Tax Increment Financing

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What is Tax Increment Financing (TIF)?

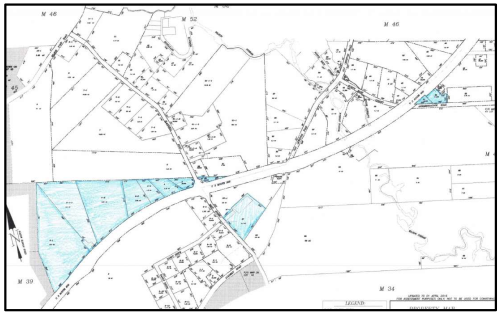
A local economic development tool used to

- Attract new investment; and
- Fund local community projects

Negotiated, developed and implemented at the municipal level.

Recipe for a TIF District

- Geographic boundary
- Original assessed value (OAV)
- Development program
- Public process
- Applications submitted to
  - Maine Department of Economic and Community Development, or
  - Maine State Housing Authority



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How does TIF work?

Allows the municipality and the developer to work together to close a project's funding gap.

- Developer requests the return of a portion of new taxes.
  - *Up to 100% of new taxes for up to 30 years.*
- Municipality creates a "TIF district" and approves the request.
  - *Public process with hearing and vote.*
  - *Agreement detailed in a credit enhancement agreement (CEA).*

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What’s in it for the developer?

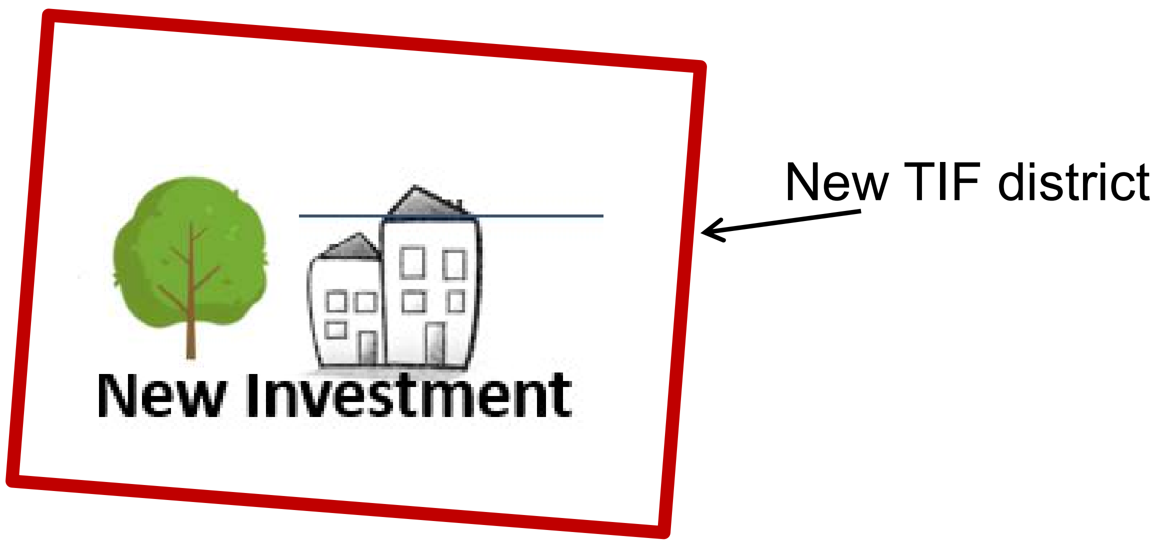
Municipality invests in the project using yet-to-be-created tax revenue (aka “TIF revenue”).

All new tax revenue that is created in the TIF district is eligible for reimbursement.*

** The reimbursement terms and duration are ultimately up to the municipality.*

What's in it for the municipality?

1) TIF stimulates private sector investment, job creation or other offerings in a targeted location (the **District**).



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What's in it for the municipality?

1) TIF stimulates private sector investment, job creation or other valuable work in a targeted location (the **District**).

2) TIF **captures** (up to 100%) of the value and uses it as defined in the **Development Plan**.

