Tax Increment Financing 101 and the Nebraska Experience

WEDA CONFERENCE
ROCK SPRINGS, WYOMING

September 29, 2015
Mike Bacon

Who are you and why are you bothering us?

- Attorney – 39 years
- Practice in TIF and Econ Development
- $750+ million in successful projects*
- 250+ TIF Projects in 65+ Communities*
- * my best estimate
Questions and challenges are encouraged.

No whining is allowed.

Negative persons will be humiliated, flogged and then shot.

Statements starting with “Yes, but you don’t understand…” only come from negative persons.

Break when you need to.
Tax Increment Financing (TIF)

1. What is it?
2. How does it work?
3. Why do we need it?
4. How have we used it?
5. What is the impact of using it?
What is TIF

It is a method that allows cites to use an increase in real estate taxes to rehabilitate substandard and blighted areas.
Substandard and Blight

Nebraska statutory definition (each state has its own definitions)

1. Substandard means generally an area in which there is:
   ...a predominance of improvements which are dilapidated, deteriorated, old, obsolete overcrowded and which is detrimental to public health, safety, morals or welfare.
2. Blighted means generally an area in which there are: ...deteriorated structures, defective or inadequate street layout, faulty lot layout, insanitary or unsafe conditions, diversity of ownership, improper or obsolete platting, existence of conditions which endanger life or property by fire or other causes, or any combination which substantially impairs the sound growth of the community, retards the provision of housing or constitutes an economic or social liability and is detrimental to public health, safety, morals or welfare; ....
Substandard and Blight

1. Area can include bare property if impacted by other conditions. (Say why this is important.)
2. Does not mean every building is in poor condition.
3. Declaration of substandard and blight is not registered in register of deeds office nor the assessors office.
4. No history of a negative impact on value of property nor sales price.
5. Terms are established in the Nebraska constitution and can only be changed by a vote of the people.
6. Example of suit to remain substandard and blighted.
7. Area blighted is limited by statute.
“But for test”

1. TIF is not a matter of right, but a matter of legislative and administrative decision.
2. TIF cannot be authorized unless the project is one which:
   a. would not occur in the substandard and blighted area without TIF, and
   b. is “not financially feasible” without TIF.
Focus on what that means!

If you do not do the project, then there will be no increase in value on that site and no resulting tax increase.
1. No liability on City or Tax Payers to pay TIF debt...only payment is from increased taxes on redevelopment project.
2. If increased taxes are insufficient to pay off TIF debt, bond is cancelled at end of 15 years with no further liability.
3. If taxes are higher than expected and TIF debt is paid off prior to 15 years, balance of taxes are returned to treasurer for payment to taxing entities.
4. Generally the developer purchases the TIF debt and takes risk of being paid.
5. Generally interest on TIF debt is taxable.*
1. Buy real property.
2. Demolition and site preparation.
3. Install streets, utilities, parks, public spaces, over and under passes.
4. Public parking facilities and convention centers, lighting, shelters and benches.
5. Costs for planning, design and engineering.
6. Costs incurred by city.
7. Rehabilitation of existing structures [Cannot build new buildings].
# Blake and Darr TIF

<table>
<thead>
<tr>
<th>Activity</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Value</td>
<td>48,000</td>
</tr>
<tr>
<td>Estimated Value</td>
<td>320,000</td>
</tr>
<tr>
<td>TIF Value</td>
<td>272,000</td>
</tr>
<tr>
<td>Annual Tax Increment</td>
<td>5,800</td>
</tr>
<tr>
<td>TIF Eligible Expenses</td>
<td>54,648</td>
</tr>
<tr>
<td>Years of TIF</td>
<td>10</td>
</tr>
</tbody>
</table>
Blake and Darr
Brand New 4 Plex
Valuation $270,000
Brand New 4 Plex
Valuation $270,000
FritoLay plant, Gothenburg, NE
Tax Increment Financing was the key!
Taxes on land without Baldwin = $311.75
Taxes Baldwin Filters has paid towards project costs = $838,649.73
Taxes going to all entities in 2014 = $45,341
Walmart Distribution Center

- Land cost for Wal Mart site = $1,200,000
- Adjacent land = 980,000
- Infrastructure = 350,000+
- Demolition = 90,000
- Relocation expense = 21,000
- Other costs = 100,000
- Infrastructure adjacent ground = ?????
Site annexed to City formerly a farm site contiguous to City at a major intersection; Declared Blighted and Substandard
Average wage $19.72 per hour.
Annual wages $20,500,000
Employment circle from North Platte= 60 miles.
New truck stop.
New industrial park with infrastructure
WalMart paid off TIF bond 6 years early
Walmart opened up a site for further development.
TIF Projects spur GROWTH

**Consolidated Tax**

- **1989:** $3.08
- **Current:** $1.91

**REDUCTION:** 37.99%
TIF Projects spur GROWTH

City Levy

1989
$.8640

REDUCTION: 60%

Current
$.3378
TIF Projects spur GROWTH

Annual Building Permits

1980-1989
$632,500

1990-2014
$5,408,902
Compare TIF

- 1990  2015  Growth
- $53,582,294  $207,548,281  $153,965,987
  $71,605,144  $173,682,840  $102,077,696

- Gothenburg outgrew other town by $51,888,291
- or by a multiple of 3.87 vs. 2.42
- 3 TIF projects vs. 25+
# Statewide TIF Impact

<table>
<thead>
<tr>
<th>Category</th>
<th>Current Year</th>
<th>Base Value</th>
<th>Excess Value</th>
<th>Excess Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>107,376,182</td>
<td>485,061,913</td>
<td>10,435,151</td>
<td></td>
</tr>
<tr>
<td>Commercial</td>
<td>465,780,888</td>
<td>1,943,900,225</td>
<td>41,249,899</td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>61,112,978</td>
<td>469,486,198</td>
<td>9,283,077</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>899,945</td>
<td>557,567</td>
<td>12,584</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL**  
635,169,993  
2,899,005,505  
60,980,712

**NUMBER OF ACTIVE PROJECTS:** 716
1. You can find a number of studies that conclude that TIF is “misused” or ineffective. One study suggests that if you simply wait an average of 7 years the problem will heal itself.
2. I find that a restriction from using TIF to build new structures is problematic.
3. You should not be limited in your approach to what is blighted and substandard by other states. Wyoming is unique and should set its own rules.
4. Questions?
"Never doubt that a small group of concerned citizens can change the world!.....Indeed, it is the only thing that ever has!"

Margaret Mead