

Tax Increment Financing for



Falls City

A Tool to Enhance Development

Who is Mike Bacon?

- City Attorney – 28 years
- Practice in TIF and Econ Development
- \$500+ million in successful projects
- 100+ TIF Projects in 30+ Communities

What is TIF?

- Tax Increment Financing
- Uses Tax Benefits to Eliminate Blight



How does TIF work?

- Area must be declared blighted, substandard
- Property inside city limits
- Skip annex for ag production facilities of \$1mm



How does TIF work?

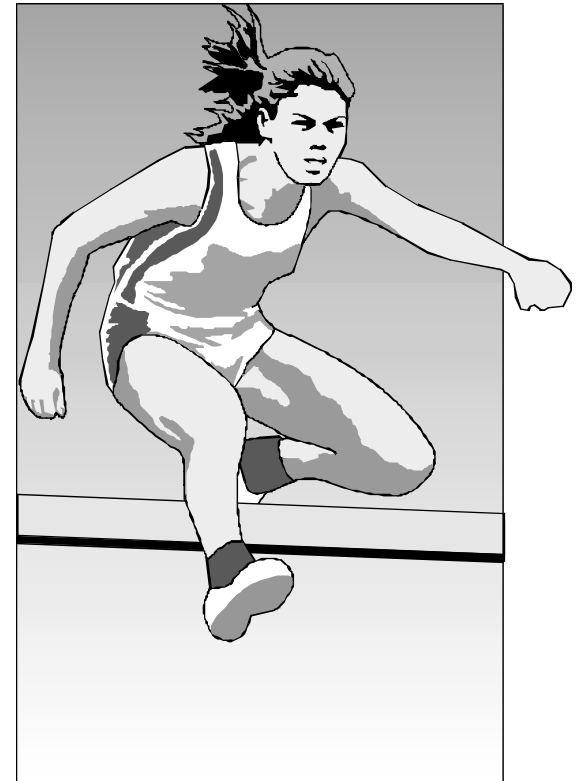
- Pledge real estate tax up to 15 years



TIF Hurdles

Must have a
comprehensive plan in
place.

Before a new project is
approved for TIF financing
it must clear 3 important
hurdles.





TIF Hurdle #1: Blighted Area

The project must be located in a section of town determined by the City to be a blighted area.

How much can you blight?

First class city: 35%

Second class city: 50%

Village: 100%



TIF Hurdle #2: The Project

The project must not be financially feasible without TIF funds.

The project would not occur in the blighted area without TIF funds.



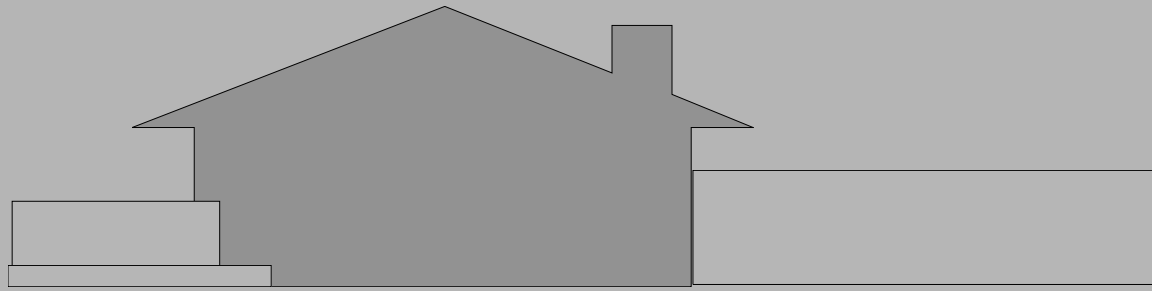
TIF Hurdle #3: Approvals

The project must be reviewed by:

- Zoning Bd. (comply w/ Comp Plan)
- Community Redevelopment Authority
- City Council (full public hearing) has final approval

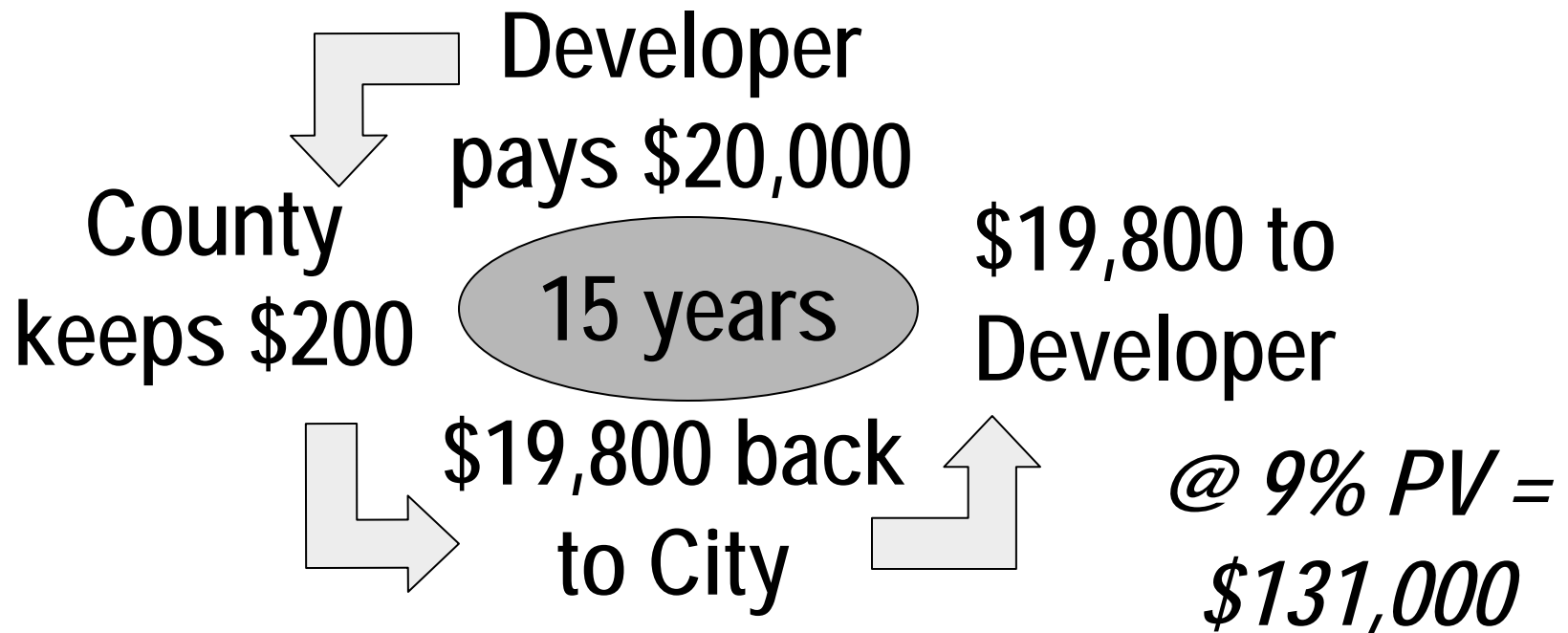
Land: \$ 25,000

Tax (2%): \$ 500



Building: \$ 1,000,000

Tax (2%): \$ 20,000



Land: \$ 25,000

Tax (2%): \$ 500



If no project:

16 years @ \$500 = \$8000

Land: \$ 25,000

Tax (2%): \$ 500



Building: \$ 1,000,000

Tax (2%): \$ 20,000

With the project:

In year 16 taxes = \$20,000

Plus \$8,000

Typical TIF Projects



Typical TIF Projects



Typical TIF Projects

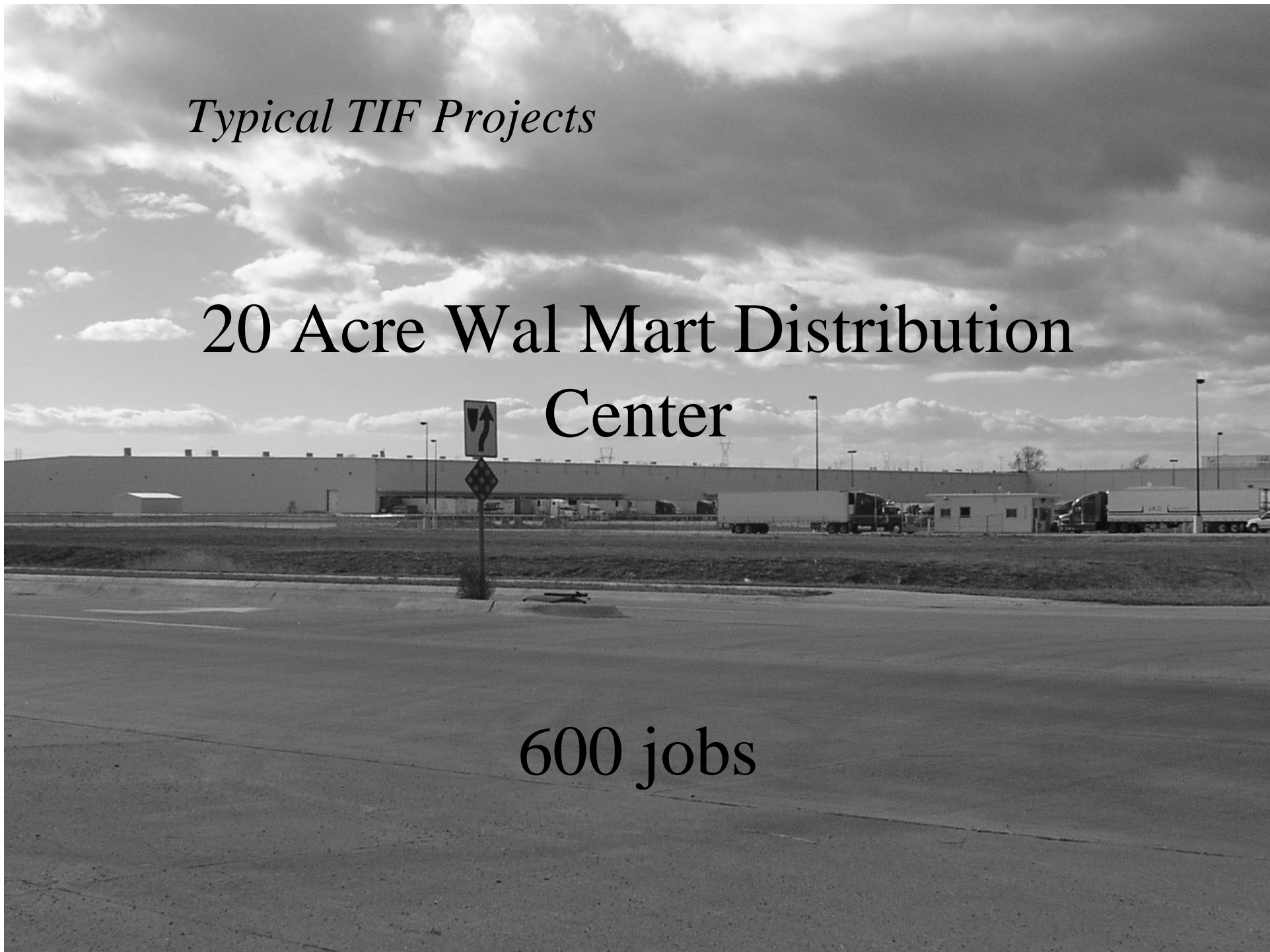
**Site annexed to City formerly a farm site
contiguous to City at a major intersection;
Declared Blighted and Substandard**



Typical TIF Projects

20 Acre Wal Mart Distribution Center

600 jobs



Wal Mart opened up a site for further development



TIF Issues

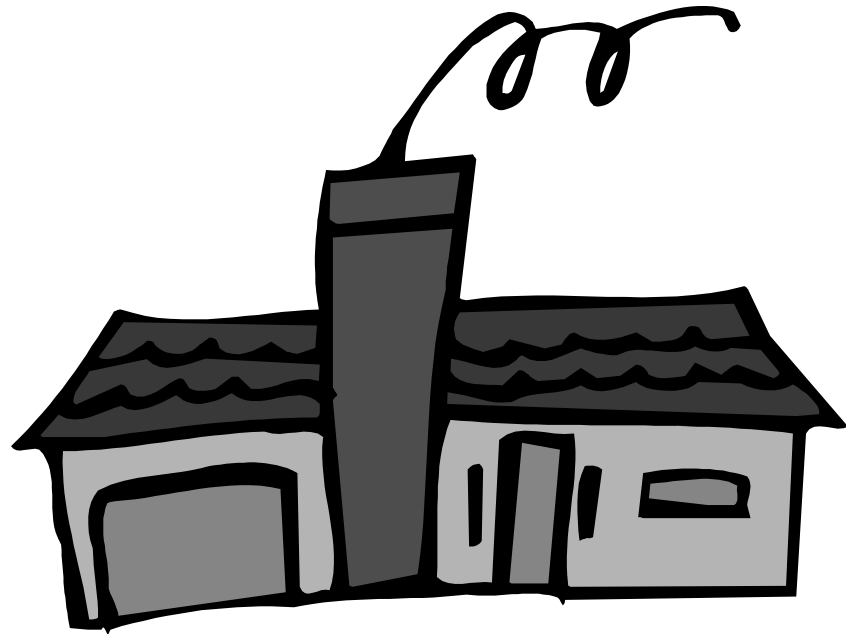
Should incentives be provided to:

- get new businesses to move to town?
- help start-up or expanding businesses?
- keep existing businesses?



TIF Issues

- “My property ain’t blighted!”



TIF Issues

- “I have to pay my taxes?
Why do they get a break?”
- “This will raise my taxes.”



TIF Issues

- “The TIF valuation will work against us in the State Aid formula!”
- TIF Valuation is NOT used in State Aid Formula!



TIF Issues

- “They will steal my employees.”
- “This is unfair competition.”



