Stevensville Light Industrial TIF District

From 2010-2011, the Ravalli County Economic Development Authority and Community Development Services of Montana assisted the Town of Stevensville with the creation of a light industrial district that could use Tax Increment Financing. The base year of this district was 2011. In 2012, the town submitted successfully applied to Commerce and the U.S. Department of Commerce’s Economic Development Administration to fund a wastewater project. TIF dollars covered the gap between the funding they received and the total project cost.

In July 2014, the Town of Stevensville completed a \$1 million dollar wastewater project involving Tax Increment Financing with the assistance of RCEDA. The project helped retain one of the area’s largest employers. Small towns like Stevensville, with its limited tax base and century-old infrastructure, have greater difficulty than communities with more resources. The creation of the TIF District to fund the gap financing was critical to the project.

Whitefish TIF District

The City of Whitefish has had an active TIF District since 1987 and has successfully completed and funded numerous projects. Approximately \$29.7 million in projects have been completed or partially funded through TIF funds. The Initial Urban Renewal Plan

identified infrastructure blight as a major deterrent to economic development in Whitefish. Several objectives were identified, including the expansion and redevelopment of parkland, construction and re-construction of city streets and construction of a water treatment plant.

To date, many of the objectives originally identified in the 1987 Urban Renewal Plan have been met. Some park projects include the reconstruction of City Beach; the purchase of Sky Park, located along the Whitefish River; and partial funding of a skateboard park, ice skating rink and Aquatic and Health Facility as well as the construction of a park maintenance facility. Infrastructure improvements include the resurfacing of 14 street sections, reconstruction and extension of streets, construction of bicycle and pedestrian paths and the construction of a downtown parking lot.

Each completed project increases quality of life for Whitefish residents. Other indications of the TIF District's success include district size and the bonding of multiple projects, allowing for the continued life of the district.

Downtown Bozeman TIF District

The Downtown Bozeman TIF District was established in 1995 in conjunction with an Urban Renewal Plan. In 2007, \$6.2 million of TIF Revenue Bonds were issued for the construction of the Bridger Park Garage. The TIF bond proceeds were leveraged with over \$4 million in Federal Transportation Administration funding to complete the 435-space parking garage which includes the downtown transfer station for the Streamline public bus system.

The garage, which opened in 2009, was intended to increase parking capacity to meet current demands and the needs of future private infill development. As of 2015, the TIF-funded garage has been a catalyst for four major private development projects: the Lark Hotel, the Element Hotel, the Etha Hotel and the 5 West Building. Once completed, these projects will exceed \$70 million in private investment — a tremendous return on the \$6.2 million TIF investment.

Frequently Asked Questions

1. What is Tax Increment Financing?

TIF is a way to capture and accrue tax dollars from new investment and development within an identified boundary. These new dollars, also called increment, can be reinvested in the district to address blight or infrastructure deficiencies.

2. Why create a district?

It will create a dedicated funding stream to make improvements to an area of blight or infrastructure deficiency.

3. What makes a TIF District successful?

There are many factors that make a district successful. One of the best ways to measure success is new increment that is captured as a result of reinvestment. New development or redevelopment of the district is also a way to gauge success. Other factors include dedicated leadership throughout the life of the district. Increments can grow slowly, but leaders must not lose sight of their mission.

4. What can TIF dollars be used for?

TIF dollars can be used for a variety of projects, including:

- Land acquisition
- Demolition and removal of structures
- Acquisition and construction of public improvements such as streets, roads, curbs, gutters, sidewalks, pedestrian malls, alleys, parking lots and off-street parking facilities, sewers, sewer lines, sewage treatment facilities, storm sewers, waterlines, waterways, water treatment facilities, natural gas lines, electrical lines, telecommunications lines, rail lines, rail spurs, bridges, publicly owned buildings, etc.

5. Will this raise my taxes?

Creation of the district itself will not cause an increase in taxes. Tax increases will only come from improvements within the district.

6. Is the district required to be a certain size?

There are no size requirements, but thoughtful consideration must be put towards the district boundaries and needs the district intends to meet. A district that is too small may not create increment, but a district that is too large could be unfair to other taxing jurisdictions or could take advantage of new development.

Creating a Tax Increment Finance District

General Process Flow Chart

A. Prepare.

- Determine and document a need for redevelopment.
- Ensure growth policy is updated for the intended TIF District.
- Ensure zoning is updated for intended district areas.
- Perform necessary inventories, studies or analyses to support redevelopment claim.
- Prepare a statement of need and intent, and determine a base year.

B. Do you need a TIF District or a TEDD?

- TIF Districts may only be formed in incorporated areas.
- TEDDs are often outside incorporated areas and relate specifically to value-added industries.
- Identify whether there are blighted conditions — TIF District — or infrastructure deficiencies — TEDD.

C. Choose a district boundary.

- Consider infrastructure such as transportation networks and area land use.
- Identify areas with low or stagnant property values.
- Identify areas lacking investment.
- Determine an area that is properly zoned for redevelopment.

- Identify an area large enough for multiple new developments/redevelopments.
- Consider impacts on other taxing jurisdictions.
- Perform a public input process.

D. Prepare a district development plan.

- For a TIF District, prepare an Urban Renewal Plan; for a TEDD, prepare a Comprehensive Development Plan.
- Give written notice to all property owners within the proposed district.
- Make sure the plan is reviewed and recommended by the planning board.

E. Prepare an ordinance.

- Determine district administration.
- Hold a public hearing.
- Adopt an ordinance through local adoption procedures. The ordinance is not effective until 30 days after approval.

F. Once the district is created...

- Submit the required materials to DOR.
- Periodically review district financial performance, administration and programs/projects.