

# Municipal Tax Increment Financing



## Municipal TIF Basics

Maine Department of  
Economic and Community Development  
59 State House Station  
Augusta, Maine 04333

# What Municipal TIF Is

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- ◆ A local economic development project financing program, using real & personal property taxes
- ◆ Municipality = unorganized territory

# How It Works

- ◆ The municipality designates a specific geographic area as a Municipal Development Tax Increment Financing District
  - Municipal legislative body designates district
  - Local public process
- ◆ This “freezes” the value of taxable property within the district (the original assessed value or “OAV”)
- ◆ Municipality adopts a development program describing authorized uses of revenue
- ◆ DECD commissioner reviews and approves based upon statutory compliance

# Establishing OAV

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The Original Assessed Value is the assessed value of a development district as of March 31<sup>st</sup> of the prior tax year

TIF application received by 03/01/2010

- use valuation as of 03/31/2009
- tax year 04/01/2008 – 03/31/2009

TIF application received 04/01/2010 to 03/01/2011

- use valuation as of 03/31/2010
- tax year 04/01/2009 – 03/31/2010

# How It Works . . .

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- ◆ TIF then applies to new value in the district
- ◆ Some or all of the new value in the TIF is “sheltered” (excluded) from State Valuation

# TIF Example (mil rate 20)

Vacant Land

Original Assessed Value:  $\$100,000 \times .02 = - \$2,000$  in Taxes

Vacant Land

Building

Building:  $\$300,000 \times .02 = - \$6,000$  in new (Increment) Taxes

# TIF Revenues

- ◆ Tax revenues generated from new value are used to implement development program
  - Municipality designates the percentage of increased value being “captured”
  - Percentage can range from 1% – 100%

Tax Year	Total Tax \$	TIF %	General Fund	CEA 50%	ED activities 50%
2010	8,000	100	2000	3000	3000
2011	10,000	100	2000	4000	4000
2012	10,000	100	2000	4000	4000

# Designation Process

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- Notice of public hearing in newspaper of general circulation ten days before the public hearing
- Public hearing held and duly recorded
- Majority vote of municipal legislative body necessary to designate a TIF district and Development Program
- Approved application forwarded to DECD  
Commissioner reviews for statutory compliance
- Maine Revenue Services notified of DECD approval

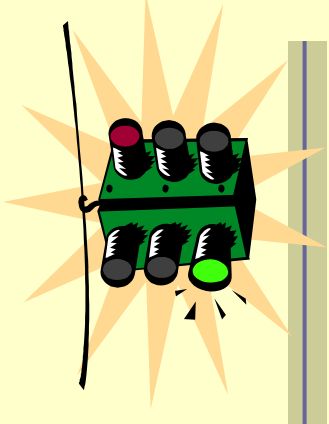
# Authorized TIF Revenue Uses

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- ◆ 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

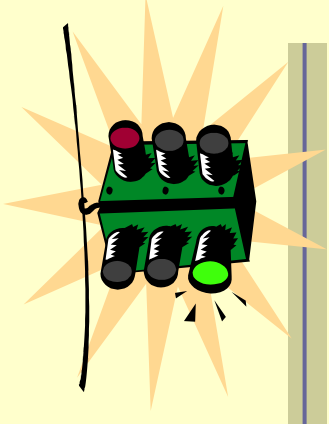
# WITHIN THE DISTRICT



- 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...

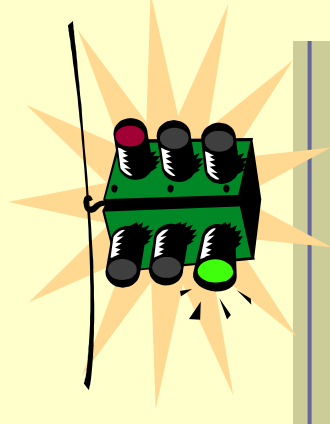
# WITHIN THE DISTRICT



- Professional Services, including:
  - Licensing and architectural
  - Planning, engineering and legal
  
- Other costs, including:
  - Reasonable administrative expenses
  - Relocation expenses
  - Organizational costs to establish district, like impact studies, and public information

Tier II - Authorized Project Costs...

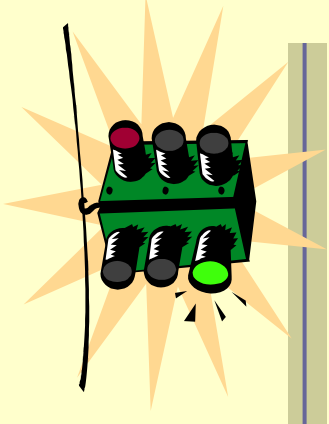
## OUTSIDE THE DISTRICT



### DIRECTLY RELATED TO 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
- Environmental Improvement Plans
- Permanent Revolving Funds
- Employment Training (<20%)
- Quality Child Care
- Arts district activities
- Transit activities
- Recreational trails

# Funding Mechanisms...



- Municipal Bonds
  - Municipality establishes a Development Sinking Fund for debt service requirements
  
- Credit Enhancement Agreement (CEA)
  - TIF revenues placed in a Project Cost Account for direct payment to company for authorized project costs
  
- Municipal Economic Development
  - TIF revenues placed in a Project Cost Account for direct payment by town for authorized project costs

# TIF District Limitations

## Geography

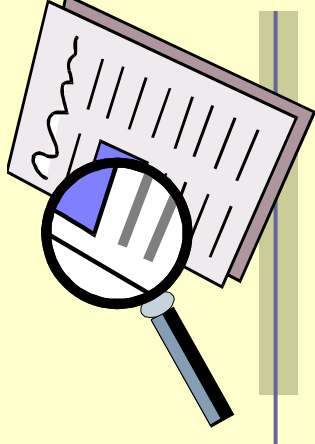
District has boundaries and limits:

- single: 2% of area
- all: 5% of area
- all: 5% of value



# Policy

## Notes...



- Project costs should, where ever possible, be contained within the TIF district, even if this means extending the district (e.g., to include surrounding roads)
- Any project costs not actually within the district must be clearly related to it (physically or operationally), or constitute a bona fide economic development purpose