



CITY OF HALLOWELL

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City Council

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POLICY 2011-01 **TAX INCREMENT FINANCING** **STANDARDS / GUIDELINES**

1.0 Purpose:

Tax Increment Financing (TIF) is a mechanism approved by State Law through which a municipality may return a percentage or all of the additional real property tax revenues which are derived from a new development or the expansion of an existing development to the benefit of the development.

In effect, the TIF allows a municipality to underwrite a portion of the cost of a project through anticipated future year additional tax revenues generated by the project.

In general, a TIF is authorized for use in pursuit of the economic development and community redevelopment goals of the City.

This policy is intended to provide guidance to staff who are involved in development and redevelopment efforts in their negotiations and discussions with parties who are interested in the potential use of this mechanism.

This policy also outlines the standards that the City of Hallowell will use in considering applications for tax increment financing.

The creation of a TIF agreement is a policy decision made by the Hallowell City Council and the Maine Department of Economic and Community Development. Tax Increment Financing is not a right under Maine law and meeting these guidelines/standards should not be interpreted as creating any rights or entitlements in any application.

Definitions:

Blighted Area. Title 30-A M.R.S.A., Chapter 205 Community Development, section 5202 defines “blighted area” to mean:

A. An area in which there is a predominance of buildings or improvements which are

conducive to ill health, the transmission of disease, infant mortality, juvenile delinquency or crime and are detrimental to the public safety, morals or welfare because of:

- 1) Dilapidation, deterioration, age or obsolescence;
 - 2) Inadequate provision for ventilation, light, air, sanitation or open spaces;
 - 3) High density of population and overcrowding;
- B. An area which is a menace to the public health, safety, morals, or welfare in its present condition because of:
- 4) The predominance of inadequate street layout, unsanitary or unsafe conditions;
 - 5) Tax or special assessment delinquency exceeding the fair value of the land;
 - 6) The existence of conditions which endanger life or property by fire and other causes;
or
 - 7) Any combination of these factors.

Captured Assessed Value (CAV). "Captured assessed value" means the amount, stated as a percentage or stated sum, of increased assessed value that is utilized from year to year to finance the project costs contained within the development program.

Development District. "Development District" means a specified area within the corporate limits of a municipality which has been designated and separately numbered as provided under Title 30-A M.R.S.A. section 5223, and which is to be developed by a municipality under a development program.

Development Program. "Development Program" means a statement of means and objectives designed to provide new employment opportunities, retain existing employment, improve or broaden the tax base, construct or improve the physical facilities and structures or improve the quality of pedestrian and vehicular traffic control and transportation. See 30-A M.R.S.A. section 5224 for items to be included in the development program.

Financial Plan. "Financial plan" means a statement of the costs and sources of revenue required to accomplish the development program. See 30-A M.R.S.A. section 5224, subsections 3 and 4 for items to be included in the financial plan.

Increased Assessed Value (IAV). "Increased assessed value" 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 or less than the original there is no captured assessed value.

Original Assessed Value. "Original assessed value" means the taxable assessed value of a development district as of March 31st of the tax year preceding the year in which it was designated.

Project Costs. "Project costs" mean any expenditures or monetary obligations incurred or expected to be incurred that are authorized by 30-A M.R.S.A. section 5225, subsection (1) and included in a Development Program.. See M.R.S.A. 30-A section 5225 for a list of authorized project costs.

Sheltering. "Sheltering" means the freezing of the value of taxable property within a TIF District with respect to the State funding formulas and County taxes. The sheltering prevents the State from reducing the subsidies of General Purpose Aid to Education, State Revenue Sharing and the expense of County Taxes by sheltering or freezing the increased taxable value within the TIF District from State Valuation. Only that portion of the new taxable value in the TIF District that is expressly "captured" for development program purposes is "sheltered" for funding formula and County tax purposes.

Tax Increment. "Tax increment" means that portion of all real and personal property taxes assessed by a municipality, in excess of any state, county or special district tax, upon the increased assessed value of property in the development district.

Tax Increment Financing District. "Tax increment financing district" means a type of development district, or portion of a district, which uses tax increment financing under 30-A M.R.S.A. section 5227.

2.0 Authorization to Propose/Entertain Use:

2.1 City Participation Required:

City staff is authorized to propose/entertain the use of Tax Increment Financing where the City's participation is necessary in order for the project to be undertaken. The need for City involvement must be demonstrated by:

2.1.1 The need to offset economic advantages available to the applicant if it should build (or expand) outside of the City of Hallowell;

2.1.2 The need to offset infrastructure costs unique to the development or redevelopment site and required to make the site economically feasible;

2.1.3 The need to meet full capital investment because of the lack of sufficient private or other public funding sources.

2.1.4 The City may want to "shelter" new value resulting from certain development projects from the computation of its State subsidies and increased county taxes.

