City of ELLSWORTH
Business, Leisure, Life.

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Memo

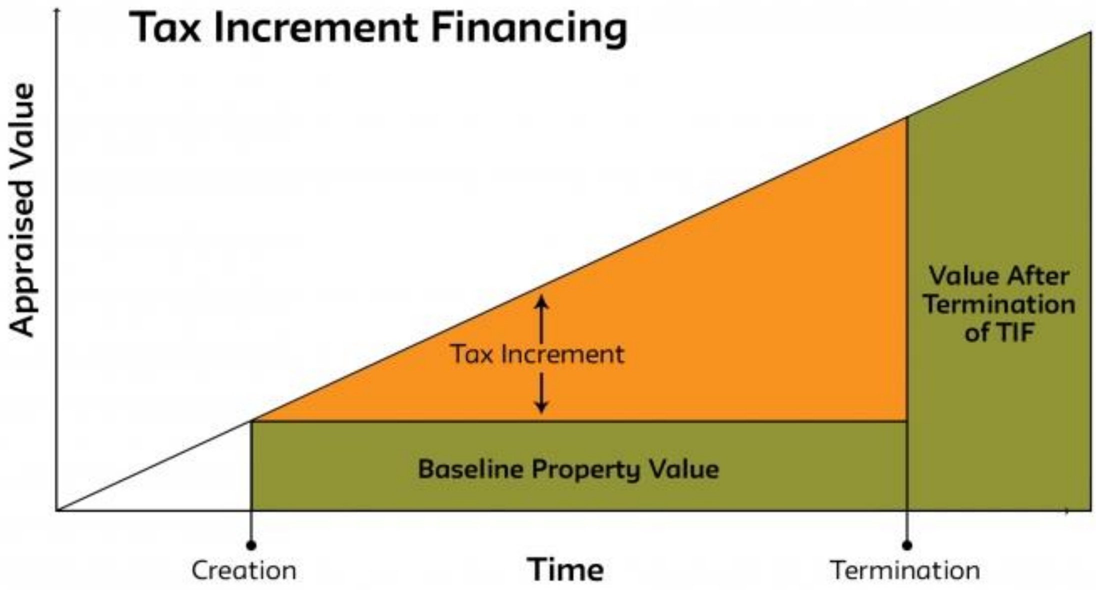
To: Ellsworth City Council
From: Charlie Pearce, City Manager
Date: March 19th, 2025
Subject: Background on TIF districts

What is a TIF?

A Tax Increment Financing (TIF) is a tool used by local governments to stimulate economic development. It works by capturing future property tax revenue generated by new development or improvements within a designated district. The increased tax revenue is then used to fund projects or incentives that encourage growth in the district. Additionally, TIF revenue is excluded from the state's funding formulas, meaning it is not counted when the state assesses how much money the City needs for services like education or other municipal needs.

How TIFs Work:

1. Designate a District: A city identifies an area for desired development or redevelopment.
2. Set a Baseline Value: The existing property value at the time the TIF is established is set as the Original Assessed Value (OAV). Taxes on this value go to the general fund as before.
3. Capture Incremental Value: As development occurs and property values rise, the city measures the Increased Assessed Value (IAV). The additional tax revenue, or "increment," is captured and used for improvements within the district (e.g., infrastructure or development incentives).
4. TIF Agreement: The city and developer enter an agreement outlining how the captured tax revenue will be used, such as covering infrastructure costs or other development initiatives such at a CEA.



Source: Planning Tank. *Tax Increment Financing (TIF) | Public Financing | Types of TIF.* https://planningtank.com/finance/tax-increment-financing-tif-types-tif (accessed 2018).

What is a CEA?

A Credit Enhancement Agreement (CEA) is a financial agreement between a municipality and a developer designed to help the developer secure financing. The municipality pledges to share a portion of the future tax increment to enhance the creditworthiness of the project, improving the developer's access to funding.

How a CEA Works:

1. Purpose: A CEA helps the developer obtain financing by sharing a percentage of the tax increment (future property tax revenue from increased property values).
2. Municipality Role: The local government agrees to share part of the tax increment (e.g., 50-100%) with the developer, lowering borrowing costs or securing loans.
3. Tax Increment Sharing: Unlike a standard TIF, where the captured increment is used for public improvements, a CEA allows the developer to directly benefit from the increased tax revenue, aiding in securing financing.

TIFs, governed by Maine state law, are commonly used for business expansion, affordable housing, and urban renewal. Municipalities create TIFs through public hearings, city council approval, and approval from the Maine Department of Economic and Community Development (DECD) or the Maine State Housing Authority for a CEA. TIFs help stimulate local economic development without requiring taxpayer funding but must be carefully managed to ensure community benefits.

The City of Ellsworth has 4 TIF districts.

