# An Overview of Tax Increment Financing and Economic Development

## A Presentation to the City of Saco, Maine

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ECONOMIC DEVELOPMENT

# What is Tax Increment Financing (TIF)?

- A financing method used to catalyze economic development.
- It allows future property tax revenues from development project to be dedicated and utilized to support the project and related economic development.
- Property tax benefits from project used to help finance infrastructure enhancements related to / required for project development and/or project costs.
- TIF can be utilized to support public and private development costs.

# TIF Purpose

The State enables municipalities to utilize TIF's to achieve the goals of:

- New employment opportunities
- Improve and broaden the tax base
- Improve the general economy of the State

To reach these goals municipalities can use TIF's for improving districts within their boundaries for the following kinds of development:

- Industrial, Commercial
- Transit-oriented
- Arts
- Residential (in support of commercial development or affordable housing)
- Downtown

# Property Value & Fiscal Formulas

- Property valuation impacts the $ amount municipalities:
  - receive in:
    - state aid for education and municipal revenue sharing
  - pay in:
    - county taxes
- Formulas based on the premise that the <u>higher</u> the property valuation, the <u>wealthier</u> the community and therefore the <u>less</u> it should receive from the state and the more it should pay to the county.
- An increase in property valuation results in:
  - <u>less</u> state aid for education
  - <u>less</u> municipal revenue sharing
  - <u>more</u> county taxes paid

# Fiscal Formulas Explained

- **State Aid For Education Impacts**
  - Based on the State of Maine Essential Programs and Services funding model. Statewide mill rate is applied to a district's state valuation to determine local property taxes for education – the higher the valuation, the more funds that need to be raised locally.

- **Municipal Revenue Sharing Received by a Municipality**
  - Based on population, taxes raised, and state valuation – the higher the valuation, the less $ of Revenue Sharing received by a municipality.

- **County Taxes Paid by a Municipality**
  - Based on the municipality's % share of the County's state valuation – the higher the share of valuation, the higher the County Tax.

