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**To:** Town of Eliot Board of Selectmen  
**From:** John Melrose, Senior Consultant  
**Date:** March 25, 2013  
**Re:** Route 236 TIF Overview

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In September 2012, the Town of Eliot contracted Eaton Peabody Consulting Group to evaluate economic development and financing questions associated with the Route 236 TIF District and proposed sewer line extension. This memo summarizes the results of our evaluation of these matters and is intended to serve as a technical paper to support public presentations anticipated to occur in April and May.

## **Eliot Route 236 TIF District Overview**

On February 11, 2009, the Town of Eliot at a Special Town Meeting approved the creation of the Route 236 Municipal Development and Tax Increment Financing District and Development Program. On March 31, 2009, the State of Maine's Department of Economic and Community Development gave approval for the establishment of this TIF District and Development Program. The District was provided a thirty year term.

The approved Route 236 TIF District encompasses 192.32 acres with an original assessed value as of March 31, 2008 (April 1, 2007) of \$14,900,200. New real and personal property value created within the District since that time includes the Maritimes and Northeast compression station initially valued at \$34,004,000 and currently \$35,673,100 and the John Lang office complex initially valued at \$1,695,000 and currently \$2,213,900. By establishing the TIF District, this value and any further new value created within the District is sheltered from consideration in calculating county taxes, state aid for education and state revenue sharing payments. If new real and personal property created within the District was not sheltered, Eliot's county tax would rise and state aid for education and revenue sharing to Eliot would drop.

Based on the Town's application, as approved by the State, it is projected that the "Total Tax Shift Benefits" accruing to the Town of Eliot over the full 30 year life of the TIF will be \$8,289,020. This is 74.26 % of the estimated taxable revenue to be generated from new value created within the District and represents the TIF financial benefit to the Town. The Town can

use these sheltered revenues only for purposes defined in the Development Program approved by the Town and State. If the revenues are not used for the approved purposes, the Town faces the prospects of paying back the benefits received.

The boundaries of the TIF were drawn to maximize the inclusion of property within the Town's Commercial and Industrial Zoning District and to avoid areas of wetlands where future development is unlikely. Furthermore, the District tends to exclude parcels in residential use and parcels with substantial development already. This approach enhances the Town's prospects for sheltering further new commercial and industrial taxable value created within the TIF District.

The Development Program approved by the Town and the State enables the Town to use TIF proceeds to fund the extension of sewer and water service onto Route 236 to developed and undeveloped parcels along this corridor and upgrade and modernize existing sewer infrastructure. The engineers' preliminary opinion of probable construction cost to undertake this work is \$6.5 million. The Town Selectmen previously recommended to the voters approval of a \$5.5 million bond issue to combine with existing accumulated TIF reserves to fund this work.

## **Setting a Target for Valuation Growth**

Eaton Peabody Consulting Group was retained by the Town of Eliot in the fall of 2012 to assist in evaluating probable economic development outcomes with and without the proposed extension of sewer service onto Route 236. The Town wanted to determine the likelihood of sufficient future development occurring within the TIF to pay the cost of the proposed sewer service extension. The assignment included the following tasks:

1. Provide an overview of Maine communities offering public sewer service within densely settled areas having relatively high traffic volumes and compare these communities to those lacking these offerings to reveal the extent of jobs and commerce in Maine existing in the first set as compared to the second.
2. List corridors in York County experiencing traffic volumes comparable to those on Route 236 in Eliot and indicate the presence of combined sewer service within these corridors.
3. Estimate through Underwood Engineers, total sewer project capital costs and just the improvement cost required to upgrade and modernize Eliot's existing sewer infrastructure.
4. Indicate the probability of attracting sufficient new taxable value within the TIF District to fully finance the proposed expansion of the sewer system with tax revenues sheltered under the TIF Development Program as approved by the Town and the State.
5. Summarize the findings of this analysis.

As noted previously, it appears based upon the TIF documents filed with the State that 74.26% of the taxable revenue generated through new real and personal property valuation growth in the District will be gained to the Town of Eliot due to the shelter provided. The remaining 25.74%

of tax revenue would be retained by the Town whether or not the TIF existed. For this analysis, the unsheltered revenue is considered as not available for financing the sewer extension project. However, it is worth noting that the terms of the TIF provide that all tax revenue derived from new property value within the TIF is available to finance the Development Program which includes the sewer extension project.