#1 Green – Beckwith Hill/Economic Development (Expires March 29, 2032)

#2 Yellow – Leonard Lake Senior Housing (Expires June 30, 2033)

#3 Orange – Oriole Way Senior Housing CEA (Expires March 31, 2050)

#4 Red – Oriole Way Affordable Housing CEA (Expires March 31, 2047)

all TIF areas

TIF #1 is a large, flexible omnibus TIF with no Credit Enhancement Agreement (CEA), allowing for a broad range of uses for the collected tax revenue. In FY25, approximately $170K from this TIF remains unallocated, and it can either be used now or placed into a TIF reserve account for future use, but only for the project costs specified for that district. In FY26, an additional $240K will become available due to the retirement of debt services (see section on retired debts below).

TIF #1	Beckwith Hill - Economic Development					
Type	**Expires**	**OAV**	**2025 IAV**	**Area**	**2026 Projected Capture**	**2025 Capture**
Omnibus	March 29, 2032	$21.5M in 2008	$57.8M	1013 acres	$ 676,308	$ 676,308

TIF #1 Project Costs		FY26	FY25	Proposed use
within district	improvements to Ellsworth Commerce Park	$ 186,000	$ 197,201	Econ. Dev. Dept Budget
	Bucksport Road	$ 45,625	$ 45,625	CM budget
	Boggy Brook/Union Street Area	$ 0	$ 237,644	Debt services Beechland $151,688 Debt services Knowlton Park $85,956
	High-speed Internet	$ 25,000	$ 25,000	URCI
	Public Equipment prorated to District, real property improvements	$ 419,683	$ 170,838	undedicated
	Bucksport Road environmental permits			
Outside district	Upgrade to Beechland/Bayside roads and Myrick Street			
	Sewer/water/electrical lines, streetscape imrpovements			
	Public Equipment prorated to district			
	Downtown TIF District portage			
Municipality wide	Programs/Events/marketing/staffing			
	Grant-matching			
	Environmental improvements			
	Skills development/training			
	Recreational trails			

TIF #2 includes a CEA, where 50% of the property-specific Increased Assessed Value (IAV) tax revenue is allocated to the developer, and the remaining 50% is directed toward the same project costs allowed for other properties in the TIF.

TIF #2	Leonard Lake - Senior Housing					
Type	**Expires**	**OAV**	**2025 IAV**	**Area**	**2026 Projected Capture**	**2025 Capture**
TIF with CEA	June 30, 2033	$789,500 in 2014	$19.12M		$ 344,438	$ 337,685

TIF #2 Project Costs	FY26	FY25	
50% of development property within district -to the owner of the senior housing property	$ 34,417	$ 33,743	To the CEA property owner
50% of the Development Property + the rest of the capture in the TIF district to the debt services on GO bonds, or other debts to pay for renovations of portions of Moore Center as a senior center, or for direct costs for renovations of Moore School as a senior center. May be used for the development of the former Knowlton School site as a public park for recreational activities, including a walking trail, an amphitheater for outdoor entertainment, and open green space.	$ 310,021	$ 303,942	To Moore Center (2026 debt service is $298,825

TIFs #3 and #4 are exclusively CEA TIFs, offering no flexibility in the use of sheltered funds. In these TIFs, 50% of the collected revenue goes to the developer, while the other 50% is allocated to a specific line item in the City's annual budget.

TIF #3	Oriole Way - Senior Housing					
Type	**Expires**	**OAV**	**2025 IAV**	**Area**	**2026 Projected Capture**	**2025 Capture**
CEA	March 31, 2050	$123K or $233K in 2020	$3.78M	2.73 Acres	$ 70,284	$ 68,906

TIF #3 Project Costs	FY26	FY25	
50% to the owner of the senior housing property	$ 35,142	$ 34,453	to the CEA property owner
50% to the debt service and expenses of the Moore Senior Community Center such as transportation, home visits, lunches, fitness classes, and support programs	$ 35,142	$ 34,453	To Moore Center debt service or expenses

TIF #4	Oriole Way - Affordable Housing					
Type	**Expires**	**OAV**	**2025 IAV**	**Area**	**2026 Projected Capture**	**2025 Capture**
CEA	March 31, 2047	$568K in 2016	$6.718M	4.67 Acres	$ 124,974	$ 122,524

TIF #4 Project Costs	FY26	FY25	
50% to the owner of the affordable housing property	$ 62,487	$ 61,262	to the CEA property owner
50% to fund Ellsworth Public Schools K-12	$ 62,487	$ 61,262	to the public schools budget

Retired Debts allow for additional TIF funds available in FY26 for other projects.

In FY25, three of the City's debt services were paid using TIF funds. In FY26, two of those debts have been retired and those TIF funds may be used for other expenses based on the Project Costs per the #1 Economic Development TIF district agreement. The Moore Center debt service was paid using #2 Leonard Lake Senior Housing TIF per the Project Costs allowed in that district and will be the same for FY26

Beechland Road - $0 in FY26, was $151,688 in FY25

Knowlton Park - $0 in FY26, was $85,956 in FY 25

Moore Center - $298,825 in FY26

Options for the future of the City's TIFs

Add additional TIF districts in areas of potential development

Create new CEA for Affordable Housing

Amend current districts to Capture more $ in the TIF (TIF #1 is current set at 67%)

Amend the Project Costs to better align with our Comp. Plan and allow spending of TIF funds where the City needs it currently.