

TIFs benefit more than businesses

By Shana Cook Mueller | April 6, 2015

While the availability of programs to promote economic development for municipalities are few and far between, Maine law provides one important tool — tax increment financing.

A municipality can designate a TIF district within its borders, and taxes paid on new property value in the district can be used for specific public and/or private economic development projects. Municipalities decide how to spend TIF revenues, so long as such expenditures meet the state TIF law's definition of economic development. As part of a TIF district, municipalities have the option to refund a portion of property taxes paid on a business' new development to the business through a credit enhancement agreement. Businesses request the agreements to close a gap in project funding and/or to convince other investors the development can succeed.

In order for TIFs to effectively promote economic development, it is important to sort fact from fiction. The most common misconception I hear about TIFs is that they only benefit businesses, not communities. Not so, and here's why:

- Communities benefit in a variety of ways when a business located there succeeds. When a new business succeeds, it often creates new property tax revenue that would not otherwise exist (which can reduce the tax burden on residential taxpayers), it either creates or retains jobs and it often spawns additional development and growth nearby. "The TIF program has allowed Biddeford to begin a transformative revitalization of the city's downtown, in part by making investments in city infrastructure in its urban core, including buying out the former downtown trash incinerator, MERC, and by partnering with businesses to encourage their investments," Daniel Stevenson, director of economic development for Biddeford, says. The city's use of the TIF program has encouraged two private projects, totaling an estimated \$65 million of investment, to be developed in the coming months. Such investment will also create new jobs, new affordable housing and a revitalized downtown area.
- Approximately half of the existing TIF districts in the state have no payments going to private companies through credit enhancement agreements. Of the approximately 350 active TIF districts in the state, just under half include credit enhancement agreements, according to the Maine Department of Economic and Community Development database. Municipalities are utilizing new property tax revenue in TIF districts without credit enhancement agreements to invest in municipal economic development programming, public infrastructure, sidewalks along "Main Street," environmental improvement projects necessary for an area to accommodate development, municipal transit projects and much more.
- Municipalities with TIF districts enjoy a powerful financial tool called the "tax shift" benefit. For every new property tax dollar paid to a municipality, a percentage of that dollar (generally between 30% and 60%) is lost to decreases in state subsidies to the municipality and increases in county taxes the municipality must pay. The formulas

calculating state subsidies and county taxes are based on the premise that as a municipality's total property value increases, the municipality is better able to pay for expenditures on its own. TIF law, however, allows municipalities to enjoy the full dollar of benefit from new property taxes paid on TIF district property. Jon Jennings, South Portland's economic development director, argues that South Portland invests in all sorts of important economic development-related projects, including storm water treatment, streets and sidewalks and transportation improvements — all through its TIF districts. "This means," Jennings adds, "the city makes those investments at a discount of approximately 50% because of the tax shift."

In my work representing municipalities and developers on TIF issues, I most enjoy the light bulb moment when municipal officials understand the tax shift concept — unleashing the full financial power of TIFs.

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