

An Overview of Tax Increment Financing

Prepared for the Town of Windham

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Property Value & Fiscal Formulas

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

Fiscal Formulas Explained

- **State Aid For Education Impacts**
 - Based on the state Essential Programs and Services funding model. Statewide mill rate of 8.10 mills is applied to a district's state valuation to determine local property taxes for education – the higher the valuation, the more needs 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 \$ received
- **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

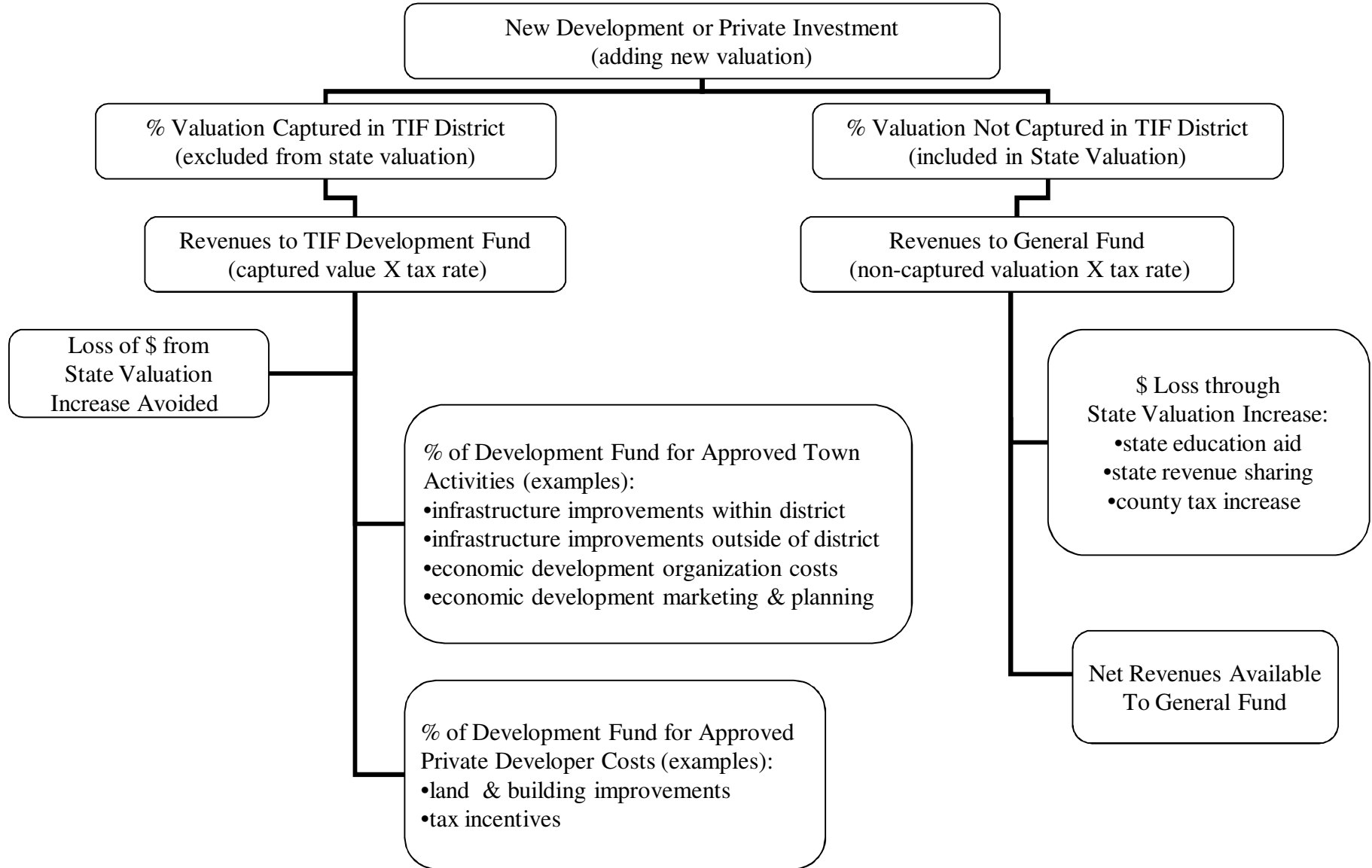
TIF Overview

- 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

Fiscal Formulas: Windham Example

- An increase in \$50Million in property valuation results annually in:
 - \$405,000 loss in State Aid To Education
 - \$29,323 loss in Municipal Revenue Sharing
 - \$31,395 increase in County Tax
 - \$465,718 total negative fiscal impact if valuation not sheltered
- \$50Million in valuation at the FY13-14 tax rate of 14.45 mills generates \$722,500 in General Fund Revenues
- However, with the negative fiscal impacts, without a TIF, the Town realizes only \$256,782 in revenues or 36%

Tax Increment Financing Model



TIF Process

- Town 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 – Town determines % to be shared and can be any amount between 0% and 100% of all TIF revenues

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 town 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

Tips on Use of TIF

- Fit TIFs into long-term economic development strategy – Know what your long-term objectives are!
- To maximize fiscal benefit from TIFs, tie into community capital planning and budgeting – Go beyond the use of TIFs for business incentives and use to fund public infrastructure to support economic development
- Once TIFs are used, be sure to implement system for tracking values, revenues, and expenditures throughout the life of the TIF
- Plan for the tradeoff between TIF funds and General funds – what you take in for TIFs can not be used for General Fund purposes

Tips on Use of TIF – Con't

- Downtown TIFs often will not generate sufficient revenues from new investments to pay for items in the development program –consider integrating downtown TIF objectives with other TIFs in the community
- TIF policies can help direct decisions on when and how to use TIFs and can be tailored to meet community's long term objectives – they need not be overly restrictive
- The fiscal benefit of TIF use varies by community and is driven largely by its tax rate and the state school funding formula - knowing the fiscal “breakeven point” can help a community determine how much of an incentive for a business makes fiscal sense - this breakeven point changes over time and should be periodically reexamined

TIF Bottom-Line

- If the Town 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 Town is better off fiscally than if it were not to provide TIF – due to formula impacts

Windham Existing TIFs

Roosevelt Promenade TIF

- District includes Home Depot and Lowes lots on 302
- Approved in 2006 for 5 year TIF life
- Amended in 2011 to extend an additional 10 years
- Capped at \$210,000 annually in revenues generated
- Supports revolving loan fund for business development
Town infrastructure costs (road, sewer, utilities), and
supports economic development programs
- No direct incentive provided to developers or businesses –
Municipal use only to support commercial growth on 302

Windham Existing TIFs

Pipeline TIF

- Approved in 2000 for 10 year TIF life
- Amended in 2010 for an additional 5 years
- 80% captured in year one and progressively decreasing annually by 5% over the course of 10 years, then capped at \$50,000 for five years
- Supports GIS system, economic development programs, business financing support, environmental planning
- No direct incentive provided to developers or businesses – Municipal use only

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