



**FROM THE DESK OF . . .**

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May 5, 2011

TO: Mayor and City Council

COPY: Tina Volek, City Administrator

SUBJECT: Schnitzer-Billings Tax Abatement Application – Report Supplement

Item #2 on the Council's May 9 business session agenda is an application for a tax abatement from Schnitzer-Billings (formerly Golden Recycling). The abatement is for about \$2 million of new business equipment. The staff recommendation is for denial because the property is located in the East Billings Urban Renewal Area/Tax Increment District. The purpose of tax increment districts is to capture taxes from new taxable value and to use those taxes to make public improvements that support the original and additional private sector investments. Abating taxes for businesses that are located in tax increment districts undermines the district purpose.

Earlier this week, BSEDA Executive Director Steve Arveschoug called me to discuss the application and staff recommendation. His primary concern is that the City not set a firm policy of denying all tax abatements for properties that are in tax increment districts. He pointed out that East District property owners have been awarded grants to reimburse them for public improvements that they made as part of their property investments. Since those owners made real property improvements, the reimbursement program worked well. When an owner invests in business equipment, he/she does not usually make property improvements that are eligible for reimbursement. In that case, tax abatement is more advantageous for a property/business owner than the reimbursement grant program and it is probably the only financial incentive that the City can offer to the business. In addition, the Council recently approved an agreement with the Northern Hotel that will reimburse it for some of its public improvements using tax increment funds but also allows the Hotel to apply for the tax abatement program. If the Council approves an abatement for this property, its value will be deducted from the amount that the Hotel could receive under the reimbursement grant program. In other words, it allows the business the flexibility to pick the program that best fits its needs, but prevents it from "double dipping" by combining the benefits of the abatement and reimbursement programs. Based on these examples, I believe that the business manager and Mr. Arveschoug will attend the Council's meeting and will testify at the public hearing. The

business manager will probably limit his testimony to his application, but Mr. Arveschoug may appeal for individual business, case-by-case consideration of tax abatement applications instead of applying a blanket abatement denial policy in tax increment districts. If the City Council wishes to approve this application for tax abatement, staff recommends that it condition the abatement on the business not being able to apply for or receive other City tax/reimbursement benefits for the same investment.