

# PROCESS

## I. INTRODUCTION

### ***“Municipal Economic Development***

*A municipality may elect to provide financial assistance to local economic development projects – from infrastructure improvements to business expansions – by using new property taxes that result from the commercial investment and corresponding increase in property value. The state program that guides and encourages this local economic development activity is called municipal tax increment financing (TIF). TIF is predominantly a ‘real estate based’ tax incentive program.” (State of Maine, DECD Municipal Tax Increment Financing publication dated March 8, 2010)*

Tax Increment Financing (TIF) is a tool that a city can use to participate in local project financing by using some or all the new property taxes generated by capital investment within a geographic district. TIF is one of the few techniques authorized under state law to promote economic development projects by cities and towns. In the City of Caribou, applications for tax increment financing will be considered in the mixed-use districts, the commercial districts, and the industrial districts. Projects proposed in those areas of city receive special consideration with regard to the goals established through the Comprehensive Plan and by the City of Caribou. The City may consider projects outside these areas on a case-by-case basis. Projects under consideration will directly or indirectly have a positive impact on the city.

### Program Example

Land in a designated area (TIF district) is assessed at (original assessed value)	\$500,000
A developer builds a building on that land that is assessed at	\$1,000,000
The tax rate in Caribou per thousand dollars of assessed value is	\$20.50
The total property tax per year on this land and building is	\$30,750
The property tax per year on the new building only (Increment) is	\$20,500

All - or a portion - of the property tax of \$20,500 can be used to support the TIF district’s eligible development program and financial plan for as long as 30 years.

Not only can the \$20,500 per year be designated for eligible programs, that same amount can be “sheltered” from the computation of state subsidies (Revenue Sharing and General Purposed Aid to Education) and the payment of county taxes. As the city’s total value **increases** the city will realize a **decrease** in Revenue Sharing and Education subsidies and an increase in County tax payments.

	Taxes Sheltered in TIF	Without TIF Shelter – taxes to general fund
Taxes from new building (Example above)	\$20,500	\$20,500
Portion paid to County*		\$68.47
State Revenue Sharing Reduction*		\$2,111.79
State Education Aid Reduction*		\$9,000
Net to Caribou	\$20,500	\$9,319.74

\*Please note that these figures are adjusted annually and may change based on the adjustment.

The Sheltered tax amount of \$20,500 (all or a portion) may be designated for eligible economic development programs including reimbursement to a developer for business or development project costs (via a Credit Enhancement Agreement).

Economic development projects will be eligible to apply for TIF funding when they meet at least three of the following objectives:

- The projects receiving TIF funding assistance are public infrastructure projects in support of the development that would typically be projects the community might fund through the general fund, or capital fund, but was unable to do so
- The project proceeds complete a public infrastructure project identified as needed by the community or an identified public benefit for the community
- The project cannot move forward without the infrastructure support
- The project itself will create or retain significant and sustainable employment opportunities

The purpose of this policy is to outline standards and processes that the City of Caribou will use in initiating or considering applications for Tax Increment Financing (TIF). Notwithstanding this policy the creation of a TIF agreement is a decision made on a case-by-case basis by the Caribou City Council and the Maine Department of Economic & Community Development (Maine DECD). Tax Increment Financing is a not a right under Maine law and meeting these policies should not be interpreted as creating any rights or entitlements in any application.

## II. BASIC PROVISIONS

Applications for Tax Increment Financing (whether initiated by the City or requested by a developer or business) will be considered by City staff and the City Council, with all final approvals vested with the Caribou City Council and the Maine DECD. Applications for Affordable Housing TIFs and Amendments to existing TIFs will follow this process. The terms and specific details of each TIF agreement will be developed on a case-by-case basis. The City Manager and the Manager's designated departments will negotiate for the City based on the merits of the project and this policy, following the process laid

out in the Application Requirements Section IV. In developing the application, the applicant (the City or the developer) shall meet the following basic provisions, as well as the policies and requirements stipulated in subsequent sections.

Affordable Housing TIFs are submitted using a special application form and are approved at the state level by the Maine State Housing Authority. The local review process is the same but unique criteria are used for evaluation. Separate documentation is available from the Maine State Housing Authority.