A second consideration for this study is the cost of the project attributable to the sewer extension. Regardless of the existence of the TIF, the Town of Eliot faces certain needs for upgrading and modernizing the existing sewer system. Underwood Engineers, working for the Town of Eliot, estimates a cost of \$1.16 million for required upgrades with or without the proposed Route 236 sewer extension. With a total estimated cost of \$6.5 million this leaves \$5.34 million or 82.15% attributable to the sewer extension. This is the cost the TIF was principally designed to fund.

A third consideration is the cost of borrowing to meet the up-front costs of construction as proposed in the Town's TIF application to the State. The State's approval of the Town of Eliot's TIF application was initially conditioned on activities being financed through a municipal bond being issued within five years meaning by March 31, 2014. Previously, the Town of Eliot proposed to request authorization from the townspeople for a bond of \$5.5 million at an assumed interest rate of 2.5% for a 20 year term. The total cost of principal and interest under these terms is calculated at \$7,169,888. An additional expenditure of \$1 million in TIF revenues from current accumulated balances is presumed to yield a total expenditure of \$8,169,888.

<b>Total Financing Cost</b>	<b>\$8,169,888</b>
<b>Less Unavoidable Cost @ 17.85%</b>	<b><u>\$1,458,325</u></b>
<b>Avoidable Cost (sewer extension)</b>	<b>\$6,711,563</b>
<b>TIF Balance After First Four Years</b>	<b>\$1,584,478</b>
<b>Projected TIF Revenues Next Twenty Years</b>	<b><u>\$7,409,451</u></b>
<b>Total</b>	<b>\$8,993,929</b>
	<b><u>X 74.26%</u></b>
<b>TIF Sheltered Share of Revenues</b>	<b>\$6,678,892</b>

The Town in the first four years of the TIF realized tax revenues of \$1,908,416 exceeding initial projections by \$376,936 or 24.6%. Engineering fees have been paid and interest received creating a current balance of \$1,584,478. That balance added to the revenue projection for the next 20 years during the term of the proposed bond yields total revenues of \$8,993,929. If the revenue projections were met and only 74.26% of this amount was available, it would be sufficient to pay off 99.5% of the avoidable cost noted above. As stated earlier, 100% of the new revenues are in fact intended to finance the TIF Development Program and these revenues are

projected to be sufficient to finance the entire project including the upgrades to the existing facilities.

The Town's projections for future revenues include assumptions about the depreciating value of the compression station and offsetting increases in valuation from investments within the District. The valuation growth assumption starts out low with the first \$1 million in new value added in the fourth year rising to \$10 million twenty years later. Looked at another way, over the next twenty years the average amount of new taxable valuation is projected at \$6,162,500. This target for valuation growth within the District will be used in determining the probability that sufficient development can be attracted to the District. However, it should be pointed out again that this calculation is based upon the assumption that 25.74% of the revenues generated by new valuation in the District are not available to finance the project. If these funds were appropriated to the project as allowed, the need for added valuation growth would be removed.

## **Comparative Analysis of Eliot's Growth Opportunity**

There are many ways to identify communities that are the top performers in generating jobs and commerce in the Maine economy. One way is to follow the concentrations of highway traffic as an indicator of economic activity. In fact, one of the data sets frequently analyzed by economists tracking the Maine economy is traffic volumes on the Maine Turnpike. To gauge economic activity and economic prospects at a municipal level, it is possible to gather and analyze data on annual traffic volumes and on the presence of densely settled high volume traffic corridors. This data is available through MaineDOT.

Out of nearly 500 Maine municipalities, Eliot ranks 42nd from the top in average daily traffic off of the Interstate. It is also a community identified by MaineDOT as having densely settled high volume traffic corridors. In early 2011, MaineDOT and the Maine Municipal Association suggested setting the threshold for urban compact designations at 2.5 compact centerline miles. While this suggestion has not been adopted into law it does offer a useful measuring tool for this analysis. Eliot is one of 75 communities having over 2.5 compact state highway center line miles. Of the top 75 communities for compact mileage, Eliot ranks 45<sup>th</sup> with 5.38 compact miles.

