

Tax Increment Financing and Other Funding Sources

The Friends of Midcoast Maine

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What is Tax Increment Financing?






A public economic development financing program, funded by property taxes on the incremental new value generated by a development project

Why is TIF Used?

- To stimulate private sector investment and job creation
 - Targeted industries
 - Targeted locations
- To ‘shelter’ against adverse adjustments to State subsidies and County taxes based on total valuation

How Does 'Sheltering' Work?

- With new investment, real estate valuation goes 
- As a result, state subsidies go  and county taxes go 
- **TIF 'shelters' captured new value** by excluding it from total municipal value reported to the state for the length of the TIF

How Does TIF Work?

- A municipality designates a specific geographic area as a **municipal development tax increment financing district**
- This “**freezes**” the **value** of taxable property within the district (the original assessed value or “**OAV**”); TIF revenues derive from taxes on **incremental new value** above OAV
- Municipality adopts a **development program** describing authorized uses of revenue



Establishing the TIF District

TIF law places certain limitations on the size and assessed value of TIF districts.

Size

- **2%** of total acreage for single district; **5%** of total acreage for all districts

Value

- All districts combined may not exceed **5%** of total value of taxable property



Establishing the TIF District

TIF districts may be designated for a maximum of **30** years, and at least **25%** of the district area must be:

- Blighted
- In need or rehabilitation, redevelopment or conservation, or;
- Suitable for commercial uses

Establishing the 'OAV'

The **Original Assessed Value** is the assessed value of a TIF district as of March 31st of each year. A TIF application received by DECD between:

April 1, 2010 – March 31, 2011

March 31, 2010 (April 1, 2009)
date establishing OAV

'Downtown' TIF Districts

TIF law also enables the designation of 'Downtown' TIF's, to spur redevelopment of Maine's downtown areas:

- 'Downtown' is defined as the **traditional central business district** of a community, characterized by a **cohesive core of commercial and mixed use buildings**, often interspersed with civic, religious and residential buildings and public spaces, **typically arranged along a main street and intersecting side streets**

Authorized Uses of TIF Revenue

- **Tier I** – Costs within the district
- **Tier II** – Costs outside but directly related to or made necessary by the district
- **Tier III** – Costs outside and unrelated to the district
- **Tier IV** – Government facilities (applicable to downtown TIF's only)

Tier I – Within The District

■ **Capital Costs**, including:

- Construction, improvements and site work
- Demolition, repair and remodeling
- Acquisition of equipment
- Improvements to creative arts facilities

■ **Financing Costs**, including:

- Premiums paid for early redemption of obligations
- Interest paid to holders of evidences of indebtedness issued to pay project costs



Tier I – Within the District

■ **Professional Services**, including:

- Licensing and architectural
- Planning, engineering and legal
- Marketing funds for downtown arts programs

■ **Other Costs**, including:

- Reasonable administrative expenses
- Relocation expenses
- Organizational costs to establish district, such as impact studies, and public information

Tier II – Outside the District

Directly related to the district, or made necessary by its establishment

■ **Infrastructure improvements**, including:

- Sewage or water treatment plants
- Sewer, water and electrical lines
- Street amenities and fire station improvements

■ **Other improvements**, including:

- Public safety improvements
- Adverse impact mitigation

Tier III – Economic Development

Outside and unrelated to the district; municipal-wide

- Economic Development Programs
- Environmental Improvement Plans
- Permanent Revolving Loan Funds
- Employment Training (<20%)
- Quality Child Care
- Recreational Trails

Funding Mechanisms

■ Municipal Bonds

- Municipality established a Development Sinking Fund for debt service requirements