TIF Agreements. TIF is a tool that permits a municipality to participate in local project financing by using some or all the new property taxes from a capital investment within a designated geographic district. The City has the right to retain TIF proceeds for public infrastructure improvements or TIF eligible expenses. The municipality has the option of using the “incremental” taxes to retire bonds it has issued for the project, fund eligible municipal economic development activities, or reimburse a developer or business for development project costs (via a Credit Enhancement Agreement).

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 approval.

- Eligible Expenses. Eligible TIF expenses include construction, design, and permitting of necessary infrastructure to support the proposed project. Other eligible expenses are defined by the State of Maine in its TIF Publication and Statutes (which may be amended from time to time). The City Council will consider proposals that further economic development goals endorsed by the community.

- Documentation. The applicant is required to provide all documentation associated with the application. This documentation becomes the basis by which the project’s implementation is reviewed for compliance with final approvals.

- Geographic Boundaries. The City reserves the right, during the application process, to establish the size of the district necessary to meet the needs of the applicant or to meet the needs of infrastructure improvements deemed necessary by the community.

- Personal Property. Personal property shall not be included in the calculations for the TIF.

- Excess Funds. TIF agreements that include a CEA shall include a provision that directs any excess funds after the CEA is satisfied to be directed to economic development uses.

## THE FOLLOWING 4 ITEMS APPLY TO TIFs THAT INCLUDE CREDIT ENHANCEMENT AGREEMENTS ONLY

### Credit Enhancement Agreement

If the TIF funds are to be used to reimburse a developer or business for development project costs, a Credit Enhancement Agreement (CEA) is created. The CEA, or contract between the municipality and developer or business, 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 or business.

- Amount of Funds. The TIF funds reimbursed/returned to the developer (via a CEA) will not exceed, over time, the amount of funds agreed to in the TIF document. The applicant is required to submit all documentation that will justify the expenditure to be reimbursed as estimated in the TIF agreement.
  
- Terms. Terms shall be negotiated between the City and the applicant on a case-by-case basis.
  - Agreements can extend between 1 and 30 years; and 20% to 100% of the incremental value can be captured depending upon the merits of the project
  - These terms are consistent with state statute.
  
- Suspension and Recapture of Benefits. The Credit Enhancement Agreements shall contain provisions for the suspension, termination, and/or recapture of benefits to the applicant. These actions will occur when the applicant does not meet the compliance standards outlined in this document. This would also include any statements or representations made by the applicant which would have a bearing on the City Council's decision to participate in a TIF and at what level. The agreements shall also provide for the termination and/or recapture of benefits from the applicant if the applicant relocates all or a substantial portion of the Caribou operation outside the project, during the term of the agreement.
  
- Level of Funding Adjustments. During the application process and during the life of the TIF (and CEA), the applicant shall demonstrate that the funds are being used at appropriate levels for the purpose intended. If the level of funds the applicant receives exceeds the projected need, the amount returned to the applicant shall be adjusted.

### III. LEVEL OF MUNICIPAL PARTICIPATION

The City will use various criteria to determine participation including those listed below:

- The *value* of the proposed public infrastructure

- The project creates public infrastructure facilities that have application beyond the development, such as improvements to traffic patterns, parking facilities, access to water, the incorporation of sustainable technologies, green space, or environmental remediation
- The project is consistent with goals and actions stated in the City's Comprehensive Plan
- The project assists an established business in the City of Caribou, thus retaining existing employment opportunities
- The project brings a new business to the community that is consistent with one of the business sectors identified below
- The project supports, or will support, local efforts and programs that assist in the development of the following business sectors: manufacturing, the agriculture economy, technology industry, retail industry, lodging, tourism or the State's targeted industries consistent with Pine Tree Zone standards (manufacturing, advanced technologies for forestry & agriculture, aquaculture & marine technology, biotechnology, composite materials technology, environmental technology, financial services, information technology)
- The project creates long-term, permanent, and quality employment opportunities
- The project contributes to the unique quality of the City, commercial and industrial districts, or other areas in need of redevelopment
- The project improves a blighted building site that will benefit from rehabilitation
- The project supports or will support community projects, provides job training, provides student internships, supports local contractors and suppliers