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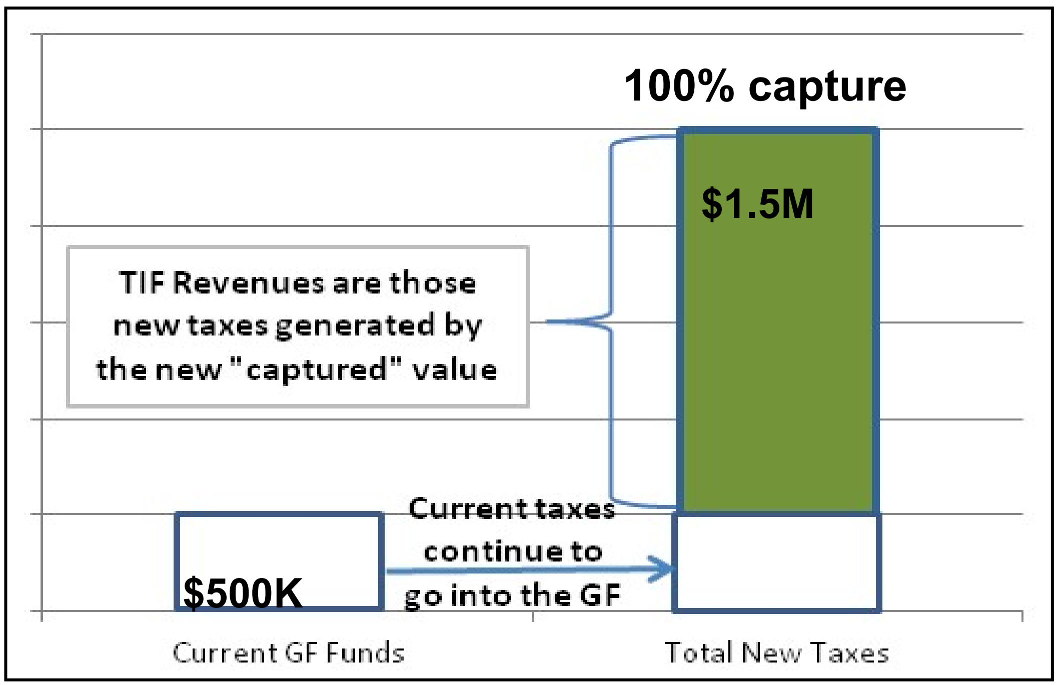
What's in it for the municipality?

Capturing – indicates where taxes on new value in the district will go.

- **Captured value** creates TIF revenue.
- **Uncaptured value** creates new taxes for the general fund.



A mil rate of $15.00 and a current value of $1,500,000 will generate $15,000 in tax revenues.

What's in it for the municipality?

1) TIF stimulates private sector investment, job creation or other valuable work in a targeted location (the **District**).

2) TIF **captures** (up to 100%) of the value and uses it as defined in the **Development Plan.**

3) TIF **shelters** against adverse adjustments to State subsidies and County taxes that are based on total valuation.

