A Simple Guide to Tax Increment Financing (TIF) in Maine

Information and Tools for Citizen Planners

Introduction

If your town or city is looking for ways to fund local projects, improve infrastructure, or support business development—without raising taxes—Municipal Tax Increment Financing (TIF) could be a great tool for you. Whether you're a town official, business owner, or resident interested in local development, this guide will give you the basics to understand how TIF can benefit your community.

What is TIF?

TIF allows municipalities to designate a specific area as a TIF district, capturing the incremental increase in property tax revenue resulting from new development or improvements within that district. This "captured" revenue can then be reinvested into various projects, such as infrastructure enhancements, public facilities, or support for private developments, fostering further economic growth.

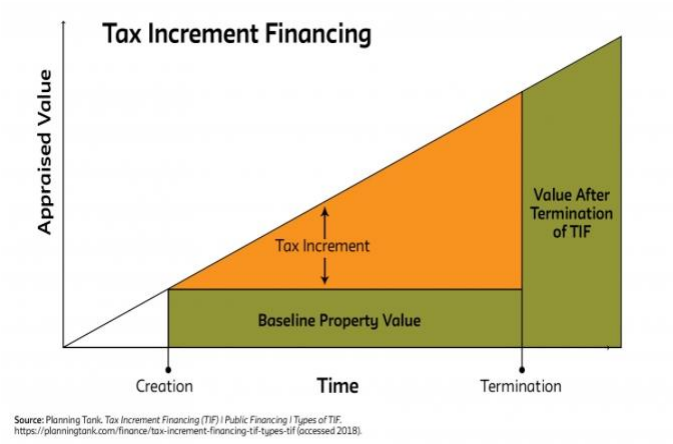
Requirements for TIF Districts

Maine law stipulates specific requirements for TIF districts:

Geographic Limitations: A single TIF district cannot exceed 2% of the municipality's total area, and all TIF districts combined cannot exceed 5% of the total area or total value.

Qualifying Criteria: At least 25% of the district area must be:

- Blighted;
- In need of rehabilitation, redevelopment, or conservation; or
- Suitable for commercial uses.



Source: Planning Tank. *Tax Increment Financing (TIF) | Public Financing | Types of TIF.* https://planningtank.com/finance/tax-increment-financing-tif-types-tif (accessed 2018).

Designating TIF Areas

The process of establishing a TIF district in Maine involves several key steps:

1. **Define the District:** The municipality identifies a specific geographic area to be designated as a TIF district. This area must meet certain criteria (see Requirements Section).
2. **Develop a Program:** A municipality creates/completes a TIF Development Program application containing required information outlined in TIF Statute MRS 30-A §§5221-5235 & TIF Rule 19-100.
3. **Public Involvement:** A public hearing is held to inform and gather input from residents. Notice of the hearing must be published in a local newspaper at least ten days prior.
4. **Local Approval:** The proposed TIF district and development program require approval from the municipality's legislative body, typically the city council or town meeting.
5. **State Approval:** Following local approval, the application is submitted to the Maine Department of Economic and Community Development (DECD) for review and final approval.

GrowSmart Maine

A Simple Guide to Tax Increment Financing (TIF) in Maine

Information and Tools for Citizen Planners

How TIF Works

Once a TIF district is established, the following occurs:

Original Assessed Value (OAV): The assessed value of the property within the district is "frozen" at its current level.

Incremental Value: Any increase in property value above the OAV, resulting from new development or improvements, is considered the incremental value.

Captured Revenue: The property taxes generated from this incremental value are captured and allocated to fund the projects outlined in the development program. The captured revenue is not included in the municipal valuation when determining state revenue sharing or county expenses, ensuring that a municipality's participation in TIF does not reduce its share of state funds or increase its county tax burden.

Pros and Cons of TIF

Pros

Economic Development: TIF can stimulate private investment, leading to job creation and increased economic activity.

Infrastructure Improvements: Captured revenues can fund essential public infrastructure projects without raising taxes.

Local Control: Municipalities have discretion over the designation of TIF districts and the allocation of funds, allowing for tailored development strategies.

Cons

Risk of Inequity: There is a concern that wealthier municipalities may benefit more from TIF, potentially diverting state resources from less affluent areas.

Complexity: The process of establishing and managing a TIF district can be administratively complex, requiring careful planning and oversight.

Potential for Misuse: Without proper safeguards, TIF funds might be allocated to projects that do not yield significant public benefits.

Case Stuides of Successful TIF Programs in Maine

Bangor has effectively utilized TIF to promote economic development and revitalize underutilized areas. The city's TIF policy outlines standards and processes for establishing TIF districts and entering into Credit Enhancement Agreements (CEAs) to attract new businesses and support municipal projects.

South of Portland implemented an Affordable Housing TIF district to support the conversion of existing structures into affordable housing units. This initiative aimed to address the local housing shortage by generating new property tax revenue to fill funding gaps in housing projects.

Fairfield established a TIF district to develop a subdivision where 40% of the units are designated for households earning 120% of the area median income or less. This project demonstrates the flexibility of TIF in supporting mixed-income housing developments.

ADDITIONAL RESOURCES

- DECD Municipal Tax Increment Financing
- MaineHousing Affordable Housing Tax Increment Financing Program
- U.S. DOT Federal Highway Administration TIF Fact Sheet
- American Planning Association TIF Quick Notes
- YouTube Video on How does a TIF "Tax Increment Financing" work?