

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**

Rules of Engagement

- ▣ 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 cities 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.

Substandard and Blight

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.

“But for Test”

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.

Base
Year

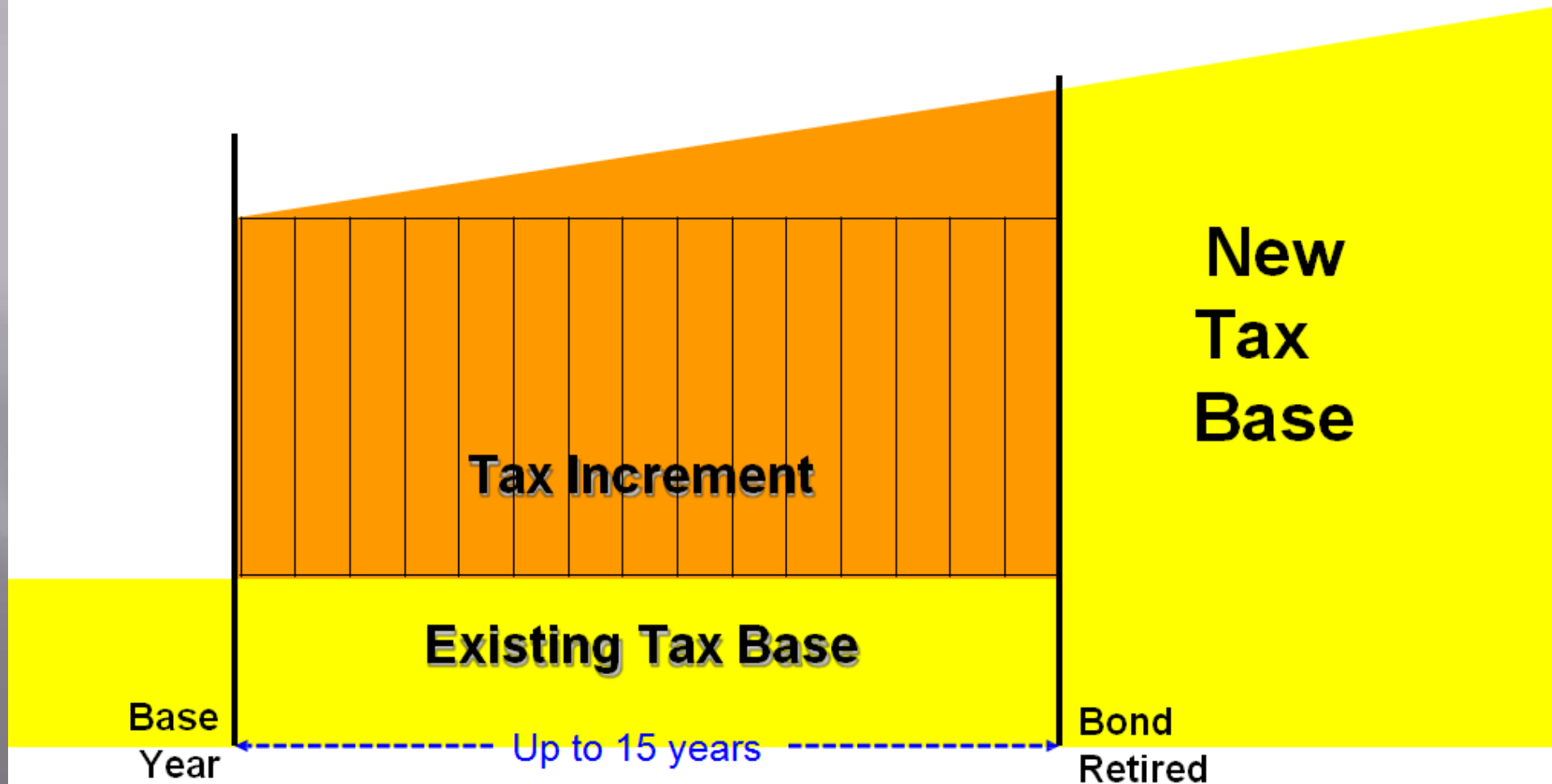
Existing Tax Base

Tax Increment

Up to 15 years

Bond
Retired

**New
Tax
Base**



About the TIF Bond

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. *

Limitation of uses of TIF

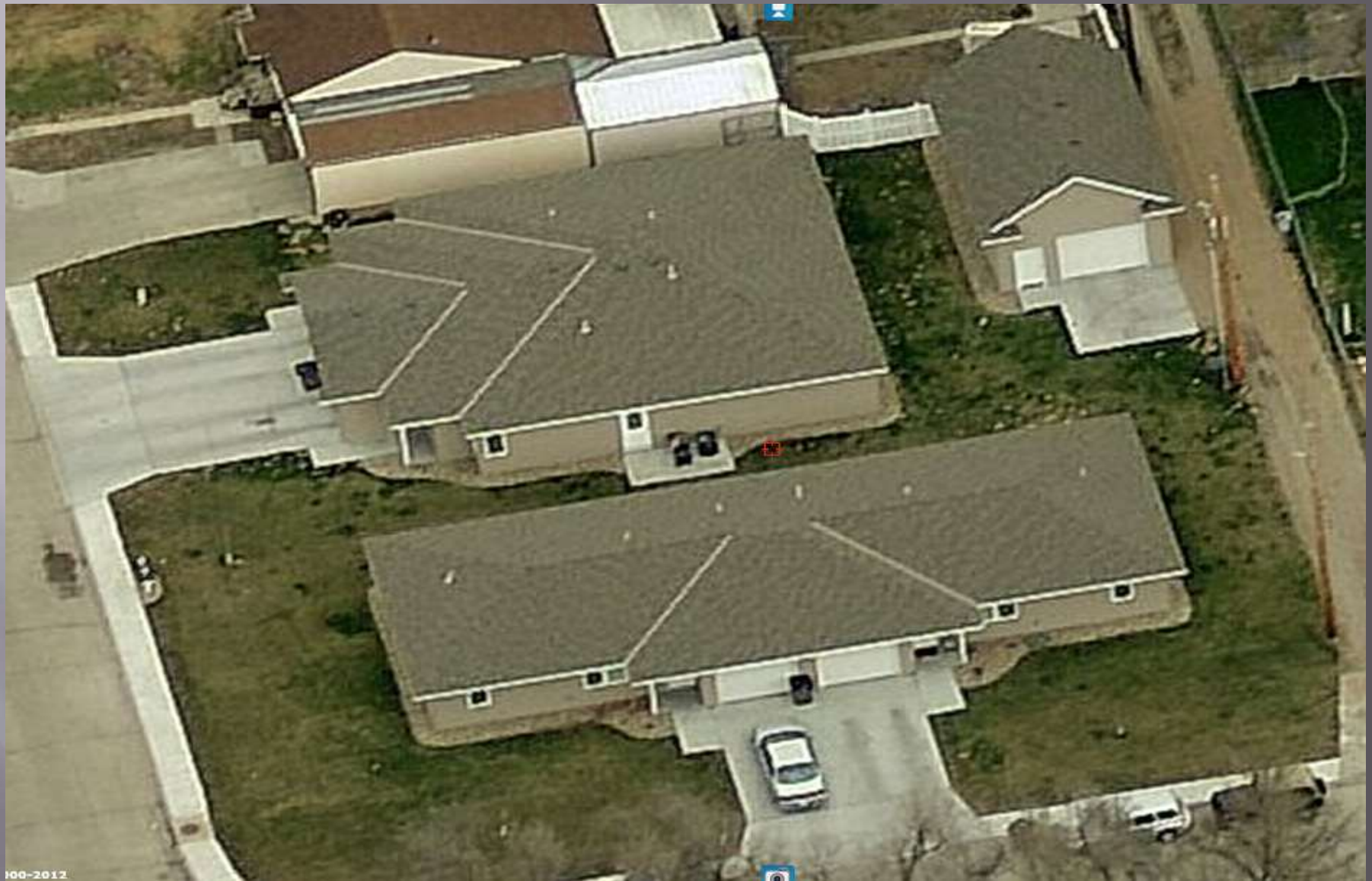
1. Buy real property.
2. Demolition and site preparation.
3. Install streets, utilities, parks, public spaces, over and under passes.
4. Public parking facilities and convention centers, lighting, shelters and benches.
5. Costs for planning, design and engineering.
6. Costs incurred by city.
7. Rehabilitation of existing structures [Cannot build new buildings].

Blake and Darr TIF

Activity	Cost
Original Value	48,000
Estimated Value	320,000
TIF Value	272,000
Annual Tax Increment	5,800
TIF Eligible Expenses	54,648
Years of TIF	10

Blake and Darr





Anna and Lincoln



1 Lot Valuation \$63,684



Brand New 4 Plex
Valuation \$270,000



Brand New 4 Plex
Valuation \$270,000



www.bradwilliamsphotography.com



FritoLay plant, Gothenburg, NE









BALDWIN

BALDWIN FILTERS

a member of the CLARCOR filtration products group

Baldwin Filters

- ▣ 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 ??????????