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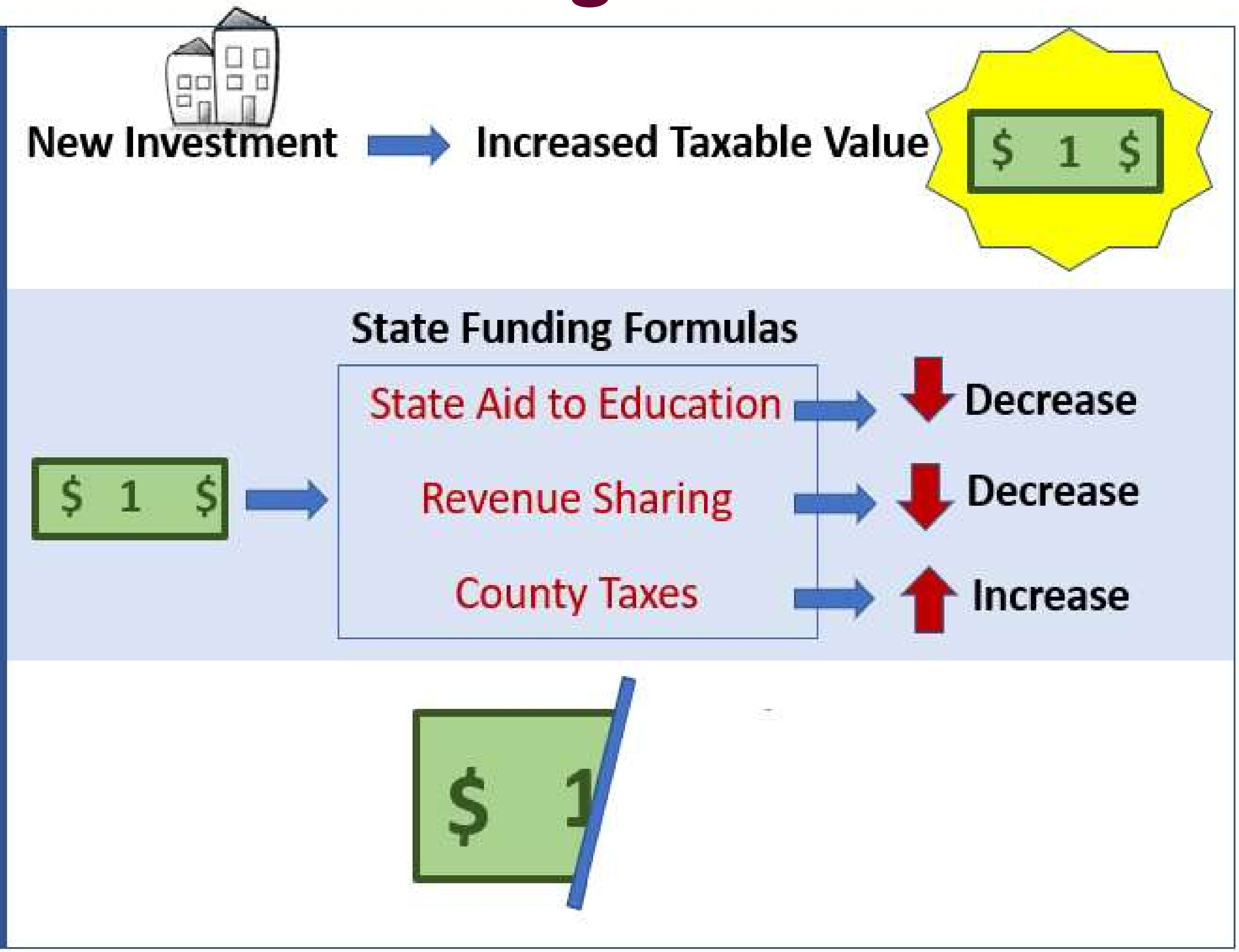
What’s in it for the municipality?

How “sheltering” works

1. New investment creates new taxable value.
2. When new taxable value is added into State funding formulas, negative shifts occur.
3. As a result, a municipality does not realize all of the new taxes from new taxable value.



How “Sheltering” Works

Without an established TIF District:

- 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 term of the TIF (up to 30 years).

MTIF Example

Developer wants to build 50 market-rate apartments on an empty lot in a designated high-growth area.

Realizes **a gap in funding** – additional revenue sources needed.

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MTIF Example - continued

Developer approaches the town to request a TIF district be created and CEA granted.

- Developer needs additional revenue.
- Town needs new housing.

The town works with the municipal assessor to get a realistic future value of completed project.

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MTIF Example - continued

Revenue projection is developed that shows how new tax dollars will be allocated.