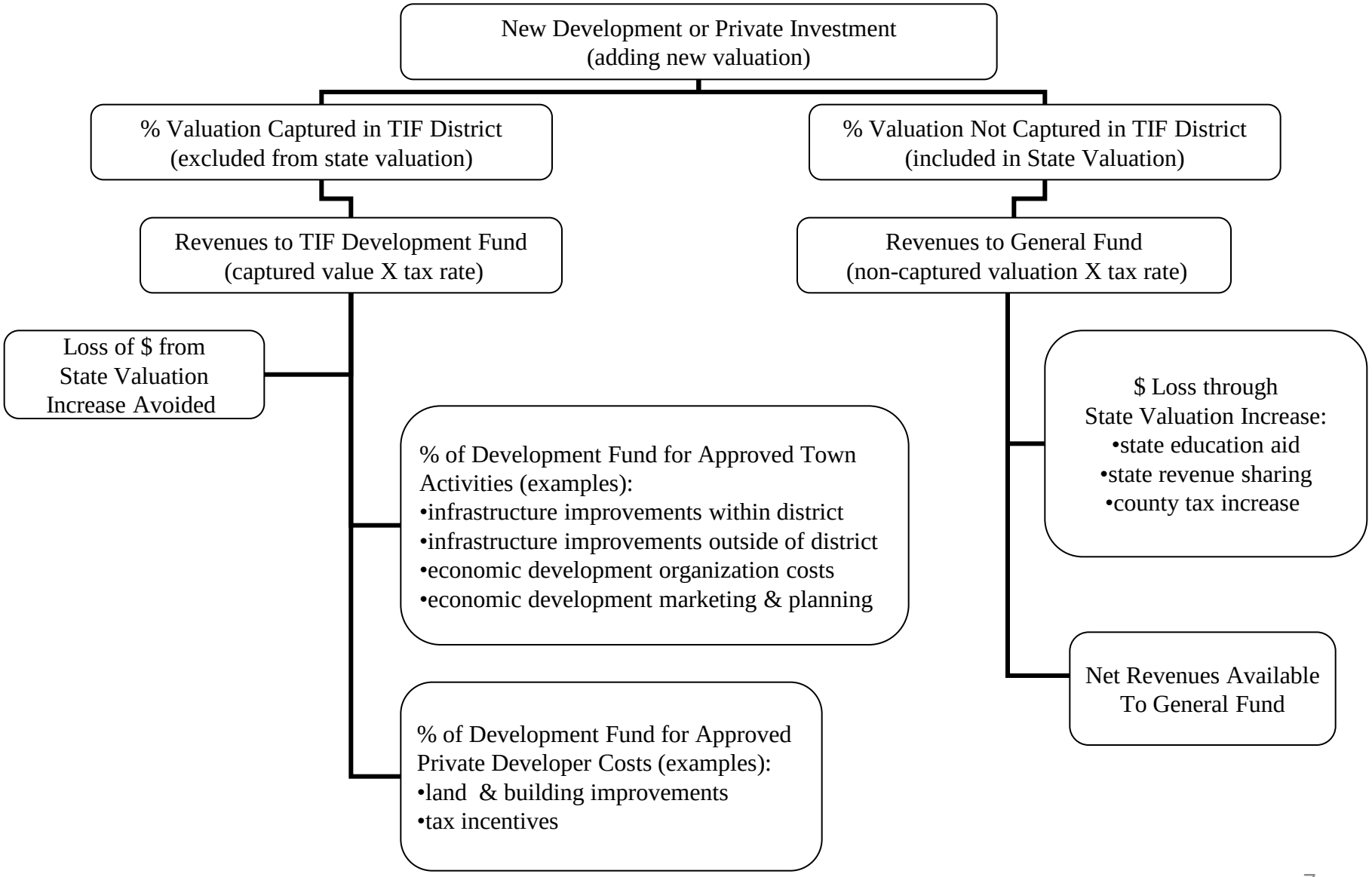
# TIF Overview

- Tax Increment Financing (TIF) allows municipalities to "shelter" increases in valuation resulting from economic development from state valuation increases for up to 30 years.

- This allows municipalities to avoid losses due to state and county fiscal formulas.

- However, revenues from "sheltered" valuation under the TIF program cannot be used for General Fund purposes and must be used for specified purposes related to the project. These are determined at the time the TIF agreement is developed and approved.

# Tax Increment Financing Model



# TIF Process

- Municipality determines % of new valuation, and therefore associated revenues, to shelter within a TIF (up to 100%). What is not sheltered accrues to General Fund.

- Sheltered revenues can be used to support municipal expenditures in support of or made necessary by economic development, and/or;

- Can be used to 'incentivize" a private investment by a business and/or developer - Done through Credit Enhancement Agreement – Municipality determines % to be shared and can be any amount between 0% and 100% of all TIF revenues

# TIF Bottom-Line

- TIF CAN BE BOTH SUPPORT ECONOMIC DEVELOPMENT AND BE A FISCAL BENEFIT - If the municipality wishes to support economic development as a matter of policy, TIF offers an opportunity to significantly reduce revenue losses due to state and county fiscal formulas
- Revenues must be used for specified allowable uses and NOT General Fund Purposes
- Revenues can be shared between municipal uses and/or incentive to developer/business
- Can be structured so that even with incentive to developer/business, the municipality is better off fiscally than if it were not to provide TIF – due to formula impacts

# TIF Use in Saco

# Fiscal Formulas: Saco Example

*Based on Saco Island Building 4 TIF, at time of approval

- An increase in $11.7 Million in property valuation results annually in:
    - $95K loss in State Aid To Education,
    - $8K loss in Municipal Revenue Sharing,
    - $6K increase in County Tax,
  - $109K total negative fiscal impact if valuation not sheltered.

- $11.7 Million in valuation at the FY15-16 tax rate of 18.62 mills generates $218,226 in General Fund Revenues.

- However, with the negative fiscal impacts, without a TIF, the City realizes only $109,226 in revenues or 50%.

# TIF's and Saco

| TIF Name | Year Set To Expire | TIF Value (Value Sheltered) - FY2017 |
|---|---|---|
| Industrial Park Road | 2017 | $9,106,790 |
| First Light | 2017 | $1,477,500 |
| Spring Hill | 2018 | $14,646,200 |
| Incon/Franklin Fuels | 2019 | $1,221,200 |
| Park North | 2038 | $12,423,800 |
| General Dynamics | 2034 | $713,100 |
| Saco Island Mill Building #4 | 2045 | $3,350,700 |
| Millbrook-Maine Molecular | 2046 | $2,979,400 |
| **SUM** | | **$45,918,690** |

8 TIF's with $46 Million in Sheltered Valuation

# Existing TIF's in Saco – FY 2017 Annual Summary

- 8 active TIF's
- $46 million in property valuation (sheltered)
- Generating $892K in revenues
  - $569 for City Economic Development
  - $323 TIF Obligations to Developers
- IF valuation not sheltered with TIF City loses $446K in revenues; retaining $446K
- Therefore, TIF provides net fiscal benefit to City of $123,000 AND can support private development that would otherwise not occur!