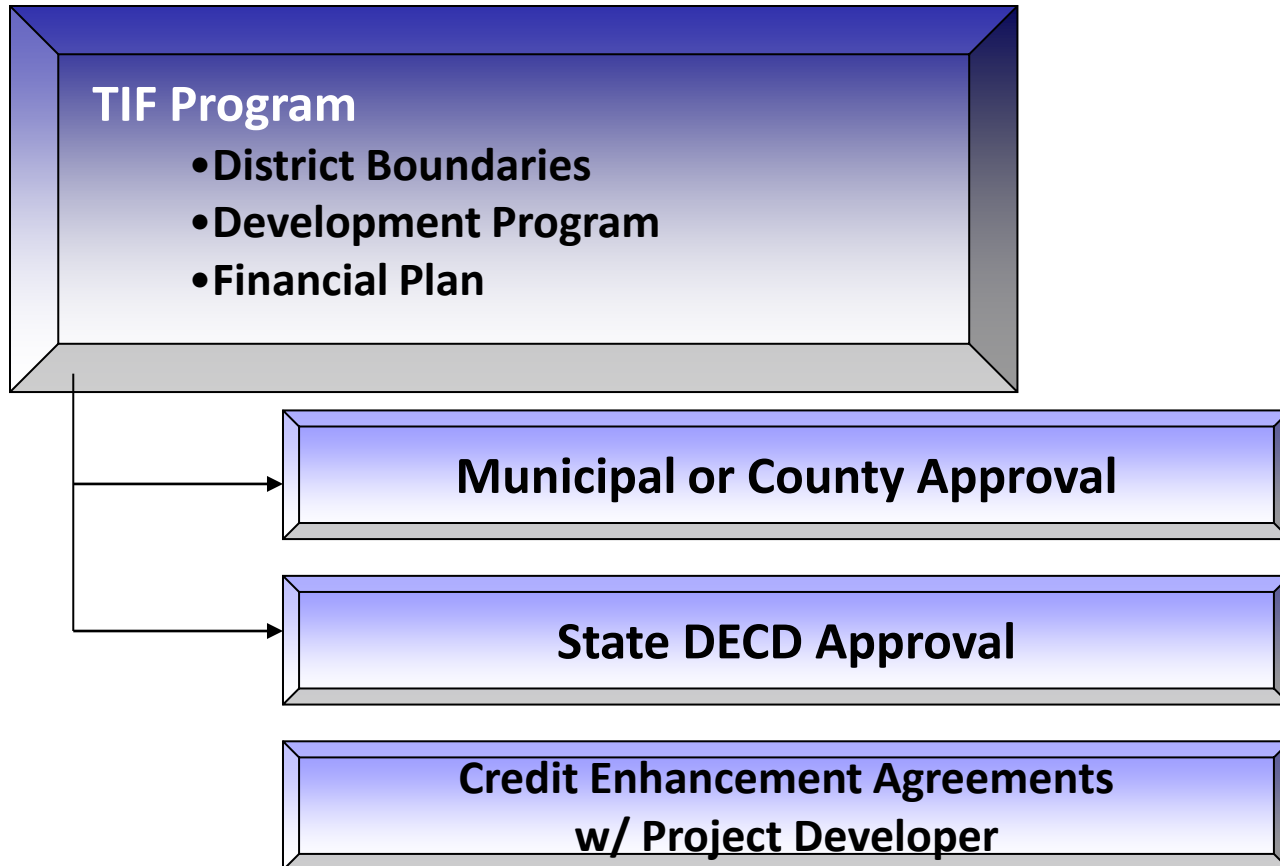
■ Credit Enhancement Agreement

- TIF revenues placed in a Project Cost Account for direct payment to company for authorized project costs

■ Municipal Economic Development

- TIF revenues placed in a Project Cost Account for direct payment by municipality for authorized project costs

TIF Approval Process



Tips for Effective TIFs

- Support local goals and objectives
- Put a decision-making process in place
- Marry your projects to your Capital Improvement Program
- Be thoughtful and strategic in program planning
- Delineate boundaries thoughtfully
- Maximize shelter value

City of Bath
Prayer Block TIF
Proforma Summary
50% Capture vs. 100% Capture

Annual Avg. Net Benefit Over 20 Years; 50% TIF	
Gross New Taxes	\$120,400
TIF Revenues at 50% Captured	\$60,200
<i>Credit Enhancement Agreement</i>	\$0
New Town TIF Revenues (Use Restricted)	\$60,200
New Taxes to Town General Fund	\$60,200
Impact on Subsidies and Taxes	-\$34,113
<i>Loss of State Education Subsidy</i>	-\$22,925
<i>Loss of State Revenue Sharing Subsidy</i>	-\$5,487
<i>Increased County Tax</i>	\$4,625
<i>Increased Local Education Share</i>	\$1,076
Projected Net Benefit to Town	\$86,287

