TIF Policy
Draft Framework

The following is based on the discussion outline provided at the July 25, 2017 meeting. Questions, observations, and some suggestions/recommendations are shaded in gray. Staff will also be reviewing this for comment and input to the Council process.

Introduction

Tax increment financing (TIF) or municipal development districts allow the town to harness new commercial property value for economic development, infrastructure, and other community goals, needs, and priorities as permitted by state law. Some or all of the new value created is sheltered from the effect of state formulas that would otherwise reduce school funding and revenue sharing, and contribute to increasing the town's share of county taxes.

Credit enhancement agreements (CEAs) can be used to create incentives to achieve the community's stated goals, needs, and priorities by returning some portion of taxes on new commercial growth. A policy will help clarify the conditions under which the town will consider creating new TIF districts and using credit enhancement agreements.

Commercial development TIFs and affordable housing TIFs are regulated by different sections of statute and different state agencies. Affordable housing TIFs are not addressed in other municipalities' policies; though some of the considerations outlined below can be applied to both commercial development TIFs and affordable housing TIFs, the purpose of this outline is to address commercial development TIF opportunities.

Types

Town-initiated: Development district opportunities recognized and acted on by the town with no application or proposal from a private party. Typically used to fund economic development, public infrastructure improvements, environmental studies, geographic information systems, etc.

Applicant-initiated: Requested by one or more private parties to enable/incentivize development through a CEA focused on one or more of the community's goals, needs, or priorities as expressed in its adopted plans or other goals or policy statements.

Considerations:

For both town- and applicant-initiated districts:

- Linkage to community goals, needs, or priorities, comprehensive master plan, other plans
    - Job creation, types (particularly for applicant-initiated TIFs):
        - Are there any particular sectors or types of employment the town wants to encourage, such as manufacturing, scientific, biomedical, technology, or, more

broadly, types of employment the town feels no need to incentivize such as retail, hospitality, or other service sector jobs)?

        - Should there be a minimum threshold in the number of jobs created, or some kind of ratio between the amount of the TIF requested and the value of the jobs (and other public benefits) created?
        - How will the benefit be determined and verified? (DECD may have some useful language, such as the job creation that was in the "super-park" program)
    - Elimination of blight, other rehabilitation/redevelopment
        - Case-by-case, but there are probably a handful of properties or areas where the town might want to provide incentives for redevelopment
            - Keddy Mill site
            - Mallison Falls mill site
            - 21st Century Downtown area
            - Others?
    - Infrastructure, cost-sharing (direct, for town-initiated, or reimbursement for CEAs)
        - Transportation – roads and sidewalks
        - Wastewater
        - Green space
        - Bike, pedestrian amenities
    - Other town goals
        - 21st Century Downtown principles
        - Design standards (mainly applicant-initiated TIFs, but may have potential to be used to provide incentives for other development in the district – have to check on this)
            - Overcome cost barriers for baseline compliance
            - Provide incentive to incorporate more amenities that will be difficult, and more expensive, if not impossible once the development is built
        - Public-private partnerships for space, programs, etc.
- Minimum value threshold (how much value needs to be created?)
    - For town-initiated TIFs: no minimum threshold, determined individually based on build-out analyses or estimates
    - For applicant-initiated TIFs (typically a single development project): $5,000,000 total taxable value of proposed improvements
    - In either case, should be sufficient to:
        - Recover cost of establishing TIF in the first year, plus
        - Contribute a meaningful amount of revenue to one or more of the goals identified above
- Real and personal property?

  - Some developments may result in substantial amounts of personal property (i.e. not land, building, or improvements) value, however
  - Personal property depreciates and can fluctuate significantly from year to year, making it a less reliable base for generating revenue streams
- Percentage captured
  - On a case-by-case basis:
    - How much goes to TIF? How much goes to the general fund?
    - Does that capture percentage remain fixed for the term of the district, or does it vary (or taper)? Recommend tapering for large value TIFs – say, over $5,000,000 in total taxable captured value – over the last five years, but not lower value because they likely would be staggered and not all drop off at the same time, though this should be considered when any new district is proposed
    - Does the capture percentage account for any offset for increased service costs? As with tapering, probably only necessary for larger value TIFs, which are also more likely to have significant service cost impacts – which also should be determined, or at least acknowledged with some reasonable effort to quantify at the time a district is proposed and under consideration
- Identify specific public benefits/projects (total, or in excess of CEA)
- Term/duration
  - Use as much of the 30-year "clock" as statute allows, assuming there are valid public purposes, and keeping in mind the possible need to stagger the timing of TIF district expirations and bring formerly captured value online gradually, so as not to dramatically shift school funding, revenue sharing, or county tax in any one year
- Use of debt financing
  - For town-initiated TIFs, consider using if captured value offsets most or all of projected debt service – at least on an average basis – over the life of the bonds and within the life of the TIF, to realize public benefits like infrastructure improvements sooner and potentially create more value
  - For applicant-initiated TIFs, consider using the captured value of the development is sufficient to pay for debt service and any other payments under a CEA.

For applicant-initiated districts with CEAs:

- Percentage returned to the applicant(s)
  - Based on how many of the town's goals are met, and the value of any public improvements in addition to any "level playing field" development challenges such as environmental, inadequate infrastructure, etc.
- Recapture of benefits if a development fails to deliver benefits required in CEA, or ceases operation before CEA expiration

- Identify purposes/uses of the CEA (what are eligible costs?)
- Up-front financing, assumption of financial risk
- Demonstration of financial capacity, financial necessity (the “but for” requirement)
    - Applicant has to demonstrate financial capacity in excess of the cost of the development, not including any “level playing field” issues (see above)
- Availability and use of other incentives (federal, state, etc.)
    - Applicant must demonstrate good faith effort to take advantage of other funding sources, incentives, etc.
- Application and review procedures
    - Staff role
    - Council review and approval
    - Costs and fees
        - Application
        - Application fee? Ruling out “tire kickers” though may want to make any fee reimbursable if the district is approved
        - Ongoing administrative fee
- Policy creates no rights or entitlements; all decisions are on a case-by-case basis