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Summary of Tax Increment Financing Town of Standish February 28, 2023

I. What is a “TIF” or Tax Increment Financing?

A. **Tax:** The “T” in the TIF acronym refers to property taxes.

B. **Increment:** The “I” in TIF refers to the “increment,” meaning the property taxes assessed upon the “increased assessed value” (i.e., the *new* value) that are used or “captured” to finance project costs set forth in the Development Program. “Increased assessed value” means the valuation amount by which the current assessed value of a TIF at each year throughout the term of the district exceeds the “original assessed value” of the district at the time it was established. “Original assessed value” means the assessed value of a development district as of March 31st of the tax year preceding the year in which it was designated.

For example, in the case of a District approved in February 2023, the original assessed value is the value of the property in the District as of March 31, 2022, i.e., the April 1, 2021 assessment. If a TIF is approved after March 2023, the original assessed value is the value of the property in the District as of March 31, 2023, i.e., the April 1, 2022 assessment. Accordingly, where valuation has increased between the original assessed value date and the date of approval of the District, such as in a new construction project, existing tax revenues may be affected by a TIF. In the case of an amendment to an existing TIF District, the original assessed value does not change unless the amendment adds or removes parcels from the District.

Example: Assume creation of District in February 2023:

- \$100,000 April 1, 2021 Assessed Value is the Original Assessed Value, the tax on which continues to go to the Town’s general fund;
- \$500,000 April 1, 2024 Assessed Value, the tax on which is the increment; the tax on the first \$100,000 (the Original Assessed Value) continues to go to the General Fund and is not affected by the TIF; the tax on the next \$400,000 in assessed value is deposited in the TIF fund.

In the example above, the base or original assessed value for the term of the TIF will be the April 1, 2021, \$100,000 valuation, and the property tax on that amount is not affected by the TIF and such tax is dedicated to the General Fund of the Town. The “increment” in this example would be all property taxes on new valuation created over and above the \$100,000 Original Assessed Value, for the term of the

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TIF District, that are captured or dedicated to pay eligible project costs as described in the TIF Development Program that the Town prepares and adopts.

C. Financing: The “F” in TIF refers to financing, meaning the costs that are eligible by State law and the terms of the TIF Development Program to be paid or financed out of TIF revenues.

1. What can be financed? The purpose of the TIF law is to provide new employment opportunities, improve and broaden the tax base; improve the general economy of the State. The TIF law authorizes municipalities to develop a program for improving a district of the municipality: (a) to provide impetus for commercial development or transit oriented development or arts district development, or any combination thereof; (b) to increase employment; and (c) to provide the facilities outlined in the development program adopted by the legislative body of the municipality. Within that context, the Development Program may finance “Project Costs” generally consisting of both public infrastructure and private development costs, with exclusions such as buildings for general conduct of government and recreational facilities. Project Costs, as defined by State law (30-A M.R.S. § 5225), may include:

a. Within the District: Costs of improvements made within the TIF district, including, but not limited to capital costs to finance acquisition of land and equipment and construction of buildings and other improvements for public, arts district, commercial or transit oriented uses; financing costs; professional service costs; administrative costs, including, but not limited to, reasonable charges for the time spent by municipal employees in connection with the implementation of a development program; organizational costs; and costs associated with the development and operation of affordable housing. Examples of traditional uses of TIF funds include financing of new roads, sewer and water facilities *within* a TIF District in connection with commercial development.

b. Related costs outside the District: Costs of improvements that are made outside the tax increment financing district but that are *directly related to or are made necessary by* the establishment or operation of the district, including, but not limited to: (1) costs reasonably related to the construction, alteration or expansion of any facilities not located within the district that are required due to improvements or activities within the district, including, but not limited to, sewage treatment plants, water treatment plants or other environmental protection devices; storm or sanitary sewer lines; water lines; electrical lines; improvements to public safety facilities; and amenities on streets; (2) costs of public safety improvements made necessary by the establishment of the district; (3) costs of funding to mitigate any adverse impact of the district upon the municipality and its constituents if: (a) the public facilities or improvements are located in a downtown tax increment financing district; and (b) the entire tax increment from the downtown tax increment financing district is committed to the development program of the tax increment financing district; and (4) costs for improvements related to affordable housing development in support of economic development activities.

c. Other Costs: The following described costs are additional costs that the TIF law provides can be funded from TIF revenues, even if not in the TIF District or related to development in the TIF District.