Annual Avg. Net Benefit Over 20 Years; 100% TIF	
Gross New Taxes	\$120,400
TIF Revenues at 100% Captured	\$120,400
<i>Credit Enhancement Agreement</i>	\$0
New Town TIF Revenues (Use Restricted)	\$120,400
New Taxes to Town General Fund	\$0
Impact on Subsidies and Taxes	\$0
<i>Loss of State Education Subsidy</i>	\$0
<i>Loss of State Revenue Sharing Subsidy</i>	\$0
<i>Increased County Tax</i>	\$0
<i>Increased Local Education Share</i>	\$0
Projected Net Benefit to Town	\$120,400

Annual Avg. Net Benefit Over 20 Years; No TIF	
Gross New Taxes	\$120,400
TIF Revenues	\$0
<i>Credit Enhancement Agreement</i>	\$0
New Town TIF Revenues (Use Restricted)	\$0
New Taxes to Town General Fund	\$120,400
Impact on Subsidies and Taxes	-\$68,273
<i>Loss of State Education Subsidy</i>	-\$45,850
<i>Loss of State Revenue Sharing Subsidy</i>	-\$11,010
<i>Increased County Tax</i>	\$9,257
<i>Increased Local Education Share</i>	\$2,156
Projected Net Benefit to Town	\$52,127

City of Bath
Prayer Block TIF
Proforma Summary on an Annual Basis
50% Capture vs. 100% Capture



**Town of Dixfield, Proposed 'Timber Winds' TIF
Pro Forma Revenue and 'Shift' Estimates on \$30M Investment over 20 years
100% 'Capture' vs. No TIF**