			DISTRICT INCREASED ASSESSED VALUE			DISTRICT REVENUES		CAPTURE		COMMUNITY ALLOCATION		DEVELOPER ALLOCATION		GENERAL FUND	
TIF YR.	FISCAL YEAR		Site	Outparcels	Total	Projected Mil Rate	Total NEW Tax Revenue Generated Within District	% of Increased Assessed Value Captured	TIF Revenues	% of TIF Revenues	Amount of TIF Revenues	% of TIF Revenues	Amount of TIF Revenues	% of Revenue from District not Captured	Amount of Revenue from District not Captured
Base	2024	2025													
1	2025	2026	$ 426,800	$ -	$ 426,800	$ 23.80	$ 10,158	100%	$ 10,158	25%	$ 2,539	75%	$ 7,618	0%	$ -
2	2026	2027	$ 4,850,000	$ -	$ 4,850,000	$ 24.51	$ 118,893	100%	$ 118,893	25%	$ 29,723	75%	$ 89,170	0%	$ -
3	2027	2028	$ 11,709,100	$ -	$ 11,709,100	$ 25.25	$ 295,648	100%	$ 295,648	25%	$ 73,912	75%	$ 221,736	0%	$ -
4	2028	2029	$ 11,709,100	$ -	$ 11,709,100	$ 26.01	$ 304,517	100%	$ 304,517	25%	$ 76,129	75%	$ 228,388	0%	$ -
5	2029	2030	$ 11,709,100	$ -	$ 11,709,100	$ 26.79	$ 313,653	100%	$ 313,653	25%	$ 78,413	75%	$ 235,240	0%	$ -
6	2030	2031	$ 11,709,100	$ -	$ 11,709,100	$ 27.59	$ 323,063	100%	$ 323,063	25%	$ 80,766	75%	$ 242,297	0%	$ -
7	2031	2032	$ 11,709,100	$ -	$ 11,709,100	$ 28.42	$ 332,754	100%	$ 332,754	25%	$ 83,189	75%	$ 249,566	0%	$ -
8	2032	2033	$ 11,709,100	$ -	$ 11,709,100	$ 29.27	$ 342,737	100%	$ 342,737	25%	$ 85,684	75%	$ 257,053	0%	$ -
9	2033	2034	$ 11,709,100	$ -	$ 11,709,100	$ 30.15	$ 353,019	100%	$ 353,019	25%	$ 88,255	75%	$ 264,764	0%	$ -
10	2034	2035	$ 14,050,920	$ -	$ 14,050,920	$ 21.10	$ 296,536	100%	$ 296,536	25%	$ 74,134	75%	$ 222,402	0%	$ -
11	2035	2036	$ 14,050,920	$ -	$ 14,050,920	$ 21.74	$ 305,432	100%	$ 305,432	25%	$ 76,358	75%	$ 229,074	0%	$ -
12	2036	2037	$ 14,050,920	$ -	$ 14,050,920	$ 22.39	$ 314,595	100%	$ 314,595	25%	$ 78,649	75%	$ 235,946	0%	$ -
13	2037	2038	$ 14,050,920	$ -	$ 14,050,920	$ 23.06	$ 324,033	100%	$ 324,033	25%	$ 81,008	75%	$ 243,025	0%	$ -
