

MAINE

TAX INCREMENT FINANCING

Tax increment financing (TIF) is an innovative tool to fund community development, but one rarely used to support the production of affordable housing. The state of Maine has become one of the first places to do this.

✓ Tax increment financing

As in many states, Maine has experienced uneven growth in housing prices and income. Between 2001 and 2005 home prices increased by 55 percent while incomes rose only 6 percent. The Maine State Housing Authority (MaineHousing) estimates a need for an additional 23,000 affordable rental housing units in the state to meet current demand. However, finding resources to meet the increasing need for affordable housing is difficult, especially with limited federal funding options and tightening state budgets.

In 2003, the state of Maine authorized tax increment financing districts, which are traditionally used for economic development projects, to be used to fund affordable housing. In doing so, the State sought to provide municipalities with a flexible tool to promote affordable housing in their communities while maintaining local control.

Maine's Affordable Housing Tax Increment Financing Program allows municipalities to capture new property tax revenue generated by the housing constructed in an identified Affordable Housing Tax Increment Financing (AHTIF) district and to use all or a portion of that revenue to support affordable housing. Communities may designate up to 2 percent of their land to each AHTIF district, for up to 5 percent of municipal land. They must then develop an associated Affordable Housing Development Program (AHDP) that establishes development plans for the districts given the projected tax increment revenues and other funding sources to cover project costs. Once approved by MaineHousing, any new property tax revenue a district generates can be used for up to 30 years.

The program also requires that a development be primarily residential and address an identified community housing need. In addition, at least one-third of project

housing units must be affordable to households earning less than 120 percent of the area median income (AMI), with rental units remaining affordable for at least 30 years and homeownership units remaining affordable for at least 10 years.

TIF revenues may be used for housing-related costs within or outside of the AHTIF district. Within the district, eligible costs include capital



costs, financing costs, project operating costs, professional service costs, administrative and start-up expenses, as well as the costs of recreational and child care facilities. Outside of the district, TIF revenues may pay for infrastructure and public safety improvements, mitigate adverse community impacts such as costs to local schools, or contribute to a fund for permanent housing development.

Since the program was implemented in 2004, MaineHousing has approved four affordable housing TIF districts. These districts are expected to generate 218 units of affordable housing, including 204 rental units and 14 single-family home units. The flexibility of the program allows municipalities to tailor projects to their needs, resulting in projects that range in size, purpose, and affordability.

Projects can serve lower-income households, such as a conversion project in the South Portland AHTIF district that will fill a subsidy gap in a federal Low Income Housing Tax Credit project by generating \$14 million over 25 years in new property tax revenue. A smaller TIF project will help build a subdivision in Fairfield with 40 percent of the units limited to households earning 120 percent of AMI or less.

Maine’s AHTIF program is often used in conjunction with other subsidy programs, allowing developers to deepen affordability levels or increase the percentage of affordable units within the project.

“It is unlikely that TIF alone would be enough to build a project.”

-Julie Hashem

According to Julie Hashem, communications and planning manager at MaineHousing, “It is unlikely that TIF alone would be enough to build a project.

But if a project needs just that little bit more [funding], TIF makes it feasible. The real benefit of AHTIF is that it’s very flexible. It’s natural to try to pair it with other types of financing.”

With most of the projects still under development, the main impact of Maine's AHTIF program has been to introduce a reliable source of funding for developers interested in building affordable housing that does not require additional state or federal subsidies or an increase in state or local taxes.

Looking back on the first few years of implementation, Hashem advises those considering a tax increment financing program to keep program requirements as simple and straightforward as possible and to proactively work with municipalities as they develop their proposals. MaineHousing is currently working to revise their AHTIF program to simplify their annual reporting and application requirements so the structure of the program is clearer and easier for municipalities to use.

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