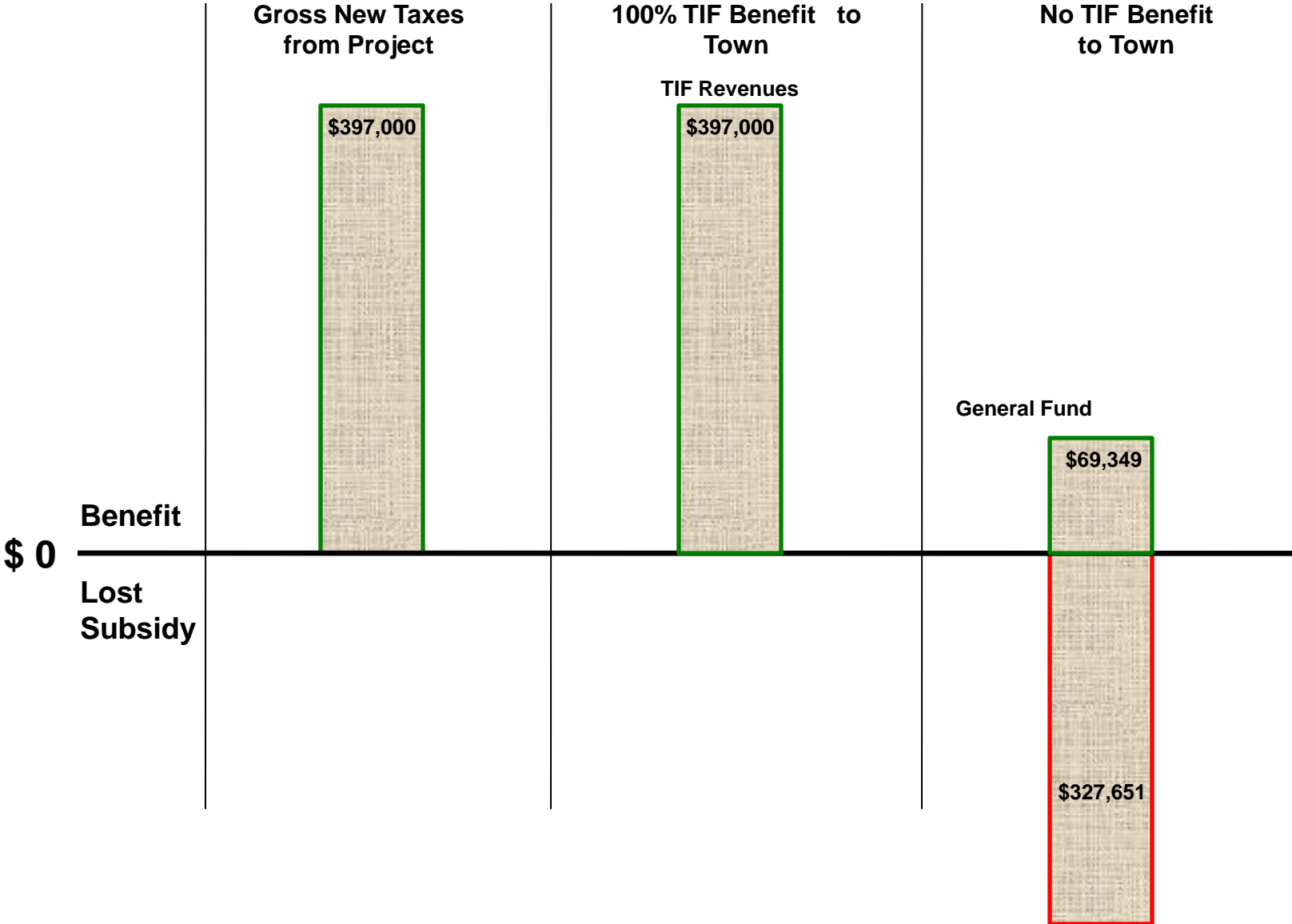
Net Benefit Over 20 Years; 100% TIF	
Gross New Taxes	\$7,940,006
TIF Revenues at 100% Captured	\$7,940,006
<i>Credit Enhancement Agreement</i>	\$3,970,000
New Town TIF Revenues (Use Restricted)	\$3,970,000
New Taxes to Town General Fund	\$0
Impact on Subsidies and Taxes	-\$0
<i>Loss of State Education Subsidy</i>	\$0
<i>Increased Local Education Share</i>	\$0
<i>Loss of State Revenue Sharing Subsidy</i>	\$0
<i>Increased County Tax</i>	\$0
Projected Net Benefit to Town	\$3,970,000

Net Benefit Over 20 Years; <u>No TIF</u>	
Gross New Taxes	\$7,940,006
TIF Revenues	\$0
<i>Credit Enhancement Agreement</i>	\$0
New Town TIF Revenues (Use Restricted)	\$0
New Taxes to Town General Fund	\$7,940,006
Impact on Subsidies and Taxes	-\$6,553,028
<i>Loss of State Education Subsidy</i>	\$3,112,486
<i>Increased Local Education Share</i>	\$1,424,224
<i>Loss of State Revenue Sharing Subsidy</i>	\$1,665,686
<i>Increased County Tax</i>	\$350,633
Projected Net Benefit to Town	\$1,386,978

Ann. Avg. Net Benefit Over 20 Years; 100% TIF	
Gross New Taxes	\$397,000
TIF Revenues at 100% Captured	\$397,000
<i>Credit Enhancement Agreement</i>	\$198,500
New Town TIF Revenues (Use Restricted)	\$198,500
New Taxes to Town General Fund	\$0
Impact on Subsidies and Taxes	-\$0
<i>Loss of State Education Subsidy</i>	\$0
<i>Increased Local Education Share</i>	\$0
<i>Loss of State Revenue Sharing Subsidy</i>	\$0
<i>Increased County Tax</i>	\$0
Projected Net Benefit to Town	\$198,500