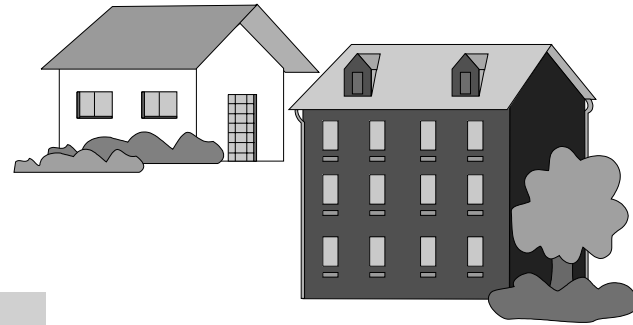
TIF Projects spur GROWTH

FritoLay plant, Gothenburg, NE



TIF Projects spur GROWTH

Real Estate Valuation



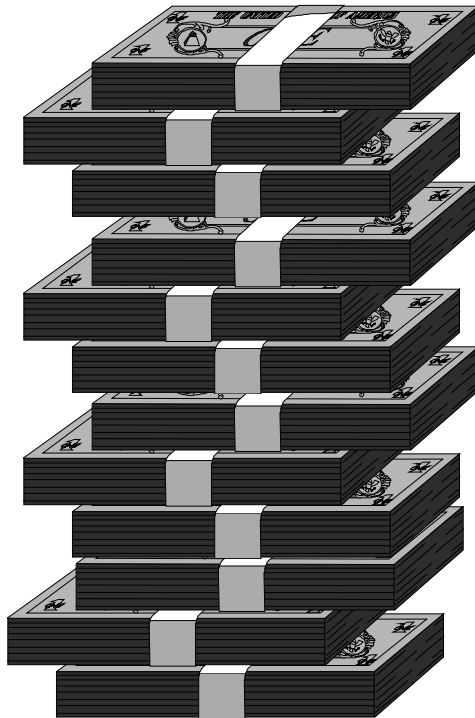
1989 \$39,601,034

Current \$136,334,247

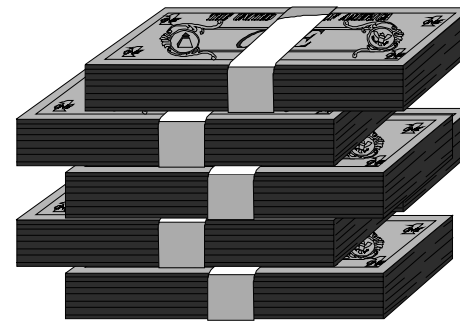
GROWTH: 344.26%

TIF Projects spur GROWTH

*1989
\$3.81*



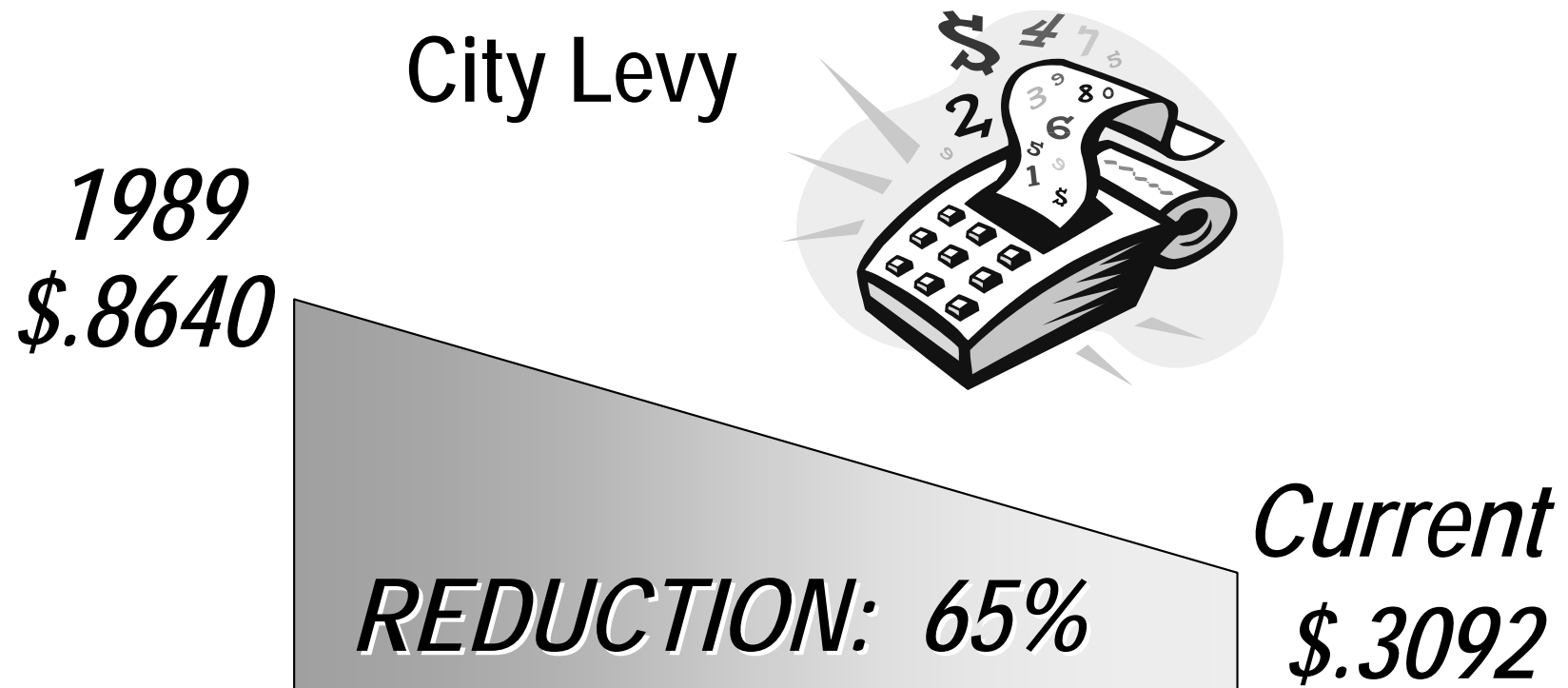
Consolidated
Tax



*Current
\$2.18*

REDUCTION: 42.8%

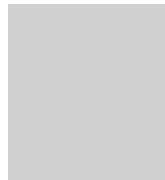
TIF Projects spur GROWTH



TIF Projects spur GROWTH

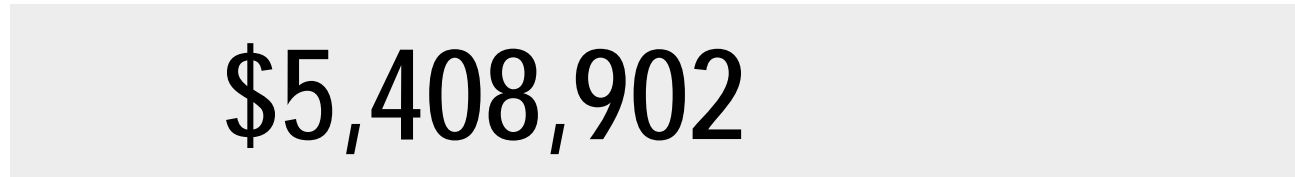
Annual Building Permits

*1980-
1989*

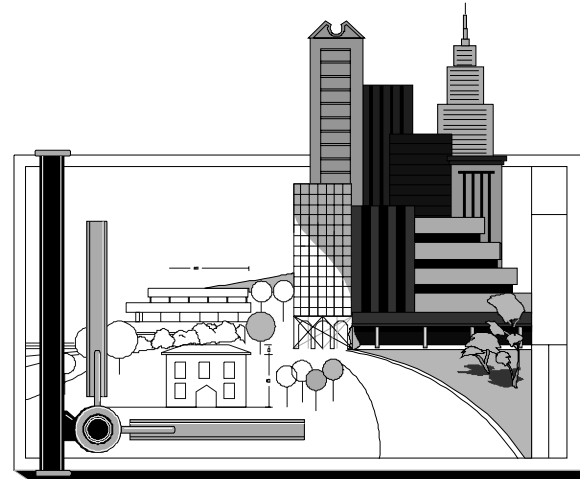


\$632,500

*1990-
2008*



\$5,408,902



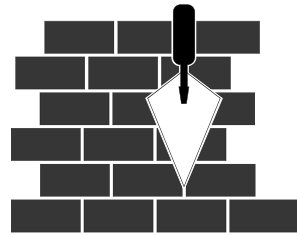
Compare Gothenburg/Cozad

- Cozad
- Valuation Growth
178.2%
- Population Growth
8.89%
- Gothenburg
- Valuation Growth
344.26%
- Population Growth
11.97%
- 500+ direct jobs
created
- 200+ new housing
units