2.2 Other Requirements for City Participation:

2.2.1 The project creates significant new tax value at a minimum of \$1,000,000 of Captured Assessed Value (CAV).

2.2.2 The project creates significant new permanent full time jobs.

2.2.3 The applicant demonstrates financial capability to undertake the project by a letter of financial ability from a financial institution and one of the following:

- a. A letter from a financial institution, government agency, or other funding agency indicating a commitment to provide a specified amount of funds and the uses for which funds may be used. or;
- b. In cases where funding is required but there can be no commitment of money until approvals are received, a letter of "Intent to Fund" from the appropriate funding institution indicating the amount of funds and their specified uses. or;
- c. The most recent corporate/business annual report indicating availability of sufficient funds to finance the development together with explanatory material interpreting the report. or;
- d. Evidence indicating availability of funds if the developer will personally finance the development.

2.2.4 The project complies with all statutory and regulatory guidelines.

2.2.5 All applicants must pay a \$500.00 non-refundable preliminary application fee at the time of submission. If tax increment financing is approved, an annual administrative fee equal to 1 % of the incremental taxes reallocated back to the project will be charged.

2.2.6 All applicants will be required to sign an Administrative and Professional Fee Agreement agreeing to directly reimburse the City of all legal, accounting, engineering and TIF review consultant costs incurred as a result of the tax increment financing proposal, whether or not tax increment financing is approved.

2.2.7 In addition, any out of pocket expenses incurred by the City in connection with the tax increment financing proposal must be reimbursed by the applicant, whether or not tax increment financing is approved. Examples of out of pocket expenses are: public hearing legal notice expenses, special City Council meeting notices, printed documents, postage, etc. Further, up-front money may be required to be paid to the City to cover the costs of any special studies or environmental, engineering work.

3.0 Level of City Participation:

3.1 Generally, City participation, in the form of tax reimbursements to a private project owner under a TIF credit enhancement agreement or direct City funding for private project-related costs, will not exceed 50% of the incremental taxes generated over the life of the district unless special circumstances exist requiring a higher level of participation.

3.2 City participation, as defined in section 3.1 above, may exceed 50% of the

incremental taxes generated over the life of the district only when the project creates at least one new long-term, full-time job or full-time job equivalent (FTE) for every \$12,000 of incremental taxes reimbursed to the project owner or used by the City to directly fund private project-related costs; or if a project otherwise qualifies for TIF funding, when it provides a community recreational opportunity that would substantially benefit Hallowell residents and would be prohibitively expensive for the City to provide as a municipal service.

3.3 The following criteria will be used to determine the level of City participation:

3.3.1 The project retains existing jobs through assisting in the expansion or modernization of an established business in the City of Hallowell;

3.3.2 The project creates long-term full time employment opportunities;

3.3.3 The project improves a blighted area in need of redevelopment or an area identified as a priority by the City of Hallowell;

3.3.4 The project improves a blighted building in need of rehabilitation;

3.3.5 The project creates public infrastructure improvements (water and sewer) which directly link to the development site and provide surrounding private homes with water and sewer hook-up.

3.3.6 The project improves and broadens the tax base. To qualify solely under this criterion, not less than 50% of the tax increment revenues from the district must be used to support public projects as part of the City's portion of the district development program; or must be retained by the City as non-captured general fund revenues

3.3.7 The project remediate existing environmental contamination of a property or building in the City of Hallowell.

4.0 Other Criteria and Consideration:

In addition to the requirements and criteria listed above, the following criteria and considerations should also be evaluated on whether a TIF should be used and the extent of City participation:

4.1 Priority should be given to projects which will expand employment in the business and light manufacturing sector of the economy as specified in the City of Hallowell Comprehensive Plan, Economic Strategy, adopted October 12, 2010;

4.2 Consideration of projects involving the general service sector such as, but not limited to, medical or professional offices and commercial projects, such as, but not limited to, banks and apartment complexes, shall take into

account the current availability of such services within the City of Hallowell and the current level of competition. Where such competitive services exist, City participation, if any, should be limited to projects qualifying under 3.3.3 and 3.3.4 above and at a level of participation which generally will not provide a competitive advantage in comparison with a similar project undertaken on a "green" (environmentally clean) site;

4.3 The City's policy is not to extend TIF assistance to businesses locating on non-blighted greenfield sites in direct competition with other existing businesses, especially retail and service operations. It is the City's preference to provide assistance only when necessary for location of new businesses that help diversify the local economy by offering services or producing products not presently provided or produced by other area employers.

4.4 All Tax Increment Finance Districts must meet the requirements of Maine State Statutes set forth in 30-A M.R.S.A sections 5221-5227.

5.0 Preferred Forms of City Financial Participation:

5.1 In order to minimize risk to the citizens of the City of Hallowell, the preferred form of Tax Increment Financing assistance is a credit enhancement agreement which avoids the necessity of issuing general obligation debt.