Ann. Avg. Net Benefit Over 20 Years; <u>No TIF</u>	
Gross New Taxes	\$397,000
TIF Revenues	\$0
<i>Credit Enhancement Agreement</i>	\$0
New Town TIF Revenues (Use Restricted)	\$0
New Taxes to Town General Fund	\$397,000
Impact on Subsidies and Taxes	-\$327,651
<i>Loss of State Education Subsidy</i>	\$155,624
<i>Increased Local Education Share</i>	\$71,211
<i>Loss of State Revenue Sharing Subsidy</i>	\$83,284
<i>Increased County Tax</i>	\$17,532
Projected Net Benefit to Town	\$69,349

Town of Dixfield
Pro forma summary on an annual basis
100% TIF 'Capture' vs. No TIF





Layering Resources

- Brownfield sites are generally upside down: the cost to develop them is more than they will be valued post construction
- TIF Proceeds marry up nicely to a host of other funding programs
- Here are some of many available to your community:



Brownfield Funds

- EPA Assessment Grant, Cleanup Grants (Hazardous Materials and Petroleum Sites)
- EPA Revolving Loan Program
- DEP Assessment Assistance



Historic Tax Credits

- Very Helpful for Rehabilitation of Mill Sites
- Federal Tax Credits: 20% credit for the *certified rehabilitation of certified historic structures*
- State Tax Credit: A 25% state credit for any rehabilitation that also qualifies for the 20% federal credit
- State Tax Credit: 30% if it is for Affordable Housing

Community Development Block Grant Program

■ ECONOMIC DEVELOPMENT PROGRAM:

- Grants to Municipalities: \$300,000
 - Direct Bus. Support Non Capital: \$200,000
 - Direct Bus. Support Capital: \$100,000
 - Development Fund Loan
- Downtown Revitalization Grants
 - Housing Assistance Grants



CDBG Cont.

- COMMUNITY ENTERPRISE GRANT PROGRAM
- NON-PROFIT DEVELOPMENT GRANT PROGRAM
- INTERIM FINANCING PROGRAM
- Planning Grants
- Public Infrastructure Grants
- Housing Grants



Energy Grants

- Not directly for brown field
- ARRA funded Energy & Efficiency Conservation Block Grants (Efficiency Maine)
- Rural Energy of America Program (Small Business)



Rural Development Programs

- Not for brown field, but for community or business development
- Community Facilities (Loan\Grant)
 - Non-Profit, or Town (20,000 less)
- Rural Business Opportunity Grant
- Rural Business Enterprise Grant



New Market Tax Credits

- CEI is one source in Maine
- Project must be in a qualified low income census tract
- Must meet 3 standards: social equity, environmental sustainability, and economic viability
- Tax Credits are sold to raise equity



ARRA Bonds

- New bond program under Maine Bond Bank
- Can provide 45% of anticipated interest back to municipality
- Rules and applications under development
- (Sister program for private projects)



Housing Assistance Programs

- Maine Housing:

- Low income Housing Tax Credit (raising equity)
- Rental Loan Program
- Supportive Housing
- Pre-Development Loan Program



Housing Assistance Programs Continued

- HUD Assisted Living Programs, among many
- FHA Mortgage Guarantees



Federal Home Loan Bank

- Brownfields specifically eligible
- Economic Development and Housing Program:
 - Affordable Housing (grants and loans, presently closed)
 - Mixed Use Initiative (loans)
 - New England Fund
 - Economic Stimulus Advances (loans)
- Must work with member Institutions (Banks)



HUD Programs

- Brownfield Economic Development Initiative (BEDI)
 - Must be linked to a Section to a Section 108 Loan
 - CDBG entitlement communities or non entitlement that are deemed eligible (not in Maine at this time)
- Rural Housing and Economic Development (grants for planning for communities less than 2,500)
- Many Others-watch for NOFAs



Economic Development Administration

- Alan Brigham is your friend
- Economic Development Assistance Program:
 - Public Works Program
 - Regional Planning monies
 - Economic Adjustment Assistance
 - Global Climate Change Incentive Fund



Impact Fees

- Sometimes Known as an Exaction
- Adopted in two forms
 - Subdivision and Site Plan Standards
 - By Ordinance, Fee Schedules when a project occurs
- A reaction to the impact upon the capital needs of your community
- Roads, Sewers (systems), Water, Recreation, Drainage, Solid Waste

Questions?

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