Costs related to economic development, environmental improvements, fisheries and wildlife or marine resources projects, recreational trails, broadband service, or employment training within the municipality, including, but not limited to: (1) costs of funding economic development programs or events developed by the municipality or funding the marketing of the municipality as a business or arts location; (2) costs of funding environmental improvement projects developed by the municipality for

commercial or arts district use or related to such activities; (3) funding to establish permanent economic development revolving loan funds or investment funds; (4) costs of services to provide skills development and training for residents of the municipality; (5) quality child care costs, including finance costs and construction, staffing, training, certification and accreditation costs related to child care; (6) costs associated with new or existing recreational trails determined by DECD to have significant potential to promote economic development, including bridges that are part of the trail corridor, used all or in part for all-terrain vehicles, snowmobiles, hiking, bicycling, cross-country skiing or other related multiple uses; and (7) costs associated with a new or expanded transit service, limited to: (a) transit service 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; and benches, signs and other transit-related infrastructure; and (b) in the case of transit-oriented development districts, 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; (8) costs associated with development of fisheries and wildlife or marine resources projects; (9) costs related to construction or operation of municipal public safety facilities for general economic development not to exceed 15% of the captured assessed value; (9) costs associated with broadband and fiber optics; or (10) costs associated with broadband and fiber optics expansion projects subject to certain conditions; or (11) costs associated with the operation and financial support of affordable housing to serve economic development or those who are experiencing homelessness. All of the above may be subject to additional limitations or conditions as set forth in more detail in the relevant statutes.

d. Government Uses: Costs of constructing or improving facilities or buildings used by State or local Government that are located in approved downtown tax increment financing districts.

2. Unauthorized project costs. Except as noted above, TIF revenue *cannot* be used to finance facilities, buildings or portions of buildings used predominantly for the general conduct of government or for public recreational purposes, including, but not limited to, city halls and other headquarters of government where the governing body meets regularly, courthouses, jails, and other state and local government office buildings, recreation centers, athletic fields and swimming pools.

3. Financing Options. Creation of Development Program Fund may finance:

- (a) Debt service on bonds issued by the municipality;
- (b) Payment or reimbursement of municipal project costs; and/or
- (c) Payments to developers under Credit Enhancement Agreements.

D. Appropriations: In a municipality that has a town meeting form of government, all appropriations of TIF revenue are subject to town meeting approval. This includes annual appropriations and authorization to enter into long-term credit enhancement agreements that provide a reimbursement of TIF revenue.

II. Statutory Requirements. If the Town wants to consider a TIF, the following documents must be prepared:

- A. District Designation. Determine the physical boundaries and location of the District and identify all parcels to be included. This requires a list of all parcels and a map to identify the District.

B. Development Program. The development program must include:

1. A financial plan including cost estimates for the development program; the amount of public indebtedness to be incurred; sources of anticipated revenues; a description of the terms of any agreements or other obligations; estimates of increased assessed values of the district; the portion of the increased assessed values to be applied to the development program as captured assessed value and resulting tax increments in each year; and a calculation of the tax shifts resulting from designation of the TIF district.

2. A description of public facilities, improvements or programs to be financed in whole or in part by the development program;

3. A description of commercial facilities, improvements or projects to be financed in whole or in part by the development program;

4. Plans for the relocation of persons displaced by the development activities;

5. The proposed regulations and facilities to improve transportation;

6. The environmental controls to be applied;

7. The proposed operation of the development district after the planned capital improvements are completed;

8. The duration of the program, which may not exceed 30 years from the date of designation of the district; and

9. All documentation submitted to or prepared by the municipality relating to consideration of whether the Development Program will contribute to the economic growth or well-being of the municipality.

