Tax Increment Financing 101

October 26, 2017

TIF- What does it mean?

- TIF- stands for Tax Increment Financing
- TIF is a tool that permits a municipality to participate in local project financing by using some or all of the new property taxes from a capital investment within a designated geographic district. The municipality has the option of using the "incremental" taxes to retire bonds it has issued for the project, compensate a developer or business for development project costs, or fund eligible municipal economic development activities. TIF districts may be designated for up to 30 years and bonds may be issued for up to 20 years. The designation of a TIF district requires proper notice, a local public hearing, the majority vote of the municipal legislative body, and State of Maine approval through the DECD.

What do all of those funky acronyms mean?

- **Original assessed value (OAV)** means the assessed value of a development district as of March 31st of the tax year preceding the year in which it was designated. This value is frozen over the life of the TIF, unless the TIF is amended, and the tax revenue generated from this value goes to the general fund (not sheltered from State Valuation)
- **Increased assessed value (IAV)** means the valuation amount by which the current assessed value of a tax increment financing district exceeds the original assessed value of the district. If the current assessed value is equal to or less than the original, there is no increased assessed value.

Continued…

- **Captured assessed value (CAV)** means the amount, as a percentage or stated sum, of increased assessed value that is utilized from year to year to finance either municipal or developer project costs contained within the development program. <u>This is the valuation that will be sheltered from State Valuation.</u>
- **Credit Enhancement Agreement (CEA)**

The CEA, or contract between the municipality and developer, is a mechanism to assist the development project by using all, or a percentage of, the tax revenues generated by the new investment to pay certain authorized project costs with payments made directly to the developer. In short, this is money returned to the developer from the municipality into a “project cost account”, which must be established. Some TIF’s do not feature a Credit Enhancement Agreement.

Let’s look at an example…

The Kendall Corporation purchases a 40 acre vacant parcel in the Town of Dalton with an assessed value on March 31, 2016 (April 1, 2015 assessed value) of 100,000. The Kendall Corporation enters into a 30 year TIF agreement with the Town of Dalton where 100% of the increase above original assessed value is captured, with 25% going back to The Kendall Corporation in CEA, and the remaining 75% used by the Town of Dalton for authorized economic development activity. This TIF does not include personal property as the personal property will be BETE qualified.

The Kendall Corporation then constructs a new manufacturing facility on the 40 acre parcel with a 2017 assessed land value of 250,000 and a building value of 9,300,000.

Captured Assessed Value: 250,000+9,300,000=9,550,000 less the 100,000 OAV=9,450,000 (100%CAV)

What does all of this mean for the assessor?

1. Changes in how the mil rate is calculated
2. More work filling out the Municipal Valuation Return (MVR)
3. Annual tracking of value within the TIF district

Setting the mil rate…..

Steps

1. Run totals for all taxable real estate (if the TIF only includes real estate like in this example).

Example:

Town of Dalton total taxable valuation for 2017 is 198,526,000

Steps

2. Refer back to your previously calculated "Captured Assessed Value"(CAV)

Example:

In this case, 100% of the increase above the original assessed value (OAV) is captured (25% back to Kendall Corp in CEA, and 75% municipal retention for authorized economic development expenditures. As previously calculated, the CAV for 2017 is 9,450,000

Steps

3. Complete a tax rate calculation form with all of the CAV removed from your taxable value. **Remember to leave line 9 on the tax rate calculation form as 0.00 for now.**

-Remember to always look to see if you qualify for **enhanced BETE**

-This will allow the mil rate to be set with no interference from the TIF

2017 TIF Class Example 1 TRCF without TIF value.xls

Steps

4. Once the mil rate has been set, add the CAV back into the taxable real estate value on the tax rate calculation form.

5. You will now want to multiply your CAV by the selected mil rate. This is the $ amount you will want to plug into line 9 of the tax rate calculation form.

2017 TIF Class Example 1 TRCF with TIF value.xls

Who gets what?

Town of Dalton: (75% Municipal Retention)

$134,662.50*.75=$100,996.88

Kendall Corporation: (25% Credit Enhancement Agreement)

$134,662.50*.25=$33,665.63

You are done………….for now

Next Task

2017
Municipal Valuation Return

DUE DATE - NOVEMBER 1, 2017 (or within 30 days of commitment, whichever is later)

Mail the signed original to Maine Revenue Services, Property Tax Division,
PO Box 9106, Augusta, ME 04332-9106 and affix copy to front cover of Municipal Valuation book.