14	2038	2039	$ 14,050,920	$ -	$ 14,050,920	$ 23.75	$ 333,754	100%	$ 333,754	25%	$ 83,438	75%	$ 250,315	0%	$ -
15	2039	2040	$ 14,050,920	$ -	$ 14,050,920	$ 24.47	$ 343,767	100%	$ 343,767	25%	$ 85,942	75%	$ 257,825	0%	$ -
16	2040	2041	$ 14,050,920	$ -	$ 14,050,920	$ 25.20	$ 354,080	100%	$ 354,080	25%	$ 88,520	75%	$ 265,560	0%	$ -
17	2041	2042	$ 14,050,920	$ -	$ 14,050,920	$ 25.96	$ 364,702	100%	$ 364,702	25%	$ 91,175	75%	$ 273,526	0%	$ -
18	2042	2043	$ 14,050,920	$ -	$ 14,050,920	$ 26.73	$ 375,643	100%	$ 375,643	25%	$ 93,911	75%	$ 281,732	0%	$ -
19	2043	2044	$ 14,050,920	$ -	$ 14,050,920	$ 27.54	$ 386,912	100%	$ 386,912	25%	$ 96,728	75%	$ 290,184	0%	$ -
20	2044	2045	$ 16,861,104	$ -	$ 16,861,104	$ 19.28	$ 325,006	100%	$ 325,006	25%	$ 81,252	75%	$ 243,755	0%	$ -
21	2045	2046	$ 16,861,104	$ -	$ 16,861,104	$ 19.85	$ 334,757	100%	$ 334,757	25%	$ 83,689	75%	$ 251,067	0%	$ -
22	2046	2047	$ 16,861,104	$ -	$ 16,861,104	$ 20.45	$ 344,799	100%	$ 344,799	25%	$ 86,200	75%	$ 258,599	0%	$ -
23	2047	2048	$ 16,861,104	$ -	$ 16,861,104	$ 21.06	$ 355,143	100%	$ 355,143	25%	$ 88,786	75%	$ 266,357	0%	$ -
24	2048	2049	$ 16,861,104	$ -	$ 16,861,104	$ 21.69	$ 365,798	100%	$ 365,798	25%	$ 91,449	75%	$ 274,348	0%	$ -
25	2049	2050	$ 16,861,104	$ -	$ 16,861,104	$ 22.35	$ 376,771	100%	$ 376,771	25%	$ 94,193	75%	$ 282,579	0%	$ -
26	2050	2051	$ 16,861,104	$ -	$ 16,861,104	$ 23.02	$ 388,075	100%	$ 388,075	25%	$ 97,019	75%	$ 291,056	0%	$ -
27	2051	2052	$ 16,861,104	$ -	$ 16,861,104	$ 23.71	$ 399,717	100%	$ 399,717	25%	$ 99,929	75%	$ 299,788	0%	$ -
28	2052	2053	$ 16,861,104	$ -	$ 16,861,104	$ 24.42	$ 411,708	100%	$ 411,708	25%	$ 102,927	75%	$ 308,781	0%	$ -
29	2053	2054	$ 16,861,104	$ -	$ 16,861,104	$ 25.15	$ 424,060	100%	$ 424,060	25%	$ 106,015	75%	$ 318,045	0%	$ -
30	2054	2055	$ 16,861,104	$ -	$ 16,861,104	$ 25.90	$ 436,781	100%	$ 436,781	25%	$ 109,195	75%	$ 327,586	0%	$ -
								Totals	$ 9,956,511	25%	$ 2,489,128	75%	$ 7,467,383		$ -
								Annual Avg.	$ 331,884		$ 82,971		$ 248,913		$ -