At present, MaineDOT does not list Route 236 for compact centerline miles so this corridor is not part of the 5.38 compact miles. If Eliot were to hit a population of 7,500, it would be designated as an urban compact community and based upon interviews with MaineDOT it would be expected that the southern portion of Route 236 in Eliot would become part of an Eliot urban compact area. Eliot's ranking at 45th for compact miles would rise when Route 236 is included.

These 75 communities with compact centerline miles exceeding 2.5 miles produce 73% of all taxable retail sales and 80% of all jobs in Maine. They represent the economic engine of the Maine economy. Of these communities, Eliot ranks 73<sup>rd</sup> for retail sales, while neighboring

Kittery ranks 17<sup>th</sup>. Eliot also ranks 68th out of these 75 communities for jobs outperforming only Dexter, Greenville, Hallowell, Livermore Falls, Mexico, Ogunquit and Van Buren. Eliot's population ranking is 45.

Of the 75 compact communities, 45 are in proximity to the interstate corridor including Eliot. This subset produces a disproportionately high 59% of taxable retail sales and 66% of jobs in Maine. Of these interstate corridor communities, Eliot ranks 44<sup>th</sup> for retail sales and 43<sup>rd</sup> for jobs. The Eliot TIF District boundary is 1.5 miles from an I-95 Interstate interchange.

All but three of the 75 compact communities have sewer. The Route 236 compact designation ends just south of Eliot at the Kittery Town line, and sewer ends south of I-95. Sewer is most commonly installed within the compact miles and adjacent land is used for various purposes including residential, offices, traditional downtowns, new retail centers, service businesses, manufacturing companies, and government facilities. Within York County, the communities of Biddeford, Kennebunk, Kittery, North Berwick, South Berwick, Wells and York all locate sewer service within their compact areas.

For Eliot to better appreciate its prospects for economic development adjacent to Route 236, a comparison is offered in the following table of high traffic volume corridors in York County. This analysis excludes the Interstate although a count is provided in a footnote for reference purposes.

Arundel offers an interesting comparison to Eliot in this table since there are similar traffic volumes and each corridor lacks sewer service. The contrast is sharp in the Arundel case where major retail development extends in Biddeford to the boundary in Arundel where the development pattern becomes much less intense and is of less value. A call to the Biddeford City Planner revealed that their development up to the Arundel line could not have happened without sewer service. Essentially, the density of development required to provide an attractive return on investment was lacking without sewer service.

**York County Non-Interstate High Traffic Corridors**

<b>Community</b>	<b>Route</b>	<b>Highest 2010 AADT*</b>
Arundel	111	18,760
Biddeford	111	24,830
Eliot	236	17,490
Kittery**	1	18,730
Old Orchard Beach	5	18,690
Saco	1/5	26,130
Sanford	4-A/109	18,080
Wells	1	20,120

York	1	22,180
<i>* Average Annual Daily Traffic</i>		
<i>** AADT I-95 southbound at NH State Line 37,010</i>		

Development, and in particular commercial development, looks for high volume traffic corridors with easy access to the interstate. These conditions, however, tend to make land for development expensive to acquire. As in the Biddeford example, without sewer service that allows for greater intensity of development, the market for such real estate is constrained. Eliot's proximity to the I-95 interchange is a definite asset, where two-way traffic volumes on the Turnpike average about 75,000 vehicles per day and access to the regional transportation network is exceptional.

In addition to the I-95 traffic, Route 236 at the Eliot-Kittery Town line averages 17,490 vehicles per day as of the 2010 MaineDOT data reports. Volumes of this magnitude are typically significant drivers of development. However, as an analysis of the communities and corridors listed in the table above would reveal, a high traffic corridor lacking sewer service generally does not generate the property valuations that a corridor with such service generates.

In addition to traffic and access to the interstate, the Route 236 TIF District has favorable zoning since much of the District is in a Commercial and Industrial zone. Compared to similarly situated communities Eliot also appears to have a relative advantage with the extent of land available for development.

