

TAX INCREMENT FINANCING

DECEMBER 8, 2014

Falmouth ME

TIF OVERVIEW

- Tax Increment Financing allows municipalities to "shelter" increases in valuation resulting from property development for up to 30 years
- This allows municipalities to avoid losses due to the 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 (mostly capital or infrastructure related purposes) in a TIF development plan. These are determined at the time the TIF agreement is developed and approved by the State.

PROPERTY VALUE & FISCAL FORMULAS

- Property valuation impacts the \$ amount municipalities receive from the state and pay in county taxes. These factors include:
 - state aid for education
 - municipal revenue sharing
 - county taxes
- Formulas for these programs are based in part on property valuation with the premise that the higher the amount of 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, and more county taxes paid.

CURRENT TIF IN FALMOUTH

The Town of Falmouth has used Tax Increment Financing (TIF) since 1999. The Town has three approved TIF districts including:

- West Falmouth Crossing TIF was established in 1998 and the current tax increment income is \$744,646 (a substantial amount of the income is returned to the original developer). This TIF covers approximately 59 acres and will expire in 2024.
- Route 1 South TIF was established in 2000 and the current tax increment income is \$ 919,673/yr. This TIF covers approximately 142 acres and will expire in 2030.
- Route 1 North TIF was established in 2000 and the current tax increment income is \$363,543. This TIF covers approximately 252 acres and will expire in 2023. There is a property specific TIF, embedded within this TIF, known as the Addison Capital/Lucas Tree TIF.

FISCAL FORMULAS AND IMPACT

TIF Incremental and Taxable Property Value	\$20,000,000 (example)
Tax Rate	\$14.10
New Taxes (gross before adjustments from state aid and County taxes)	\$282,000
State Aid for Education Revenue Reduction	A
Municipal Revenue Sharing Reduction	B
Additional County Tax	C
Net New Taxes (after adjustments and without TIF sheltering affect)	= (\$282,000 - A - B + C)

TIF OVERVIEW

Negative Adjustment % (without a TIF)	Negative Adjustment \$ (without a TIF)	Net New Tax Revenue (\$282,000 with a TIF)
65%	\$183,300	\$98.700
50%	\$141,000	\$141.000
10%	\$28,200	\$253.800

In 2009, the Town hired a consultant to analyze the negative impact through reduced state aid and additional county taxes. At that time, the analysis suggested that the overall negative impact would be 65%. A new analysis, with updated data based on current state policy/law may reveal a lesser impact however the impact will remain substantial. Even if the negative impact is reduced to 10% (highly unlikely), the overall loss in taxable revenue over a 30 year TIF would approach \$900K. If a TIF captured and sheltered this new revenue, the Town would retain this funding for TIF eligible expenses.

TIF LIMITS

TIF	Acres as % of Town	Valuation as a % of Town
Existing TIFS	2.3%	1.9%
Conceptual Natural Gas TIF (based on 50 mile long and 50' long)	1.5%	0% (no base value due to location in a public ROW)
Conceptual Development Area (based on 25 acres and \$4M base valuation)	0.1%	0.2%
Total	3.9%	2.1%

- State law limits the total acres in all TIF districts to no more than 5% of the Town's total area.
- State law limits the total base valuation (the property valuation at the time the TIF is created) of all TIF districts to no more than 5% of the Town's total valuation.

LOOKING AHEAD

- **The three current TIF Districts expire in 2023, 2024 and 2030.**
- **The Town will need to consider a transition plan prior to the expiration of the TIF districts. A transition plan will include updating general fund capital improvement plans to include items typically funded in a TIF development plan.**
- **The Town may want to consider the creation of new TIF districts to soften and negative impacts from the expiration of other TIF districts.**
- **If the Town created two new TIF districts in 2015, they will be in place 15 years after the oldest existing TIF district which could assist with transition planning.**

QUESTIONS