Lexington/Gothenburg

- | | |
|------------------------------|------------------------------|
| • Minutemen | • Swedes |
| • 1990 Real Estate Valuation | • 1990 Real Estate Valuation |
| • \$88,552,640.00 | • \$39,601.034.00 |
| • 2004 Real Estate Valuation | • 2004 Real Estate Valuation |
| • \$207,984,571.00 | • \$136,334,2478.00 |
| • Growth = 234.87% | • Growth = 344.26% |

TIF Specifics-Private Project

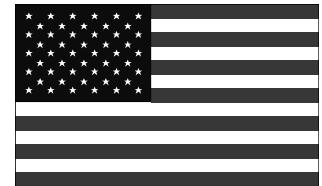


Developer



Lender

Three Key Players



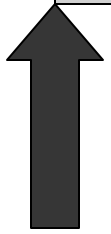
City

TIF Timeline

Approximately 90 days to complete



TIF Timeline



**Step 1: Create, by ordinance, an
Agency (City Council) or
Authority (appointed group)
with TIF Authority**



TIF Timeline

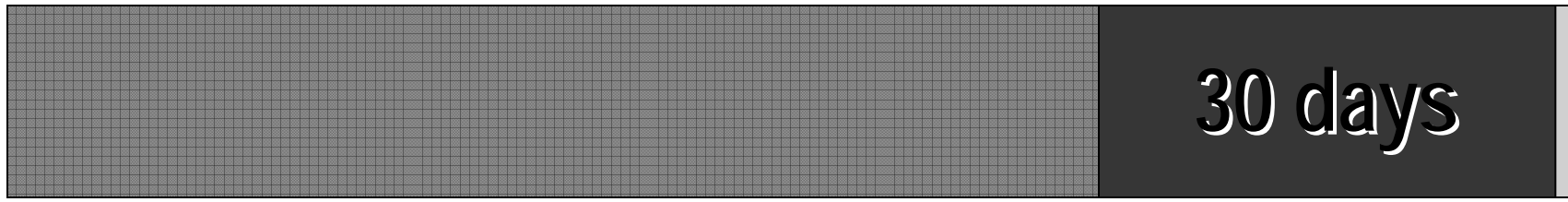
30-60 Days

Step 2: Conduct a Blight Study

Step 3: Public hearing (City Council)



TIF Timeline

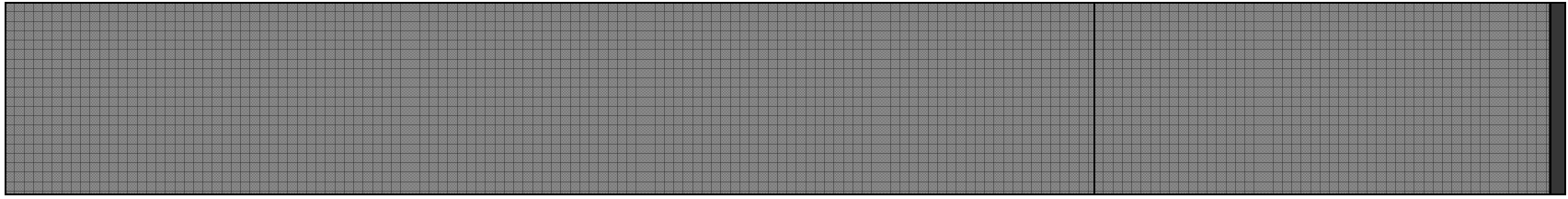


Step 4: Draft Redevelopment Contract

- Between TIF Authority and Recipient
- Details including site map
- Cost Benefit Analysis
- 5 year Budget



TIF Timeline

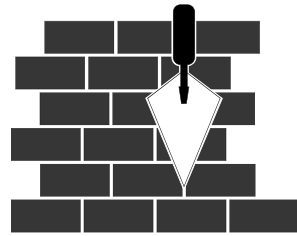


Step 5: Public Hearing
Approval by City Council

Subsequent projects in same
area take approximately 30 days



Bonds are issued



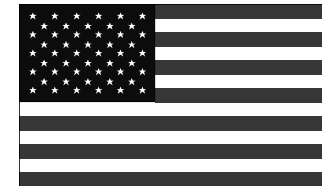
Developer

Developer requests
"grant"

