

MEMORANDUM

TO: Cape Elizabeth Town Council
FROM: Maureen O'Meara, Town Planner
DATE: October 19, 2021
SUBJECT: Affordable Housing TIF funding options

Introduction

At the October 13th meeting, the Town Council requested information on Town Center Affordable Housing TIF funding options.

Proposed Affordable Housing TIF

To recap, the proposal featured at the October 13th public hearing is for the Town of Cape Elizabeth to provide TIF financing for the Dunham Court project. Dunham Court is proposed in the Town Center District, where the Town Center TIF is already in place. The Town Center TIF District will be amended to allow the Town to enter into a Credit Enhancement Agreement with the Dunham Court developer, to expand the allowed expenditures from TIF proceeds to include affordable housing, and to extend the Town Center TIF from 20 to 25 years. The Credit Enhancement Agreement has a term of 15 years, with 75% of tax revenue returned to the developer to pay a mortgage, with the maximum payout of \$1,179,540.

Options

The Town Council would like to explore options that reduce the amount of interest paid using TIF, and therefore the total amount of TIF funds required. At the town's request, the developer has provided additional funding option information (see attached).

Town Mortgage: In this option, the Town would provide a mortgage instead of Maine State Housing. The town could probably get a better interest rate than 5.5%. The proposed TIF amendments would still be needed and the specifics could be finalized after the TIF is approved.

Grant payment: Staff asked the developer to provide a total amount that the town could provide the developer in order to avoid the mortgage, and therefore the need for the TIF. Because of the financing for the project, using the option of a cash payment actually increases the total funding needed. The developer estimates that a cash payment of \$1,120,000 would eliminate the need for a TIF. Per Town Charter, any expenditure over 1 million requires a town vote.

Sec. 2. Referendum for approval of certain capital expenditures. Any vote by the council for a single capital expenditure of town funds or a single capital

improvement not arising from a fire or other casualty loss, nor arising from a federal or state mandate, the total cost of which exceeds One Million Dollars (\$1,000,000), whether as a separate vote or included in the approved annual budget, shall be submitted to a referendum vote at a time designated by the council. Pending action by referendum, the referred vote, or budget item, shall be suspended from going into operation until it has received an affirmative vote of the majority of voters voting on said question. This section shall not apply to the refinancing of previously authorized debt.

Funding sources:

A. *Unassigned funds.* One potential source of funding is Unassigned funds. As of this date, the fund has a balance of \$4,474,101. The Unassigned funds policy (attached) sets a target balance of 12.5% of the annual general fund operating revenues, which would be \$1,249,515 for FY 2022.

Use of the unassigned fund balance is strongly discouraged as a fiscally imprudent action. Use of such funds would reduce anticipated interest earnings, reduce future opportunities if such funds were needed for other Town emergency needs, among other issues that can be discussed further.

B. *ARPA funds.* A second potential source is to apply American Recovery Plan funds anticipated to be provided the Town to this project. The first installment of \$491,324.50 was received in early October, and the second installment in the same amount is anticipated in April of 2022.

In response to the global pandemic, FY2022 CIP funding was cut, including two stormwater projects. ARPA funds are an allowed use in funding these projects. If ARPA funds are used to avoid the Town Center Affordable Housing TIF, then alternative funding for these projects, such as from the general revenues, will be needed.

C. *General revenues.* A third option is to include the funding in the FY 2022 budget as a line item.

TIF expenditures: In the grant scenario, the full amount of tax revenue increase paid by the developer would accrue in the Town Center TIF immediately. It's advisable that the Town Council review the allowed expenditures under the TIF to make sure enough projects have been identified on which to expend TIF funds.

Next steps

The Town Center Affordable Housing TIF has been tabled to the November 8th Town Council meeting. If the Town Council would like to pursue optional funding, direction should be provided to staff. Alternative amendments to the Town Center TIF District will still be needed. Those amendments will need to be drafted and a public hearing scheduled on the

amendments. The amendment documents must be ready at least **2 weeks** prior to the public hearing in order to accomplish mandatory 10 public noticing.