# TIF Findings in Saco

- TIF's have helped the City grow and diversify its economic and tax base.

- Several TIF's will be expiring and therefore additional opportunities for fiscal and economic win-wins exist with proper planning and policies.

# TIF Tips for Success

- Integrate TIF use with core objectives:  job growth, tax base growth, workforce, economic diversification, place making, community and downtown development
- Understand net fiscal impacts and partner with private sector for fiscal and economic win-win
- Go beyond the use of TIFs for business incentives and use to fund public infrastructure to support economic development
- Track and report progress
- Guide all with planning and policies

# Types of TIF's in Maine

- Economic Development
- Downtown
- Transportation Oriented Development
- Affordable Housing

# Economic Development TIFS

# Economic Development TIF's - Purpose

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To reach these goals municipalities can use TIF's for improving districts within their boundaries for the following kinds of development:

- Industrial
- Commercial
- Transit-oriented
- Arts
- Or any combination of these

# Economic Development TIF's - Conditions

- At least 25%, by area, of the real property within a development district must meet at least one of the following criteria:
  - Must be a blighted area;
  - Must be in need of rehabilitation, redevelopment or conservation work including a fisheries and wildlife or marine resources project; or
  - Must be suitable for commercial or arts district uses. B. The total area of a single development district may not exceed 2% of the total acreage of the municipality or plantation. The total area of all development districts may not exceed 5% of the total acreage of the municipality or plantation.

# Economic Development TIF's – Limitations

- The total area of a single development district may not exceed 2% of the total acreage of the municipality or plantation.
- The total area of all development districts may not exceed 5% of the total acreage of the municipality or plantation.
- The original assessed value of a proposed tax increment financing district plus the original assessed value of all existing tax increment financing districts within the municipality or plantation may not exceed 5% of the total value of taxable property within the municipality

# Economic Development TIF's – Development Program Requirements

- Financial plan
- Description of public facilities, improvements or programs to be financed in whole or in part by the development program
- Description of commercial facilities, arts districts, transit expansion, improvements or projects to be financed in whole or in part by the development program
- Plans for the relocation of persons displaced by the development activities
- The proposed regulations and facilities to improve transportation
- The environmental controls to be applied
- The proposed operation of the development district after the planned capital improvements are completed
- The duration of the development district, which may not exceed a total of 30 tax years beginning with the tax year in which the designation of the development district is effective

# Economic Development TIF's – Financial Plan Requirements

- Cost estimates for the development program
- The amount of public indebtedness to be incurred
- Sources of anticipated revenues
- Description of the terms and conditions of any agreements, contracts or other obligations related to the development program
- Annual estimates of increased assessed values of the district
- Annual portion of the increased assessed values to be applied to the development program as captured assessed values and resulting tax increments in each year of the program;
- Calculation of the annual tax shifts resulting from designation of the tax increment financing

# Economic Development TIF's Authorized TIF Revenue Uses

- Tier I - Costs within the district
- Tier II - Costs outside but directly related to or made necessary by the district
- Tier III - Costs within the municipality

# Tier I - Authorized Project Costs

## WITHIN THE DISTRICT

- Capital costs, including:
  - Construction, improvements and site work
  - Demolition, repair and remodeling
  - Acquisition of equipment

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

# Tier I - Authorized Project Costs…

## WITHIN THE DISTRICT Con't

- Professional Services, including:
  - Licensing and architectural
  - Planning, engineering and legal expenses

- Other costs, including:
  - Reasonable administrative expenses of municipal employees
  - Relocation expenses
  - Organizational costs to establish district, like impact studies, and public information

# Tier II - Authorized Project Costs

## OUTSIDE THE DISTRICT

DIRECTLY RELATED TO THE DISTRICT OR MADE NECESSARY BY IT

- 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

# Tier III - Authorized Project Costs

## WITHIN THE MUNICIPALITY

- Economic Development Programs or events developed by the municipality or funding marketing of the municipality as a business location