Typical TIF Projects

Site annexed to City formerly a farm site
contiguous to City at a major intersection;
Declared Blighted and Substandard



Typical TIF Projects

20 Acre Wal Mart Distribution Center

200 trucks per day
500 jobs



The Result

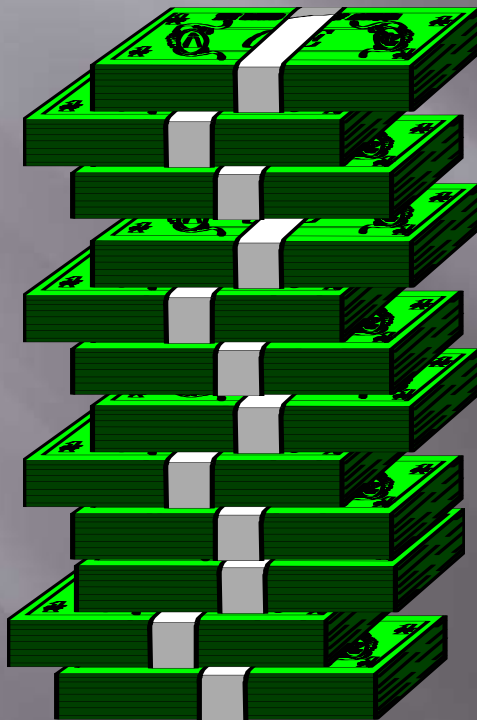
- ▣ Average wage \$19.72 per hour.
- ▣ Annual wages \$20,500,000
- ▣ Employment circle from North Platte= 60 miles.
- ▣ New truck stop.
- ▣ New industrial park with infrastructure
- ▣ WalMart paid off TIF bond 6 years early

Walmart opened up a site for further development

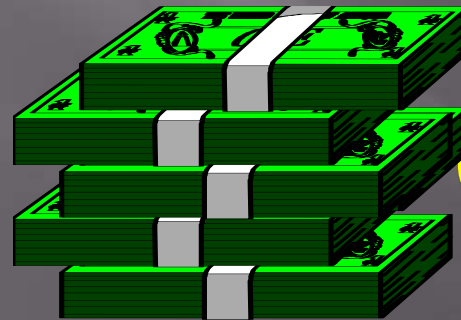


TIF Projects spur GROWTH

1989
\$3.08



**Consolidated
Tax**



Current
\$1.91

REDUCTION: 37.99%

TIF Projects spur GROWTH

City Levy

**1989
\$.8640**



REDUCTION: 60%

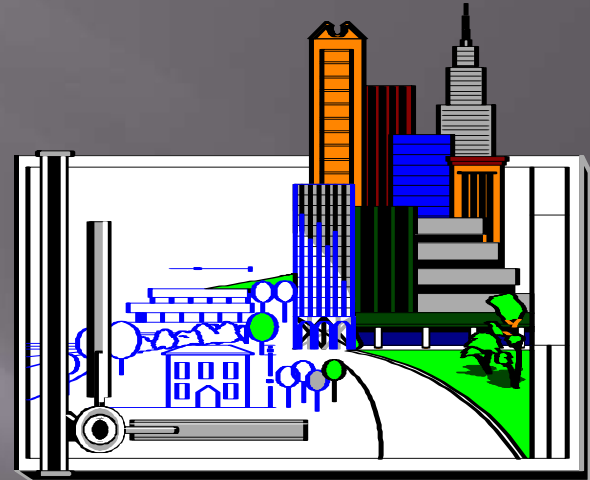
***Current
\$.3378***

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 out grew other town by
\$51,888,291
- ▣ or by a **multiple of 3.87 vs. 2.42**
- ▣ 3 TIF projects vs. 25+

Statewide TIF Impact

Current Year	Base Value	Excess Value	Excess Tax
Residential	107,376,182	485,061,913	10,435,151
Commercial	465,780,888	1,943,900,225	41,249,899
Industrial	61,112,978	469,486,198	9,283,077
Other	899,945	557,567	12,584
TOTAL	635,169,993	2,899,005,505	60,980,712

NUMBER OF ACTIVE PROJECTS: 716

Other Stuff

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?

Wisdom of the Ancients

“Never doubt that a small group of concerned citizens can change the world!.....Indeed, it is the only thing that ever has!”

Margaret Mead