C. Public Hearing and Notice: The Municipal Officers must hold a public hearing to consider and adopt the District and Development Program. The municipality must publish notice of the public hearing at least 10 days in advance of the hearing in a newspaper of general circulation within the municipality. In a Town Meeting form of government, the District and Development Program must also be adopted by vote of the residents at Town Meeting.

D. Statutory considerations: Paragraphs 1 through 3 below must be met in all TIF Districts except approved "downtown tax increment financing districts," tax increment financing districts included within Pine Tree Development Zones, and transit oriented development districts.

1. Suitability: 25% of area must be blighted, in need of rehabilitation, redevelopment or conservation work or suitable for commercial uses. This provision does not apply to downtown tax increment financing districts.

2. Acreage limitations: The total area of a single development district may not exceed 2% of the total acreage of the municipality, and the total area of all development districts may not exceed 5% of the total acreage of the municipality.

3. Total Value: 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 may not exceed 5% of the total value of taxable property within the municipality as of April 1st preceding the date of Maine Department of Economic and Community Development (“DECD”) approval of the district. Some exceptions apply – notably, this provision does not apply to downtown tax increment financing districts.

D. Approval Considerations: The legislative body of the municipality must designate the TIF District. In designating a TIF District, the legislative body of a municipality must consider whether the proposed district or program will contribute to the economic growth or well-being of the municipality or to the betterment of the health, welfare or safety of the inhabitants of the municipality; whether any adverse economic effect of the proposed district or program on that interested party’s existing business in the municipality is outweighed by the contribution made by the district or program to the economic growth or well-being of the municipality or to the betterment of the health, welfare or safety of the inhabitants of the municipality.

G. DECD Approval: The Development Program must be submitted to DECD for approval. Before final designation of a TIF district, DECD reviews the proposal to ensure that the proposal complies with statutory requirements. In the case of a downtown TIF district, the Department of Agriculture, Conservation and Forestry and the Department of Transportation shall review the proposal and provide advice to assist DECD in making a decision.

H. Amendments: The process to amend an existing TIF District is substantially the same as the process to designate a TIF District. The amendment must include a summary of the changes to the District and include the provisions of the Development Program that are required as outlined in Section B above. A municipality must hold a public hearing on an amendment to a TIF District, and provide notice of the public hearing in the same manner as required for the original designation of a TIF District.

III. Assessor’s Duties. In addition to assessing TIF District property in the same manner as all other property in the Town, the Assessor has the following responsibilities in connection with a TIF:

A. Certification of assessed value. On or after formation of a tax increment financing district, the Assessor of the municipality shall certify the original assessed value of the taxable property within the boundaries of the TIF district. Each year after the designation of the district, the Assessor shall certify the amount by which the assessed value has increased or decreased from the original value.

B. Designation of captured assessed value. A municipality may retain all or part of the tax increment revenues generated from the increased assessed value of a TIF district for the purpose of financing the development program. The amount of tax increment revenues to be retained is determined by designating the captured assessed value. When a development program for a TIF district is adopted, the municipal legislative body shall adopt a statement of the percentage of increased assessed value to be retained as captured assessed value in accordance with the development program. The statement of percentage may establish a specific percentage or percentages or may describe a method or formula for determination of the percentage. The Assessor shall certify the amount of the captured assessed value to the municipality each year.

C. Assessor's annual return to State Tax Assessor. The Town Assessor "shall make and return lists, which must be seasonably furnished by the State Tax Assessor for that purpose, all such information as to the assessment of property and collection of taxes as may be needed in the work of the State Tax Assessor." The State Tax Assessor then certifies the equalized just value of all real and personal property excluding "that percentage of captured assessed value located within a tax increment financing district that is used to finance that district's development plan and the captured assessed value located within a municipal affordable housing development district."