1 Municipal revaluation theoretically projected for FY '34-35 and FY '44-'45 with 30% increase in commercial values each time.

2 Mill rate increase of 3% per year with a 30% decrease for theoretical city-wide revaluations.

3 Reimbursement to Capitol Heights capped at $9.5MM. Any additional value over $9.5MM would be assigned to the City for their capture.

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MTIF Example - continued

Tax shift analysis provides a projection of how much money would be lost from state subsidies and how much more in county taxes the town might pay if the new value were not sheltered in a TIF district.

TIF YR.	FISCAL YEAR		EPS Education Shift	Revenue Sharing Shift	County Tax Shift	Total Tax Shift
Base	2024	2025				
1	2025	2026	$ -	$ -	$ -	$ -
2	2026	2027	$ -	$ -	$ -	$ -
3	2027	2028	$ 2,825	$ -	$ 402	$ 3,228
4	2028	2029	$ 32,107	$ 20,128	$ 4,809	$ 57,044
5	2029	2030	$ 77,514	$ 48,477	$ 12,216	$ 138,207
6	2030	2031	$ 77,514	$ 48,477	$ 12,859	$ 138,850
7	2031	2032	$ 77,514	$ 48,477	$ 13,536	$ 139,527
8	2032	2033	$ 77,514	$ 48,477	$ 14,249	$ 140,240
9	2033	2034	$ 77,514	$ 48,477	$ 14,999	$ 140,990
10	2034	2035	$ 77,514	$ 48,477	$ 15,788	$ 141,779
11	2035	2036	$ 77,514	$ 48,477	$ 16,619	$ 142,610
12	2036	2037	$ 93,017	$ 58,124	$ 20,990	$ 172,131
13	2037	2038	$ 93,017	$ 58,124	$ 22,095	$ 173,236
14	2038	2039	$ 93,017	$ 58,124	$ 23,258	$ 174,399
15	2039	2040	$ 93,017	$ 58,124	$ 24,482	$ 175,624
16	2040	2041	$ 93,017	$ 58,124	$ 25,771	$ 176,912
17	2041	2042	$ 93,017	$ 58,124	$ 27,127	$ 178,269
18	2042	2043	$ 93,017	$ 58,124	$ 28,555	$ 179,697
19	2043	2044	$ 93,017	$ 58,124	$ 30,058	$ 181,200
20	2044	2045	$ 93,017	$ 58,124	$ 31,641	$ 182,782
21	2045	2046	$ 93,017	$ 58,124	$ 33,306	$ 184,448
22	2046	2047	$ 93,017	$ 69,680	$ 42,065	$ 204,762
23	2047	2048	$ 93,017	$ 69,680	$ 44,279	$ 206,976
24	2048	2049	$ 93,017	$ 69,680	$ 46,610	$ 209,307
25	2049	2050	$ 93,017	$ 69,680	$ 49,063	$ 211,760
26	2050	2051	$ 93,017	$ 69,680	$ 51,646	$ 214,343
27	2051	2052	$ 93,017	$ 69,680	$ 54,364	$ 217,061
28	2052	2053	$ 93,017	$ 69,680	$ 57,226	$ 219,923
29	2053	2054	$ 93,017	$ 69,680	$ 60,238	$ 222,935
30	2054	2055	$ 93,017	$ 69,680	$ 63,409	$ 226,106
		Cumulative	**$ 2,344,857**	**$ 1,567,831**	**$ 841,659**	**$ 4,754,347**
		Avg. Annual	$ 78,162	$ 52,261	$ 28,055	$ 158,478

Projections assume:

1. *Revaluation and reduction in mill rate in FY 26/27*
2. *30 year term*
3. *Tax shift projections assumes total county tax increases by 5.26% annually.*

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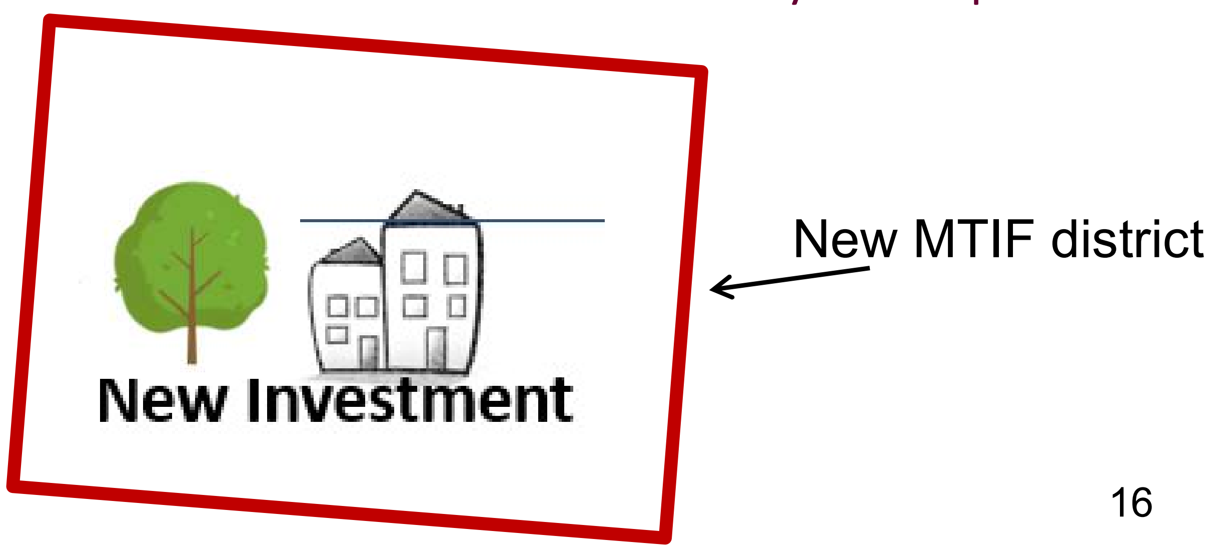
MTIF Example - continued

- Create geographic boundary
- Determine original assessed value (OAV)
- Write development program
- Public hearing and vote
- Applications submitted to
  - Maine Department of Economic and Community Development



Some General Rules:

Size*

- Up to **2%** of the total acreage of a municipality for any single district; and up to **5%** of total acreage for all districts.