City issues Bonds to
get money for grant

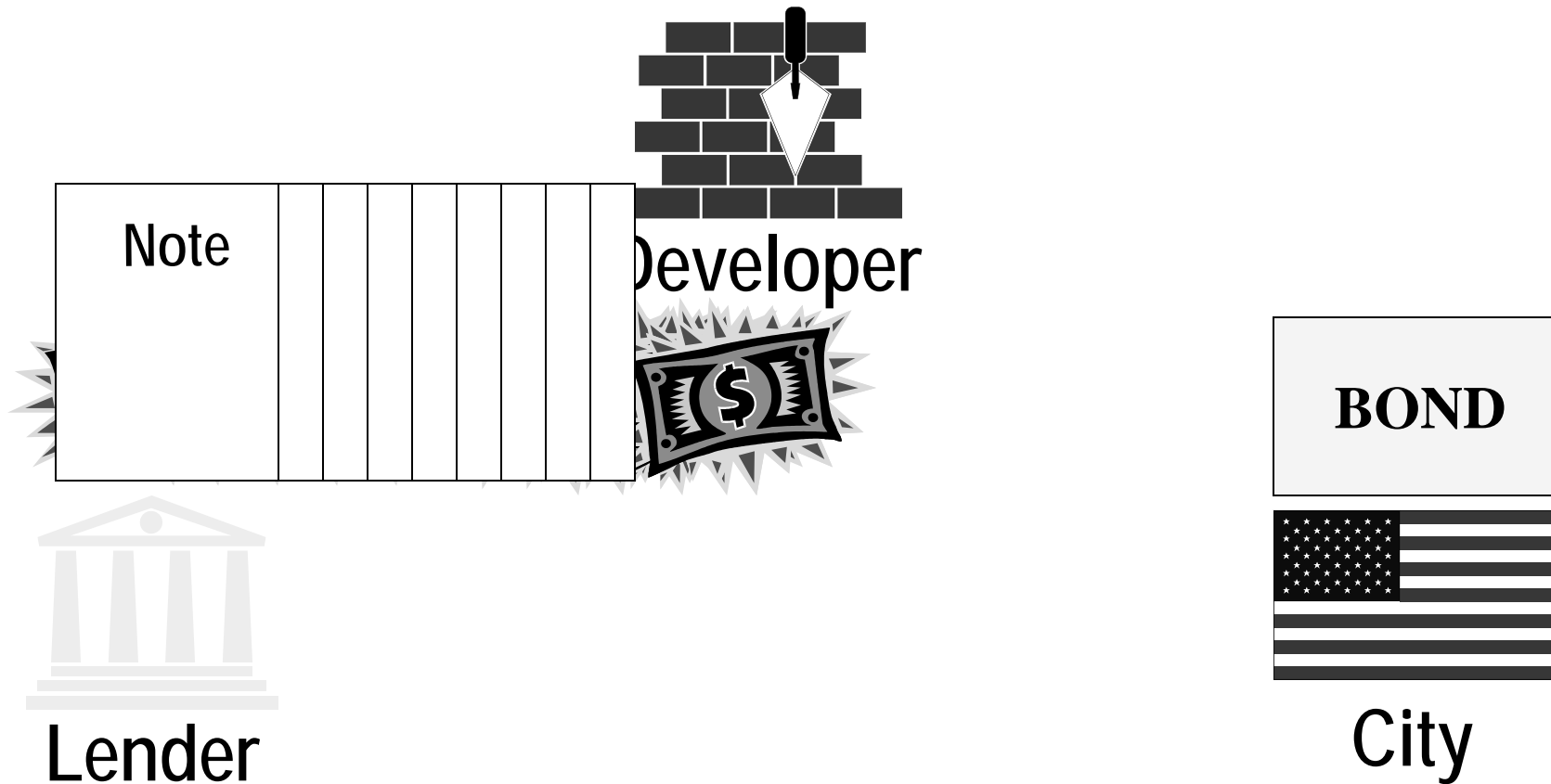


Lender

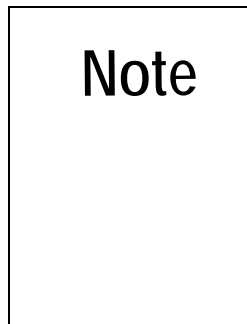


City

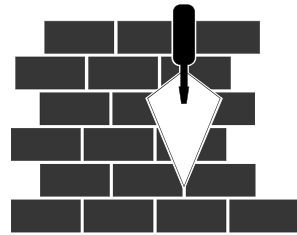
Developer borrows from Lender



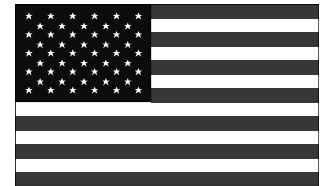
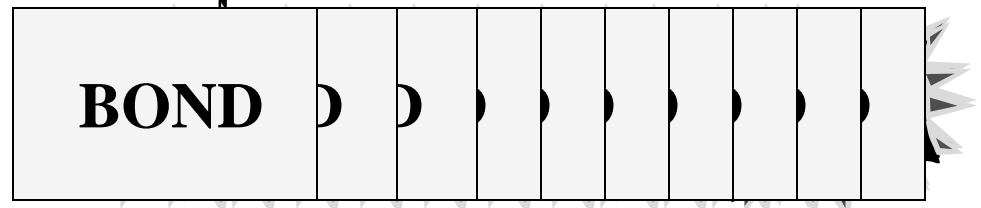
Developer buys bond from City