## **Prospects for Growth Within the Route 236 TIF District**

Eliot is an underperformer within the Maine economy relative to similarly situated communities having similar high traffic corridors. The 75 communities studied in this analysis produce 73% of all taxable retail sales and 80% of all jobs in Maine. Of these communities, Eliot ranks 73<sup>rd</sup> for retail sales and 68th for jobs. Yet, it ranks 45<sup>th</sup> in population and 42nd in overall traffic on its roads. Of these 75 communities, 45 are located in proximity to the interstate. Within this group, Eliot ranks nearly last in retail sales (44<sup>th</sup>) and jobs (43<sup>rd</sup>). This data clearly suggests that the opportunity for Eliot to develop its economy further is strong.

Development is particularly attracted to high traffic corridors located in proximity to an interstate interchange. Eliot's Route 236 access to the interstate represents in the eyes of developers easy access to markets, suppliers and a workforce. Development is also attracted to areas with appropriate zoning, public water and sewer service and natural gas, electric and communication utilities. Eliot has all of these development attractions to offer with the exception of water and sewer service throughout the TIF District. This deficiency is what the TIF District and Development Program are designed to address.

Land available for development is critical as well. Environmental restrictions on development related to wetlands and resource protection in and around the TIF District must be considered as

must existing land uses that limit land availability. These limitations can be mitigated by the introduction of sewer service within the District that enables higher density of development, a broader range of development opportunities and avoidance of land being set aside for subsurface septic systems and compliance with discharge limits.

While the lack of sewer service is a constraint on development, it is a constraint that Eliot can cure. There are other constraints that are not as easily addressed. Eliot's proximity to New Hampshire with its expansive retail opportunities and more favorable tax treatment are a disadvantage to Eliot's efforts in marketing itself as a business location. Public policy set in Augusta would need to change to erase this set of marketing disadvantages. The current debate on the State's approach to liquor sales reveals one opportunity to level the playing field with New Hampshire by reducing the difference that now exists in retail pricing.

All of the factors just mentioned need to be considered in evaluating the probability that Eliot will attract sufficient investment within the TIF district to allow the sheltered TIF revenues (74.26% of total revenues generated by valuation growth within the District) to finance the sewer system expansion. Earlier in this analysis it was determined that Eliot would need to generate new value beyond the natural gas compression station and the Lang office building averaging \$6,162,500 over twenty years during the term of the bond. Using the current tax rate in Eliot of 13.1 mils against the average valuation of \$6,162,500 generates \$80,729 per year or for the twenty year term \$1,614,575. This amount would be what is needed to offset the projected depreciation of the compressor station cited in Eliot's Route 236 TIF application that was approved by the Town and the State. To date, the compressor station value is actually appreciating but to be conservative the numbers from the TIF filing are used anyway.

If Eliot were to realize \$616,250 in valuation growth each year during the 20 year life of the bond it would meet the valuation target. This amount represents .069% of Eliot's overall valuation. To put this number in perspective one 10,000 square foot equipped grocery store has a valuation range of \$2.0 to \$2.3 million. A 10,000 square foot professional office complex or bank building would have a value in the neighborhood of \$2.2 million and a 50,000 square foot warehouse \$2.15 million. Valuation growth that exceeds the average in the early years of the bond term will lower the overall target for valuation growth required in future years just as missing the target in the early years will increase the overall valuation growth required in future years.

## **Conclusion**

Eliot has many advantages that make the achievement of the Route 236 TIF financial projections very probable. First, all of the development needed to generate TIF revenues sufficient to pay the bond principal and interest is already reasonably in place. However, if the Town wants to apply only the sheltered revenues generated through the TIF (74.26% of total tax revenues) to the sewer extension project, it could still have enough money if the projections on depreciation of

the compressor station prove overly conservative as is the case in the first four years of the TIF. Assuming the more conservative approach to depreciation, Eliot would need to generate new value beyond the natural gas compression station and the Lang office building that averages \$6,162,500 over twenty years during the term of the bond.

Eliot's relative marketing position among Maine communities is strong with considerable upside potential. Eliot's TIF District offers numerous attractions to potential developers due to its location, available land and zoning. The major impediment to business attraction, that Eliot has the means to address, is the lack of sewer service within the TIF District. Eliot can further enhance its prospects by preparing a marketing and business attraction plan targeted to the audiences it seeks to reach and attract to the District.