- Environmental Improvement Plans

- Permanent Revolving Loan Funds

- Employment Training (costs cannot exceed 20% of the total project costs), scholarships for residents to go to school elsewhere if municipality has no institution of learning – must be a Maine institution

# Tier III - Authorized Project Costs...

## WITHIN THE MUNICIPALITY Con't

- Quality Child Care costs, including finance costs, construction, staffing, training, certification & accreditation costs related to child care

- Arts district activities - arts education, performing arts venues, museums, arts studios

- Transit activities – new or expanded transit service, purchase of buses, ferries, vans, bus shelters

- Recreational trails – new or existing which have been determined to have significant potential to promote economic development

# Downtown TIFS

# Definition of Downtown for Purposes of Tax Increment Financing

The traditional central business district of a community that has served as the center of socioeconomic interaction in the community, characterized by a cohesive core of commercial and mixed-use buildings, often interspersed with civic, religious and residential buildings and public spaces, that are typically arranged along a main street and intersecting side streets and served by public infrastructure.

# Downtown Tax Increment Financing

- Must be part of a downtown redevelopment plan
- In addition to review for statutory compliance by the Commissioner of DECD, require review by the Department of Agriculture, Conservation and Forestry; and the Department of Transportation to assist the DECD Commissioner in making a decision.

# Downtown Tax Increment Financing Districts

- Offer greater flexibly than traditional Economic Development TIF's
  - Are exempt from state caps on amount of acreage and valuation which municipalities can place within all their TIF districts
  - TIF revenues can be used to finance public facilities and improvements if the public facilities or improvements are in a downtown tax increment financing district and the entire tax increment from the downtown tax increment financing district is committed to the development program.
  - TIF revenues can also be used to finance costs of constructing or improving facilities or buildings leased by State or Municipal Government that are in approved downtown tax increment financing districts.

# Why Downtowns Matter?

- Downtowns and community centers are the heart and soul of community rich in history.  They are difficult to create and therefore must be nurtured.
- They are unique living systems that foster important interactions and collisions (residents, workers, businesses, visitors, entrepreneurs, artists, etc.…) in a connected environment and are therefore critical to the emerging local and regional economies
- Downtown areas and community centers offer places where people from different cultures, ethnicities, generations, socioeconomic statuses, etc. bring together a mix of perspectives and ideas that simply cannot be found in suburban and exurban areas but are essential for innovation.
- Strategically designed mixed-use projects and transit-oriented-development systems combined with connected smart cities applications stimulate interactions that are necessary to drive a strong economic system. Downtowns are places where this all comes together!

# Recent Downtown Tax Increment Financing Districts

- Yarmouth
- Lisbon
- Rockland
- Cape Elizabeth
- Portland
- Houlton

# Transit-Oriented Development TIFS

# Transit-Oriented Development TIFS

- Combines land-uses which rely on or incorporate significant transportation planning and improvements. More specifically:
  - Links land use with transit facilities to support and be supported by a transit system
  - Combines housing with complementary public uses such as jobs, retail or services establishments that are located in transit-served nodes or corridors.
  - Through location and design relies on transit as one of the means of meeting the transportation needs of residents, customers and occupants as demonstrated through transit facility proximity, mixed uses, off-street parking space ratio less than industry standards, architectural accommodation for transit and marketing that highlights transit.

# Transit TIF Districts are EXCLUDED from State TIF Limitations of:

- At least 25%, by area, of the real property within a development district must be: blighted area; or in need of rehabilitation, redevelopment or conservation work; or suitable for commercial or arts district uses
- Acreage a municipality may include within active TIF districts – limited to 2% of the total acreage of the municipality for any one TIF and the total of all districts may not exceed 5% of the total acreage of the municipality
- Value of all taxable property - within the proposed and an all active TIF districts combined (at the time of their designations) may not exceed 5% of the municipality's total value of taxable property
- And, any TIF that includes a development program containing project costs that exceed $10,000,000 for the acquisition or construction of land, improvements, buildings, structures, fixtures and equipment for transit-oriented development district use are exempt from meeting the valuation limitations as well.