If the Town Council would like to move forward with the proposed Town Center Affordable Housing TIF, a vote can be considered as long as there are no changes to the amendments subject to the October 13th public hearing. If changes are needed, a second public hearing will need to be held.

The Town Council may also want to schedule an additional workshop if additional options or information is desired.

The Szanton Company
10 Free Street, 3rd Floor
Portland, ME 04101

October 19, 2021

Cape Elizabeth Town Council
320 Ocean House Rd
Cape Elizabeth, Maine 04107

RE: TIF/CEA Questions

Dear Town Council members:

At the request of the Town Council, this letter serves to answer the question about the town providing the needed funds in an alternate way. After a discussion with Town Staff, we have looked into 3 different options for solving our gap in funding sources.

Option One: Traditional TIF/CEA with mortgage from Maine State Housing Authority

This is the version that has been discussed previously. In this scenario, the project is asking for a 75% CEA for a period of 15 years. With these funds, the project will seek a mortgage through Maine State Housing Authority. It is expected that this would be an \$802,000 mortgage with a 15 year, fully amortizing, with 5.5% interest. At the end of the 15-year period, the town will receive 100% of the tax revenue for the property.

Option Two: Traditional TIF/CEA with mortgage from the Town of Cape Elizabeth

This version would seek to obtain the same 75%, 15-year CEA with the town. However, in this option, the town would provide the mortgage. This allows the town to collect the interest on the mortgage. The mortgage would still need to be \$802,000 and would need to be provided at the same or better terms that would be provided by Maine State Housing Authority. If this is of interest to the town, the Council could still approve the TIF/CEA as currently presented. Any efforts to coordinate the mortgage can be done over the coming months. If the town decides later that it can't or doesn't want to be the lender, the project could seek a mortgage from Maine State Housing Authority as originally proposed.

Option Three: Town of Cape Elizabeth providing a cash influx or "grant"

Town staff asked for information on the town providing cash to the project instead of providing a TIF/CEA. The issue with this for Low Income Housing Tax Credit projects is that grants have to be removed from the project basis that is eligible to receive tax credits. When you remove the grant from the eligible basis, you also have to reduce the amount of equity received in the sale of

tax credits. This means that an \$802,000 grant does not equal an \$802,000 mortgage. The grant would need to be about \$1,120,000 in order to fill the same gap as an \$802,000 mortgage

As always, we would be happy to provide more information if it would be helpful.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "K. Martin". The signature is fluid and cursive, with the first letter of the last name being a large, stylized capital "M".

Kristin Martin
Development Officer

**Town of Cape Elizabeth
Fund Balance Policy
Amended May 10, 2021**

The Town of Cape Elizabeth shall comply with GASB 54 standards for reporting fund balances.

The fund balance shall be reported in five categories:

- Non-spendable: Funds that cannot be spent because they are either illiquid or legally or contractually required to be maintained intact.
- Restricted: Funds that are constrained with either externally imposed constraints or mandated to be reserved by law.
- Committed: Funds that can only be used for certain purposes per a formal action of the Town Council.
- Assigned: Funds that are constrained by the Town Council's intent of use for a certain purpose, but are neither restricted nor committed.
- Unassigned: The residual classification for the general fund.

The unassigned municipal fund balance shall seek to have a target balance equal to 12.50% of annual general fund operating revenues for the most recent fiscal year. This is equivalent to average revenues received in a one and one-half month period.

If the actual unassigned municipal fund balance exceeds the target fund balance of any excess funds between 100.00% and 115.00% of the target shall be used to reduce the tax commitment in the next budget to be considered by the Town Council. Any amount over 115.00% of the target may be committed or assigned for any capital need or unanticipated expenditure or may be placed in an assigned fund for future property tax relief.

The Town Council may supplementally appropriate the excess fund balance if the excess amount is determined after the start of the fiscal year.

If the unassigned fund balance falls below its target level, an interim objective is to increase as a percentage of operating revenues the unassigned fund balance every year. The balance shall not be used to support the annual budget or for capital needs to a degree that the unassigned fund balance will be a lower percentage of operating revenues than in the previous year.