#### IV. APPLICATION REQUIREMENTS

##### For projects that include a Credit Enhancement Agreement

Applicants for a Credit Enhancement Agreement should demonstrate that the City of Caribou's participation is economically necessary, and that participation is needed to undertake the project. Such justification is demonstrated by:

- The financial need to offset public infrastructure costs unique to the project or site
- The project is one that conforms to the Caribou Comprehensive Plan, in its capital improvement program, or in other supporting documents recognized by the community

- The developer demonstrates the financial capacity to undertake the project and provides evidence in support of this capacity. Evidence will include but is not limited to:
  - Development budget and pro-forma
  - Financial commitments of project lenders
  - A project implementation plan and schedule

All such information shall be kept confidential. City staff and City Council will agree to a non-disclosure agreement, if deemed necessary.

- The project creates incremental tax value equal to or greater than \$500,000, excluding personal property
- The developer is compliant with all statutory and regulatory guidelines of the City of Caribou and the State of Maine

## V. APPLICATION PROCESS

The City of Caribou will coordinate all activities regarding applications for Increment Financing, possible CEAs, Affordable Housing TIFs and TIF Amendments. It is understood that the TIF process can precede other local approvals; however, the final TIF approval can have receiving such approvals as a condition. Collaborating with applicants, the Departments will coordinate the following process

- Phase 1: The Caribou City Staff will provide information on Caribou's Tax Increment Financing program to the applicants and discuss the merits of the project proposal(s). Where appropriate, the staff will reach out to obtain preliminary input from City departments, including, but not limited to the Tax Assessor, City Attorney, Codes Enforcement Officer, Director of Public Works, and advise applicants on the findings of City staff.
- Phase 2: The applicant shall file a preliminary application with the City. The City Manager, or his designee, shall review the application for completeness and then submit the application to the City Council for their preliminary review and comments.
- Phase 3: The City Manager will schedule a workshop meeting with the City Council and to review the proposal. The meeting should result in the creation of a determination as to whether the application is an appropriate use of TIF funding or not. At that meeting:
  - The applicant shall provide an overview of the project
  - The City Manager shall provide any preliminary input from staff, and

- The City Council members shall provide comment, as appropriate
  - There should be a preliminary discussion of terms including those involved with a CEA
  - There should be a discussion of policy waivers requested, if any
- Phase 4: Using the comments from that meeting, the applicant may apply for final application approval (the application is a separate document). The Manager shall proceed with the following:
    - Meet and obtain input from appropriate department heads
    - For those TIF applications in which a Credit Enhancement Agreement may be involved or anticipated, negotiate with the developer on the conditions under which a CEA agreement may be reached, including waivers and the rationale behind their need
    - Develop a findings of fact from the City Council
    - Unless otherwise specified by the City Council in Phase 3, the applicant shall obtain any necessary local permits such as site plan review, design review, traffic, and parking review
    - Vet the Findings of Fact with City Council, revise, and renegotiate with the applicant as necessary, and
    - Finalize the findings of fact and forward the findings, with a recommendation, to the City Council.
  - Phase 5: Present the Findings of Fact to the City Council for their action.
  - Phase 6: Based on the City Council's direction and approval, designated staff shall prepare and submit the application for Tax Increment Financing to the State of Maine.
  - Phase 7: During implementation, the designated departments will monitor ongoing public and private investments in the development project to ensure their compliance with Findings of Fact and the policies contained herein.

## **Application Fee**

All developer or business applicants are required to:

- Reimburse the City of Caribou for all legal, staff, and consulting costs and any additional expenses whether an application is approved.
- At the time of final application submission, a deposit of \$1,000 will be made by the applicant into a fund to be used to reimburse the City for staff time and any other direct expenses like required legal fees. Any funds not used during that time may be returned when the construction project is completed.
- Applications will be provided by the City Manager's Office, Caribou City Hall, 25 Street, Caribou, Maine 04032.

## **VI. WAIVER PROVISIONS**

The City Council may waive the provisions of this policy. The decision to do so shall be made by applying the intent of the following guidelines to ensure that the project remains within the general parameters of Caribou's economic and community development vision. Criteria to be considered when granting the waiver include:

- Consistency with the Caribou Comprehensive Plan
- Consistency with the City's economic and community development vision
- Consistency with other local, state, and federal rules
- Evidence of need, and,
- Capacity to conduct the project