# Eligible Transit-Oriented Project Costs

- To help finance land, building capital improvements, and related public and private investments
- Can be within the District, outside the District but directly related to or are made necessary by the district, or related to economic development.
- It is important to note, that many of these transit-orientated project costs can be financed through a traditional TIF in Maine, however, the TIF itself would not be excluded from the limitations unless it is a designated Transit-Oriented Development District.

# Detailed Eligible Transit-Oriented Costs

- Capital costs, including, but not limited to
  - Transit vehicles such as buses, ferries, vans, rail conveyances and related equipment
  - Bus shelters and other transit-related structures
  - Benches, signs and other transit-related infrastructure
  - Bicycle lane construction and other bicycle-related improvements
  - Pedestrian improvements such as crosswalks, crosswalk signals and warning systems and crosswalk curb treatments

- Ongoing costs of adding to an existing transit system or creating a new transit service and limited strictly to transit operator salaries, transit vehicle fuel and transit vehicle parts replacements

# Affordable Housing TIFS

# Affordable Housing TIFS

- Authorized by State Statue as a public purpose for the development of affordable, livable housing and the containment of the costs of unplanned growth in Maine municipalities.

- Allows a municipality to develop a program to provide impetus for affordable housing development within a district of the municipality, as provided in the comprehensive plan adopted by the legislative body of the municipality.

- Unlike other TIF's this is not an economic development program administered by the Maine Department of Economic and Community Development (DECD). It is administered by The Maine State Housing Authority (MSHA) and applications by municipalities must be made to and approved by MSHA.

# Affordable Housing Defined for Use in TIF's

- A decent, safe and sanitary dwelling, apartment or other living accommodation for a household whose income does not exceed 120% of the median income for the area as defined by the United States Department of Housing and Urban Development.

- Includes permanent structures such as single-family homes (which can be stick-built or modular), apartments, condominiums, and permanently attached mobile homes on owned or leased land. Affordable housing does not include facilities such as shelters, nursing homes, convalescent homes, hospitals, residential treatment facilities, correctional facilities, student dormitories, or unattached mobile homes, regardless of income level.

# Affordable Housing TIF'S Conditions

- Must show that the development meets an identified community housing need. The affordable housing development program must provide a mechanism to ensure the ongoing affordability for a period of at least 10 years for single-family, owner-occupied units and 30 years for rental units.

- Must be primarily a residential development on which at least 33% of the dwelling units are affordable housing and that may be designed to be compact and walkable and to include internal open space, other common open space and one or more small-scale nonresidential uses of service to the residents of the development.

# Affordable Housing TIF'S Conditions – Con't

- At least 25%, by area, of the real property within an affordable housing development district must be suitable for residential use; and be a blighted area or in need of rehabilitation or redevelopment
- The total area of a single development district may not exceed 2% of the total acreage of the municipality or plantation. The total area of all development districts may not exceed 5% of the total acreage of the municipality or plantation.
- The original assessed value of a proposed affordable housing development district plus the original assessed value of all existing affordable housing development districts within the municipality may not exceed 5% of the total value of taxable property within the municipality
- The affordable housing development program must include plans for the proposed operation of the affordable housing development district after the planned improvements are completed.

# Affordable Housing TIFS – Eligible Uses

- Facilities used predominantly for recreational purposes, including, but not limited to, recreation centers, athletic fields and swimming pools;

- Child care, including finance costs and construction, staffing, training, certification and accreditation costs related to child care located in the affordable housing development district;

- Case management and support services,

- Operating, including but not limited to property management and administration, utilities, routine repairs and maintenance, insurance, real estate taxes and funding of a projects capital reserve account

# Affordable Housing TIFS – Eligible Uses

- Public safety improvements made necessary by the establishment of the district;

- Funding to mitigate any adverse impact of the district upon the municipality and its constituents. This funding may be used for funding public kindergarten to grade 12 costs and public facilities and improvements