For help in filling out this return, please see the Municipal Valuation Return Guidance Document at
www.maine.gov/revenue/forms/property/appsformspubs.htm

MAINE REVENUE SERVICES - 2017 MUNICIPAL VALUATION RETURN

Municipality: DALTON

BUSINESS EQUIPMENT TAX EXEMPTION (BETE) REIMBURSEMENT CLAIM

15. a. Number of BETE applications processed for tax year 2016.	15a	28
b. Number of BETE applications approved	15b	21
c. Total exempt value of all BETE qualified property	15c	6,059,000
(Must be the same as Municipal Tax Rate Calculation Standard Form page 10, line 5a)		
d Total exempt value of BETE property located in a **municipal retention TIF district**.	15d	0

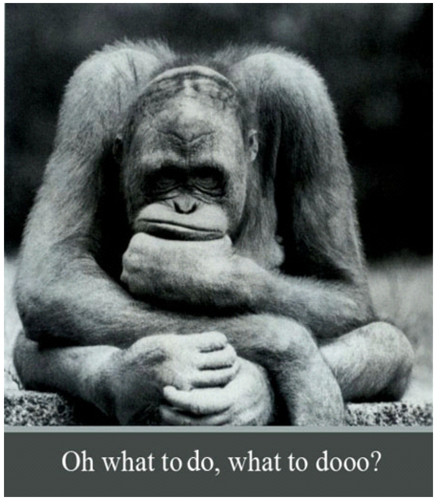
TAX INCREMENT FINANCING (TIF)

16. a. Total amount of increased taxable valuation above Original Assessed Value within TIF Districts.	16a	9,450,000
b. Amount of Captured Assessed Value within TIF Districts.	16b	9,450,000
c. Property tax revenue that is appropriated and deposited into either a Project Cost Account or a Sinking Fund Account.	16c	134,662.50
d. BETE reimbursement revenue that is appropriated and deposited into either a Project Cost Account or a Sinking Fund Account.	16d	0.00

(Lines 16c and 16d combined must be the same as Municipal Tax Rate Calculation Standard Form page 10, line 9)

That was easy….Right?

- Not all TIF’s capture 100% of the increase in assessed value above the original assessed value.



Let’s look at another example…

Now, 85% of the increase above original assessed value is captured, with 25% going back to The Kendall Corporation in CEA, and the remaining 75% used by the Town of Dalton for authorized economic development activity. This TIF does not include personal property as the personal property will be BETE qualified.

The Kendall Corporation then constructs a new manufacturing facility on the 40 acre parcel with a 2017 assessed land value of 250,000 and a building value of 9,300,000.

Captured Assessed Value: 250,000+9,300,000=9,550,000 less the 100,000 OAV=9,450,000*.85=8,032,500 (85%CAV)

The same steps apply

- Complete the tax rate calculation form, removing all CAV from taxable real estate, (in this case) in order to set the mil rate.
  - 2017 TIF Class Example 2 TRCF without TIF value.xls

Once the mil rate has been set, add the CAV back into the taxable real estate value on the tax rate calculation form.

You will now want to multiply your CAV by the selected mil rate. This is the $ amount you will want to plug into line 9 of the tax rate calculation form.

-2017 TIF Class Example 2 TRCF with TIF value.xls

Who gets what now?

Town of Dalton: (75% Municipal Retention)

$114,463.13*.75=$85,847.35

Kendall Corporation: (25% Credit Enhancement Agreement)

$114,463.13*.25=$28,615.78

Next Task

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Municipality: **DALTON**

BUSINESS EQUIPMENT TAX EXEMPTION (BETE) REIMBURSEMENT CLAIM

15. a. Number of BETE applications processed for tax year 2016.	15a	**28**
b. Number of BETE applications approved	15b	**21**
c. Total exempt value of all BETE qualified property	15c	**6,059,000**
(Must be the same as Municipal Tax Rate Calculation Standard Form page 10, line 5a)		
d Total exempt value of BETE property located in a **municipal retention TIF district**.	15d	**0**

TAX INCREMENT FINANCING (TIF)

16. a. Total amount of increased taxable valuation above Original Assessed Value within TIF Districts.	16a	**9,450,000**
b. Amount of Captured Assessed Value within TIF Districts.	16b	**9,450,000*.85= 8,032,500**
c. Property tax revenue that is appropriated and deposited into either a Project Cost Account or a Sinking Fund Account.	16c	**8,032,500*0.01425= 114,463.13**
d. BETE reimbursement revenue that is appropriated and deposited into either a Project Cost Account or a Sinking Fund Account.	16d	**0.00**

(Lines 16c and 16d combined must be the same as Municipal Tax Rate Calculation Standard Form page 10, line 9)

Any Questions?