5.2 In evaluating the overall project, the City may choose to issue General Obligation (GO) Bond debt for any public infrastructure improvements to be repaid over time through tax increment revenues. The public infrastructure improvement must be directly linked to the development site. Where the City issues such debt, a higher level of scrutiny will be applied to the project to insure that risk to the City and its taxpayers are minimized. To this end, the City will seek through legal agreements with the developer, to guarantee the necessary revenue flow to pay the debt and to insure that the City is protected against changes in State Law or tax structure which might result in lower than needed incremental revenue. Such agreements may include, without limitation, advance consent by the project developer or owner to a special district assessment against the project in accordance with 30A M.R.S.A. section 5228, to supply any shortfall in the incremental tax revenues from the TIF district. In addition, the developer requesting a public infrastructure TIF must pay to the City the costs of engineering design, bid documents, development of specifications and drawings, and advertising for any developer requested public infrastructure improvements directly linked to the development site.

5.3 Tax Increment Financing Agreements (Districts) of ten (10) years or less are preferred by the City of Hallowell.

5.4 The developer must agree in writing and file with the Kennebec County Registry of Deeds the following stipulation in a Declaration of Covenants and Restrictions and all other written agreements: "Said premises shall not be used by any person for any purposes that would cause or permit the real estate, or any part

thereof, or any personal property thereon, to be exempt from property taxation, unless the record owner, or the person in possession pays to the City of Hallowell, Maine, a sum equal to the amount of property taxes that would be assessed by the City under law if the property were not exempt from property taxation. This restrictive covenant runs with the land and is binding on all subsequent grantees. The aforesaid premises, or any portion thereof, may not be conveyed or transferred unless the instrument of conveyance contains the aforesaid covenant."

5.5 Affordable Housing Districts.

Upon application or on its own initiative, the City Council may designate one or more "Municipal Affordable Housing Development Districts" and approve a development program for each such district in accordance with the standards and procedures of 30-A M.R.S.A. sections 5245 through 5250-E. Such designations by the City Council may include provisions for tax increment financing in accordance with section 5250-A. Criteria for and levels of assistance to private housing projects within an affordable housing development / TIF district shall be determined by the City Council.

5.6 Downtown / Arts Districts.

The City Council may designate "downtown" or arts development districts as provided in 30-A MRSA chapter 206, to include provisions for tax increment financing. TIF assistance to individual projects in any such district shall generally conform to the procedures and criteria of this policy

6.0 Operating Procedures:

6.1 Responsible Department:

The Department of Administration (City Manager).

6.2 Departmental Responsibilities:

The Department shall:

6.2.1 Involve the Mayor and President of the City Council in the preliminary discussion with the developer as appropriate and necessary;

6.2.2 Provide staff support to the City Council TIF Review Committee (Three Councilors and two Hallowell citizens appointed by the Mayor and ratified by the City Council). The TIF Review Committee will study all relevant TIF application documentation and meet with the developer as the committee requires. The committee will determine the need for legal, accounting, engineering advice/direction, and TIF review consultant in the review of the TIF application. The TIF Review Committee will

make a recommendation to the City Council.

- 6.2.3 Provide TIF application documents to the Hallowell Planning Board. The Planning Board will review all TIF applications for consistency with the Comprehensive Plan and Ordinances. The Planning Board will make a recommendation to the City Council.
- 6.2.4 Involve other City Departments as appropriate and necessary. More specifically, the Assessors Office and Treasurers Department shall be involved and assist in the financial analysis of the project. The City Solicitor shall be kept apprised of and be involved in the review of development agreements and other contract documents;
- 6.2.5 Provide information on Tax Increment Financing policy;
- 6.2.6 Discuss project proposals and accept preliminary applications;
- 6.2.7 Review and evaluate preliminary applications;
- 6.2.8 Make recommendations to accept or reject the preliminary application;
- 6.2.9 The developer requesting the TIF is responsible to prepare the formal TIF application in the format prescribed by the State of Maine Department of Economic and Community Development (DECD). The City Manager will insure the formal TIF application is complete with all required information before submission to the City Council. The formal TIF application is to be approved by City Council Order with three (3) readings.
- 6.2.10 Insure the City Solicitor develops all related TIF Agreements for the approval of the City Council.
- 6.2.11 Insure the City Solicitor is involved in key discussions on an as needed basis.
- 6.2.12 Submit TIF districts and associated agreements to the City Council for its review and action;
- 6.2.13 Submit Council approved TIF districts and formal applications to the Maine Department of Economic and Community Development for review and approval;
- 6.2.14 Monitor ongoing public and private investment in the development project.

7.0 Final Authority:

The final authority to approve any Tax Increment Finance District and the terms and conditions of any development agreement relating to such districts rest with the City Council.

The City Council will vote on the Tax Increment Finance District Application by Order with three readings.

The City Council may pre-establish pre-determine areas within the City where the City Council believes TIF Districts should be created.

APPENDIX A: TIF Preliminary Application

APPENDIX B: TIF Application Evaluation Worksheet

APPENDIX C: Administrative and Professional Fee Agreement

REVISED/APPROVED: ___July 11_____, 2011.

By the City Council of the City of Hallowell