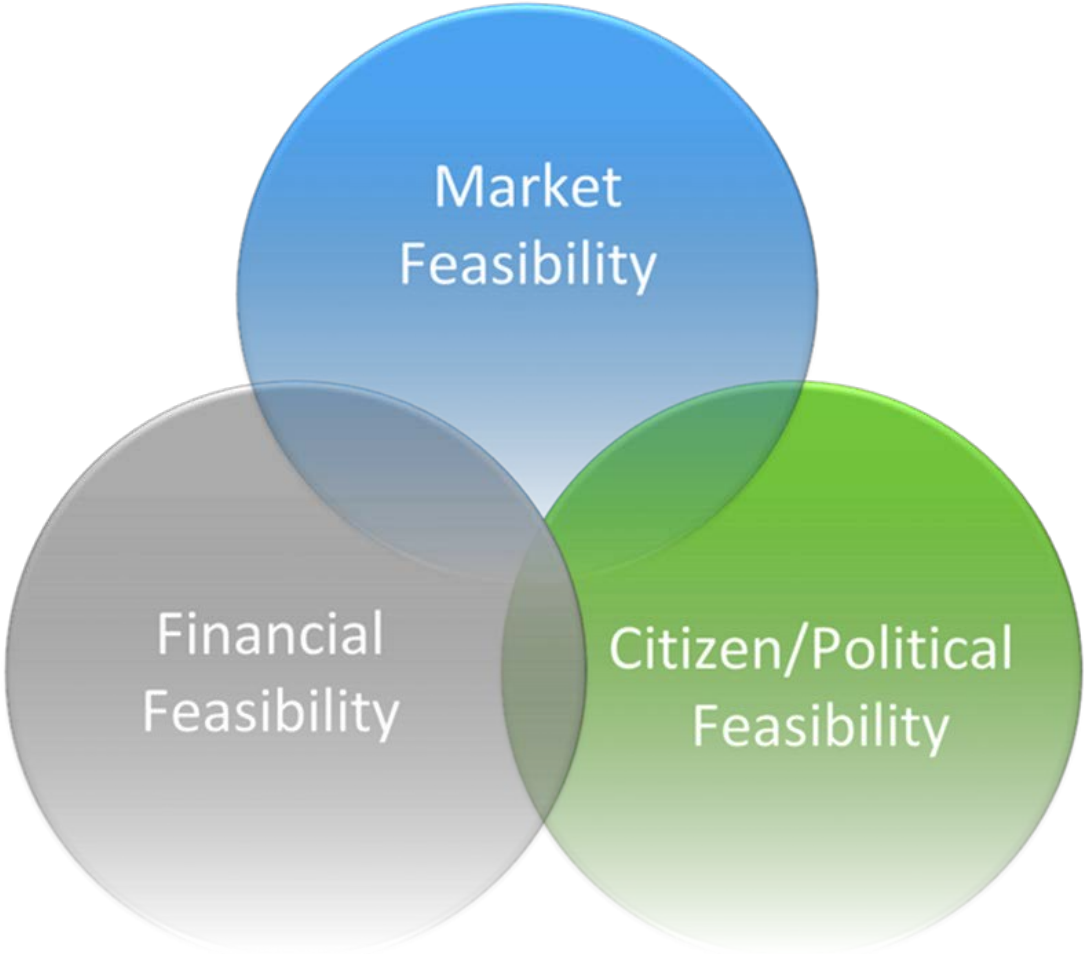
- Establishment of permanent housing development revolving loan funds or investment funds

# Affordable Housing TIFS - Reporting

The legislative body of a municipality must report annually the status of an affordable housing development district including:

- Certify that the public purpose of the affordable housing district, as outlined in this subchapter, is being met
- Account for any sales of property within the district
- Certify that rental units within the affordable housing development district have remained affordable

# Ingredients for a successful economic development project/program:




Also:

Organizational
Technical
Leadership

# Emerging Trends in Economic and Real Estate Development

- Workforce, workforce, workforce drives many/much of economic location decisions!
- Therefore quality of place matters – amenities, infrastructure, transportation, housing, recreation and culture, etc.
- Partnerships and collaboration - holistic approach to economic development is required including public/private partnerships
- Changing markets based on:
  - Aging in Place AND growth of millennials
  - Rental vs Ownership preferences
  - Access to amenities, transportation, and integration with housing
  - Mixed Use development with residential market driving commercial
  - Changing retail – Amazon effect, buy local, retail experience, niche retail
  - Diversity – ethnicity, globalization
  - Gig and sharing economies – task economy
- **New appreciation for the importance of Downtowns - redevelopment/downtown revitalization – centers of economy, culture, and innovation**

# About Camoin Associates

Camoin Associates specializes in research and analysis in the areas of:

- Economic and Community Development
- Market Research
- Technology and Innovation Based Economic Development
- Program and Service Planning & Evaluation
- Fiscal, Economic, & Demographic Analysis

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