Value**

- All districts combined may not exceed **5%** of total value of taxable property within a municipality (for each MTIFs and AH TIFs)

Condition

- At least 25% of real property within a development district must be either (1) a blighted area; (2) in need of rehabilitation, redevelopment, or conservation work; or (3) suitable for commercial/residential or arts district uses.

TIF revenues deposited in a separate, dedicated account.

* Excludes Downtown TIFs, transit-oriented TIFs, Community Wind Power TIFs or overlapping PTDZs.

** Exclude Downtown TIFs, transit-oriented TIFs or Community Wind Power TIFs or overlapping PTDZs.

Most Common TIF Districts

Municipal TIF (MTIF)

- Focused on economic development projects.

Affordable Housing TIF (AH TIF)

- 33% must be “affordable”, up to 120% AMI.
- Owner occupied homes/condos = 10 yr affordability.
- Rental units = 30 yr affordability.

Downtown TIF

- Captures traditional “downtown” and includes a DT development plan.
- Can “port” TIF revenues from other districts.
- Not included in size or value totals.

TIF Revenues – how are they used?

- Reimbursed to Developer through a credit enhancement agreement (CEA).

OR

- Used by municipality for specific expenses as outlined in state law. Uses and amounts are outlined in application's Development Plan (in the Investment Plan section).

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Credit Enhancement Agreement

A **Credit Enhancement Agreement** (CEA) is a private investment vehicle that may be used to encourage or assist in private development.

- Legal document negotiated between the municipality and a Developer that returns a portion of the new taxes generated in the District to the Developer.

Investment Plan

There are three different categories that authorized municipal uses of TIF revenue can fall under:

- Tier 1 – Costs within the TIF District
- Tier 2 – Costs outside, but directly related to or made necessary by, the District
- Tier 3 – Municipal-wide costs focused on economic development (MTIF only and generally non-capital costs)

AH TIF Tier I – Within the District

- **Capital Costs for Affordable Housing**, 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
  - Closing costs

AH TIF Tier I – Within the District
(cont.)

- **Professional Services**, including:
  - Licensing and architectural
  - Planning, engineering, and legal
- **Other Costs**, including:
  - Reasonable administrative expenses
  - Relocation expenses
  - Organizational costs to establish District
  - Facilities for recreational purposes – rec centers, athletic fields and swimming pools.
  - Child care costs
  - Case management and support services

AH TIF 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
  - Adverse impact mitigation, including public k-12 education costs.
  - Revolving loan funds and investment funds for AH.

MTIF Tier I – Within the District

- **Capital Costs for Ec Dev**, 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
  - Closing costs

MTIF Tier I – Within the District

(cont.)

- **Professional Services**, including:
  - Licensing and architectural
  - Planning, engineering, and legal
- **Other Costs**, including:
  - Reasonable administrative expenses
  - Relocation expenses
  - Organizational costs to establish District
  - Development and operation of housing – NEW!

MTIF 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
  - Adverse impact mitigation

MTIF Tier III – Outside the District

Municipal-wide

- Economic Development Programs
- Marketing Funds for Downtown Arts Programs
- Environmental Improvement Projects
- Permanent Revolving Loan Funds
- Employment Training
- Quality Child Care
- Recreational Trails

Changes to TIF Districts

- Almost any changes can be made to a TIF district at any time during the district term with a **TIF amendment**.
  - Cannot change the original value of the district unless adding or removing property. OAV is tied to a specific date.
  - Must follow municipal public process and submit changes to appropriate agency.

TIF Pros and Cons

Pros

- Locally created, negotiated and administered.
- Avoids tax shifts.
- Use whole TIF tax dollar to pay for expenses otherwise paid for with GF revenue.
- Incentivize specific development.

Cons

- What TIF revenue can be spent on is limited.
- Requires management and reporting in specific instances.