Lender

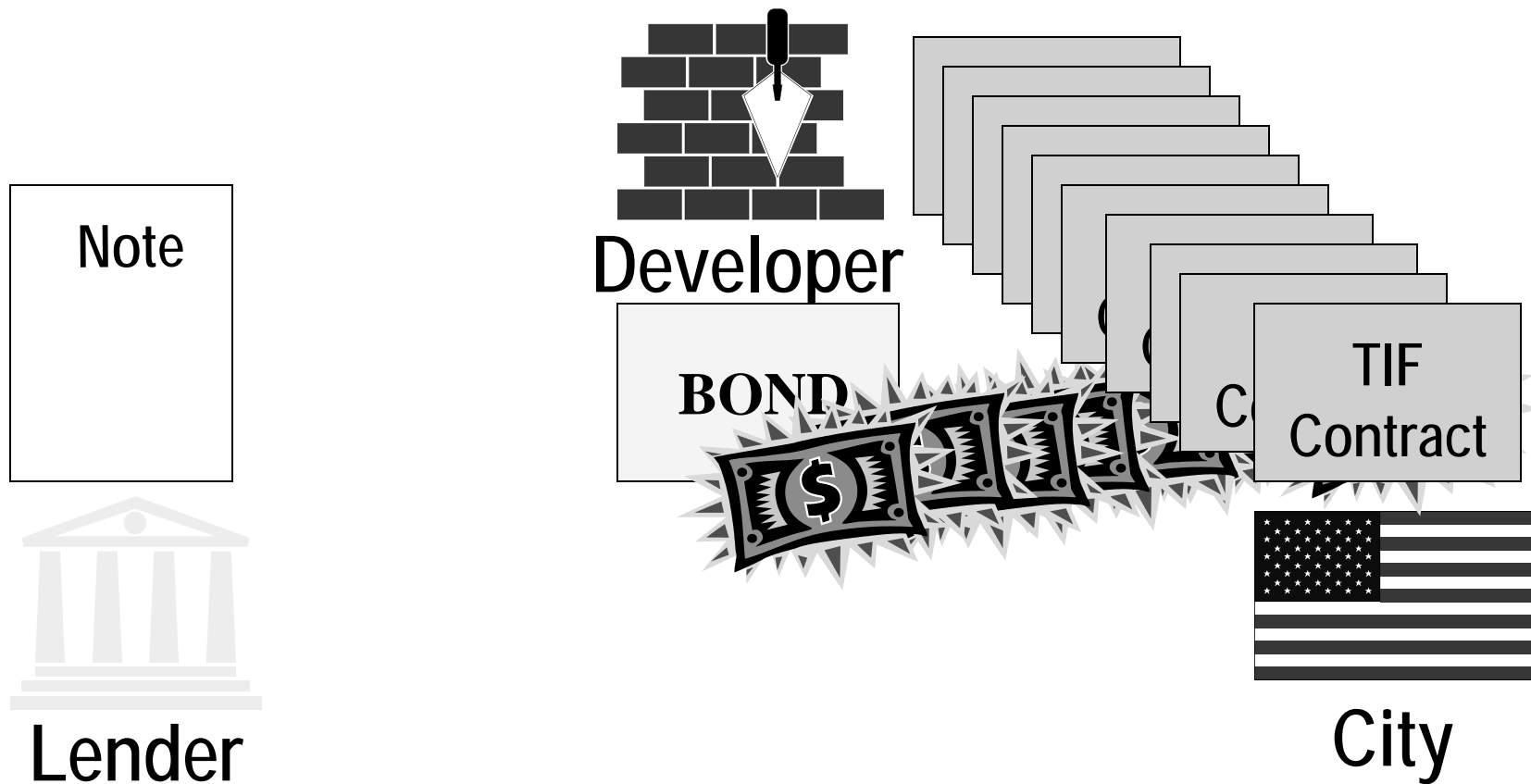


Developer

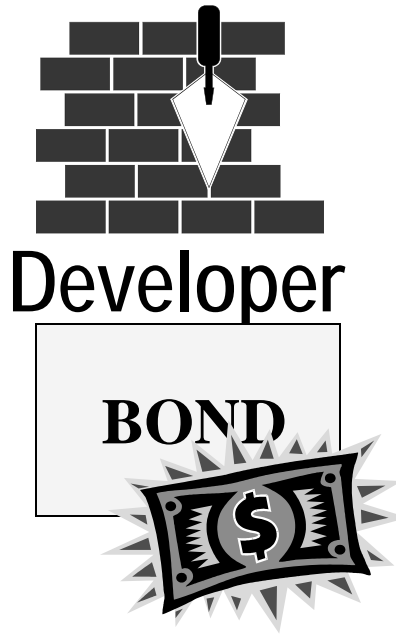


City

City makes grant per TIF contract



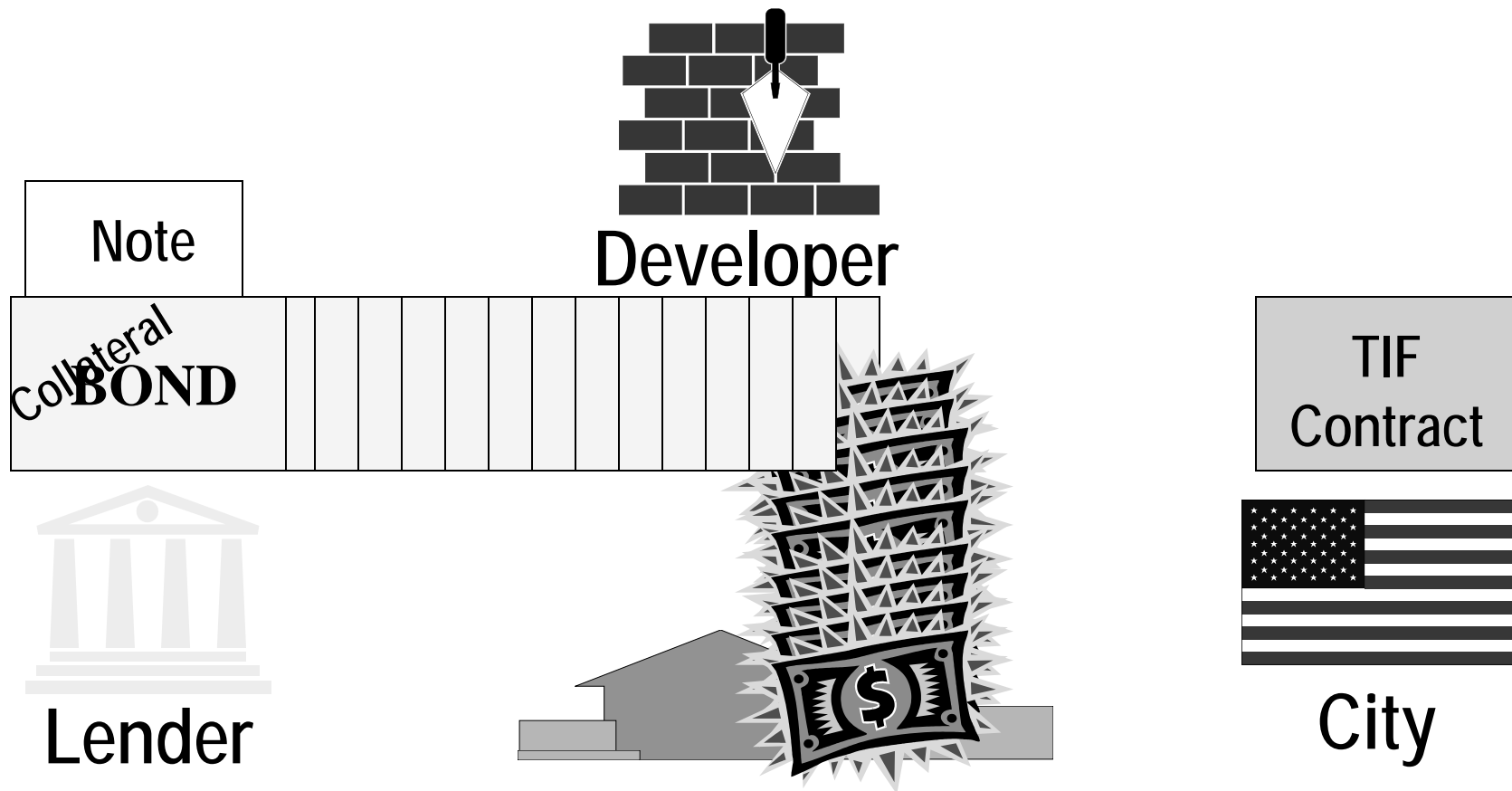
Developer has two options:



Option 1:
Use cash
to build the
project

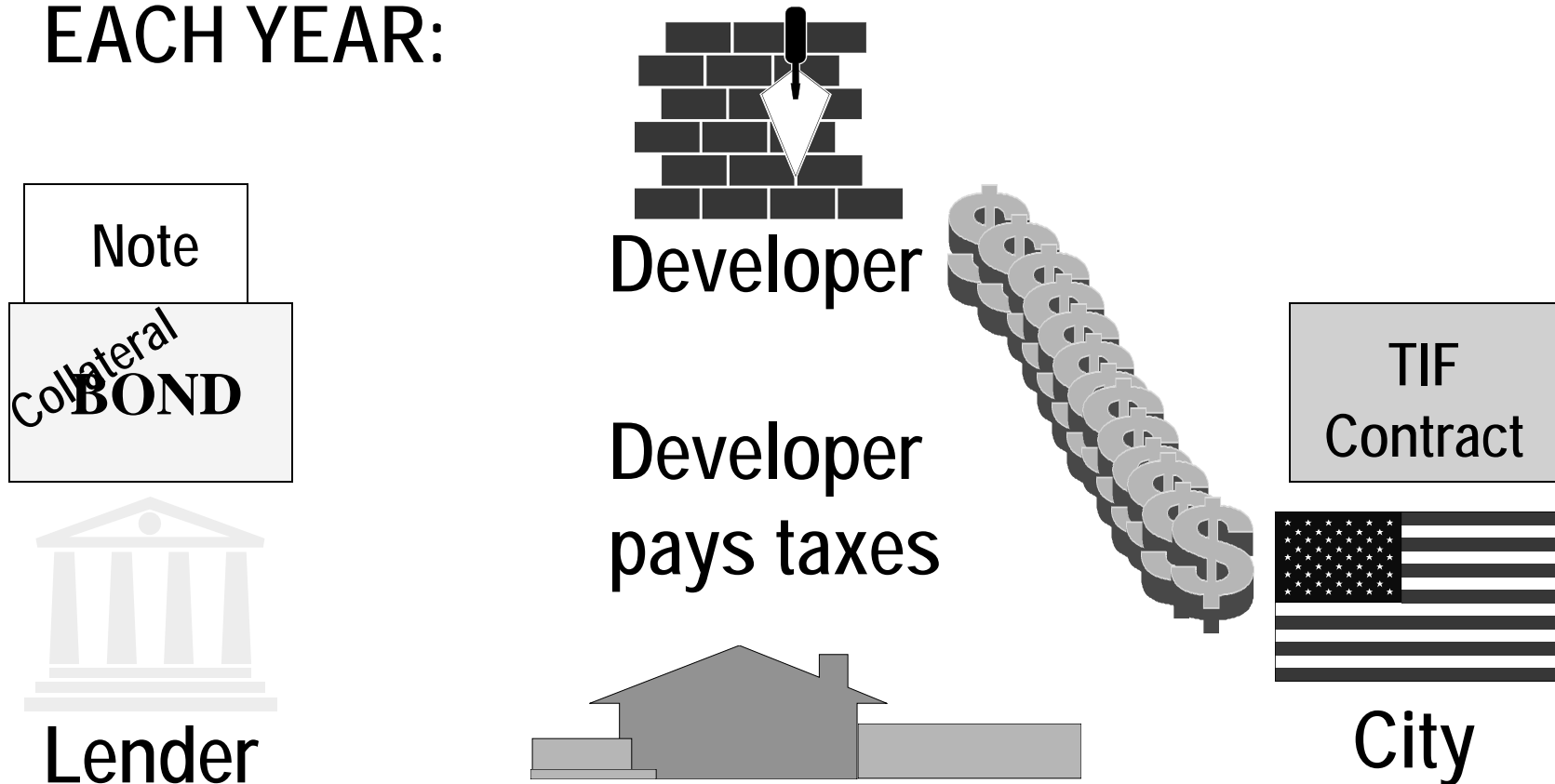
Option 2:
Use cash
to repay
the bank

Option 1: Developer uses cash to build



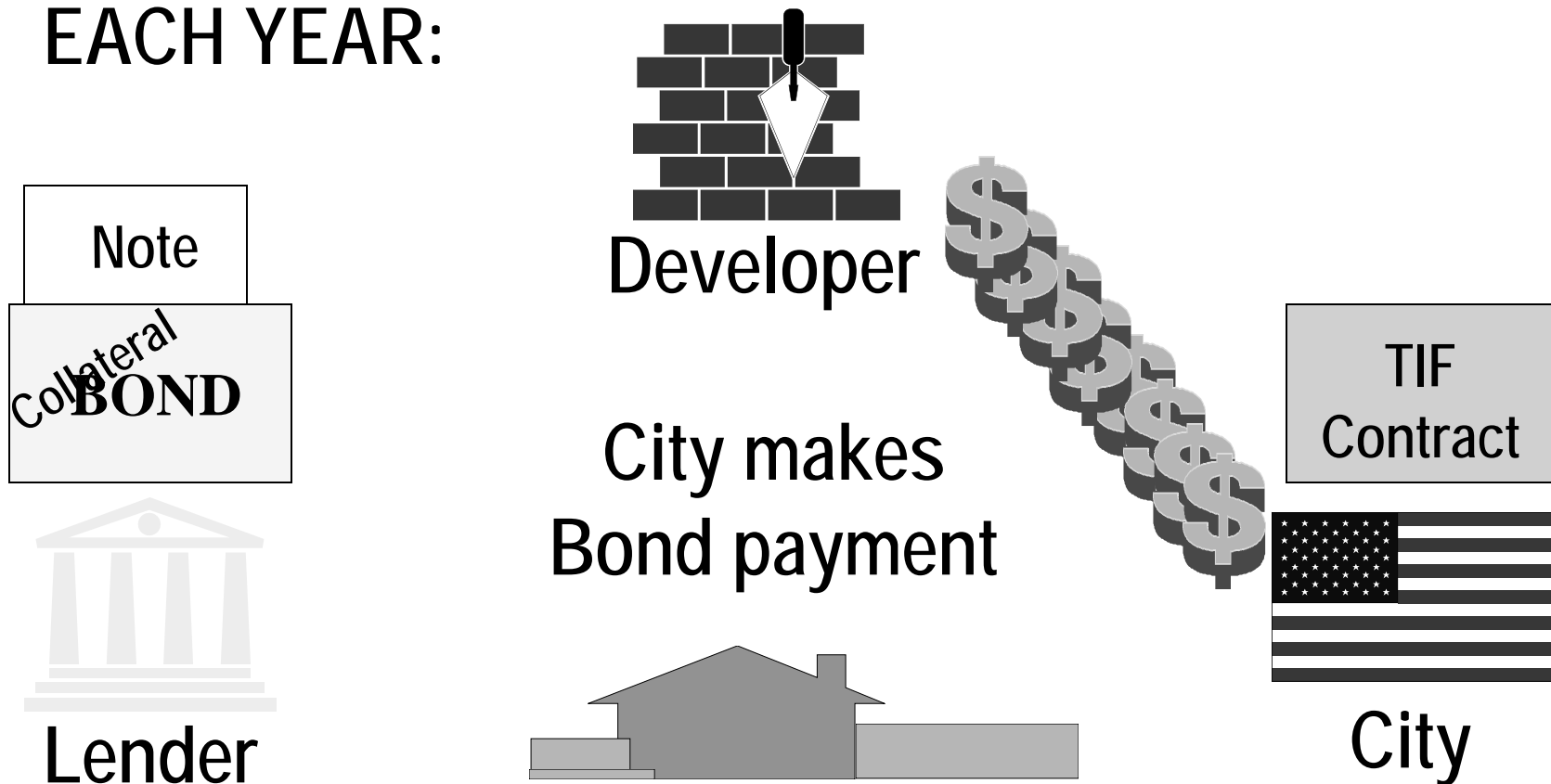
Option 1: Developer uses cash to build

EACH YEAR:



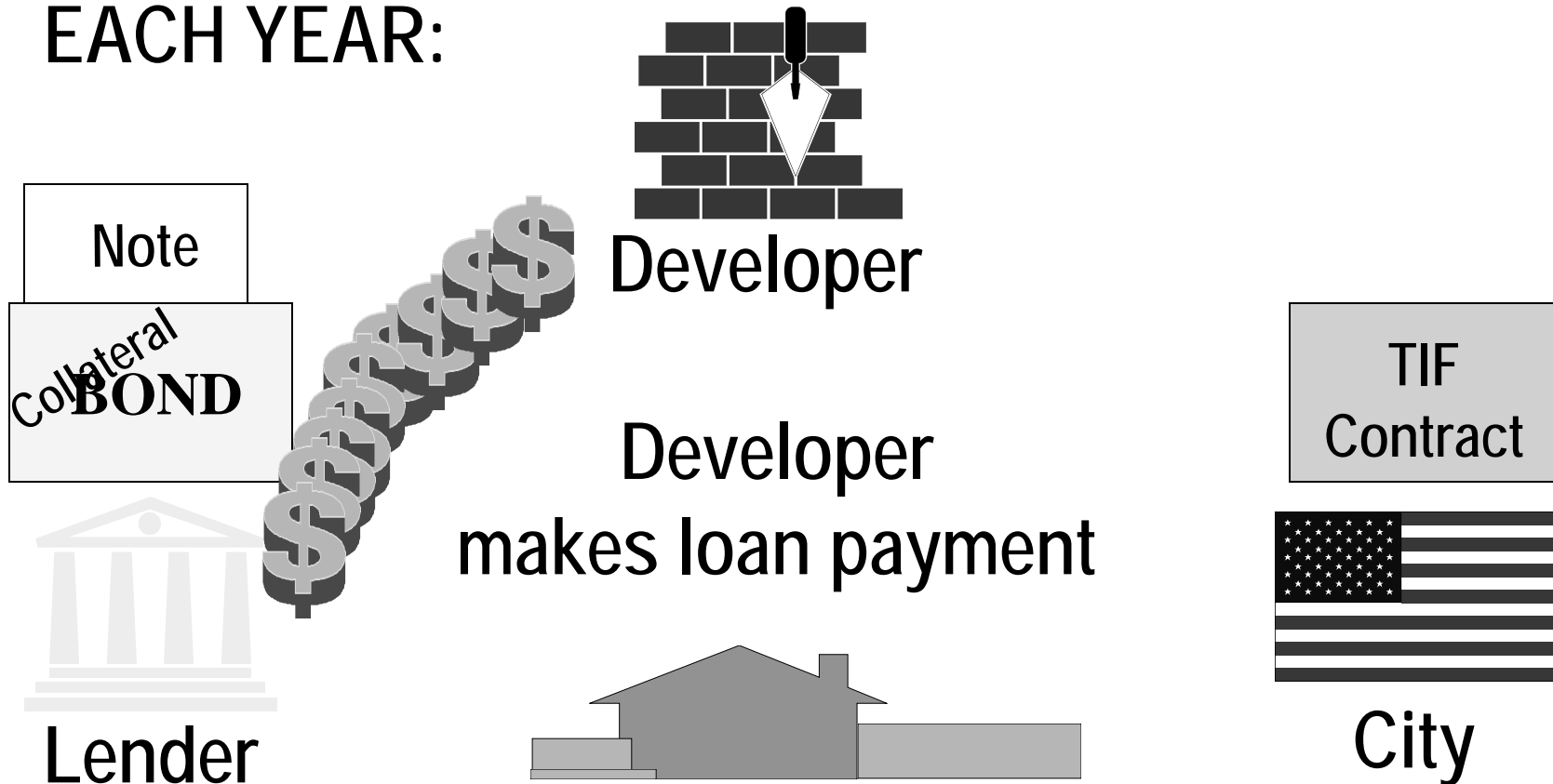
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EACH YEAR:

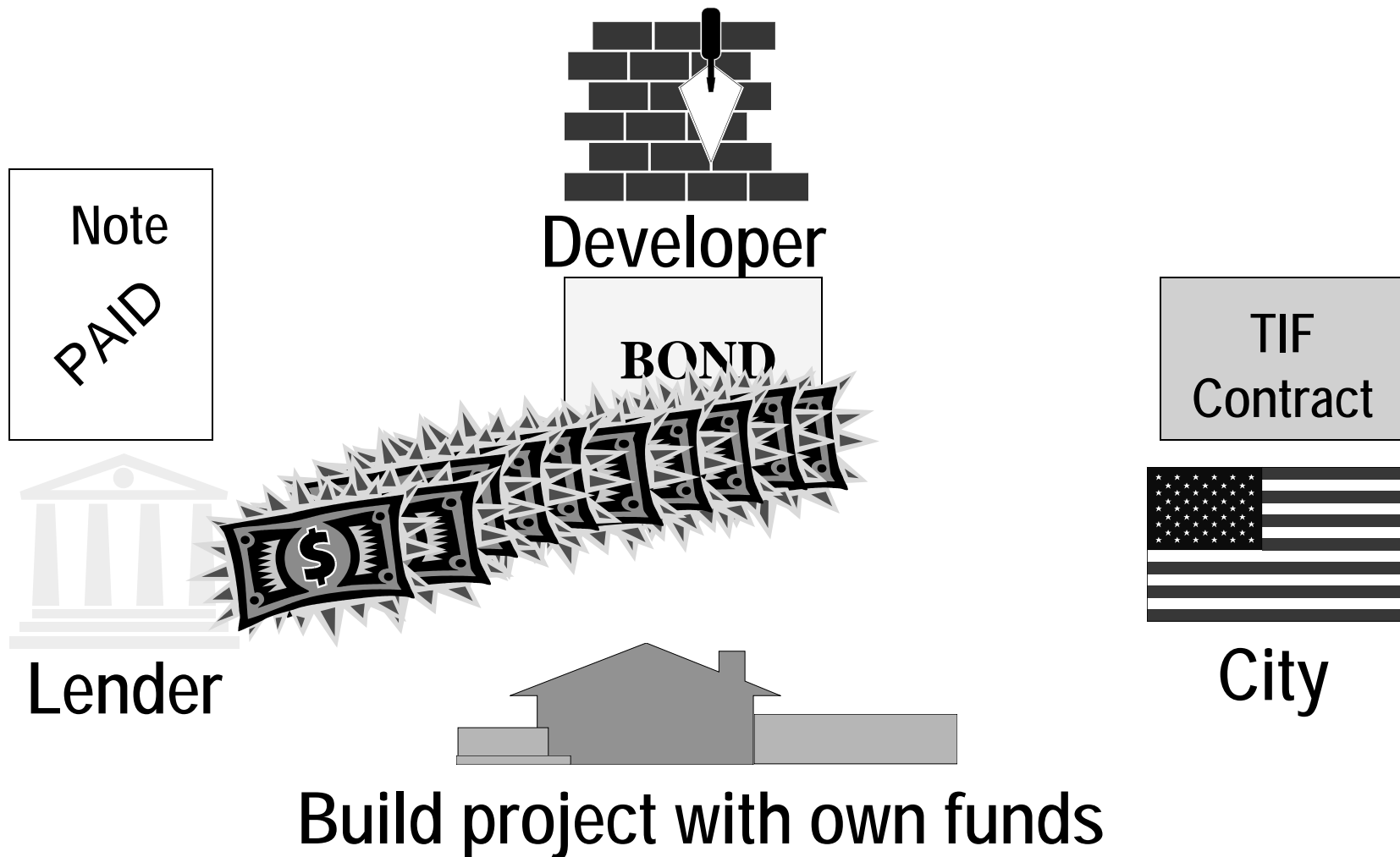


Option 1: Developer uses cash to build

EACH YEAR:

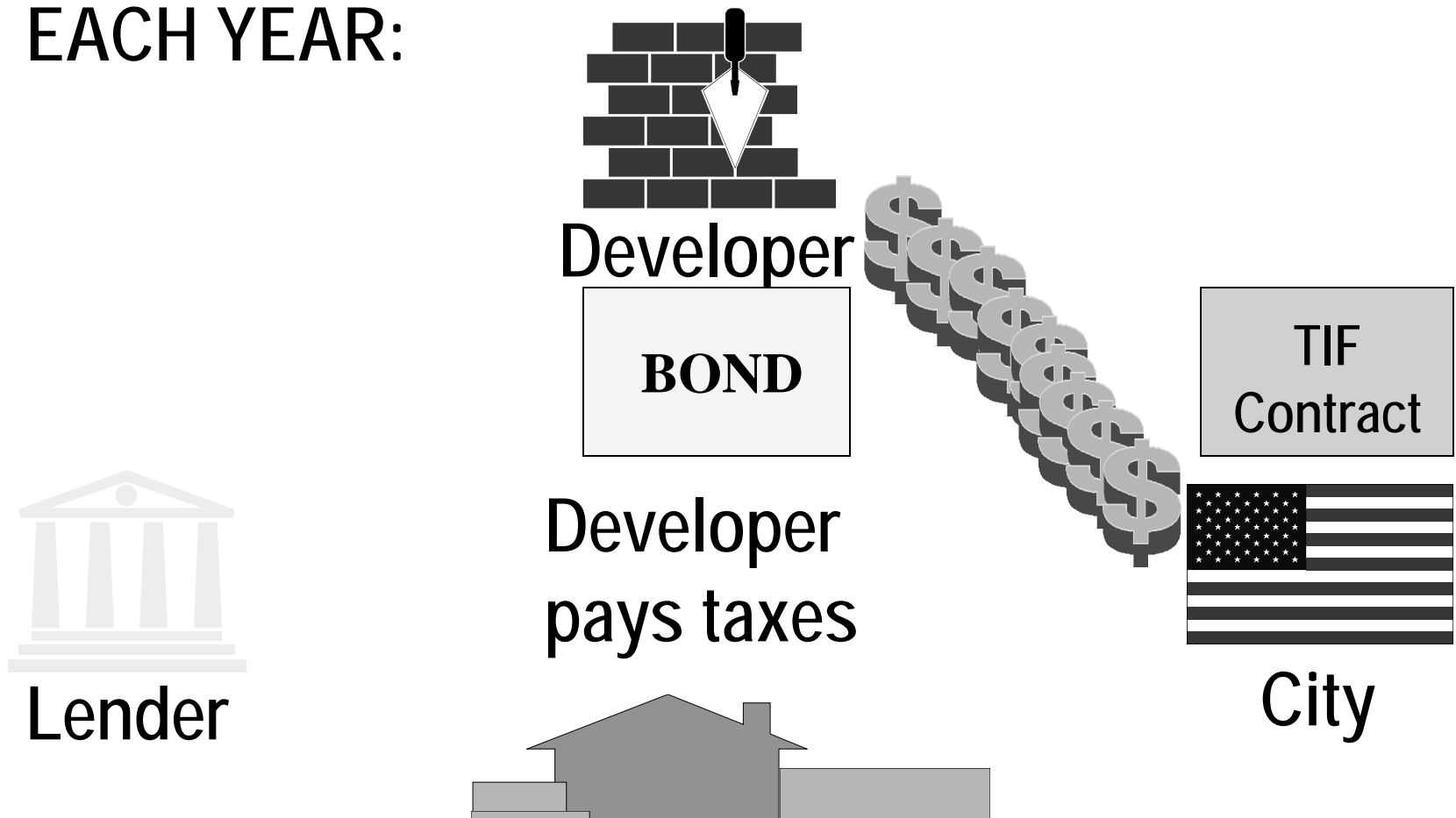


Option 2: Developer uses cash to pay lender



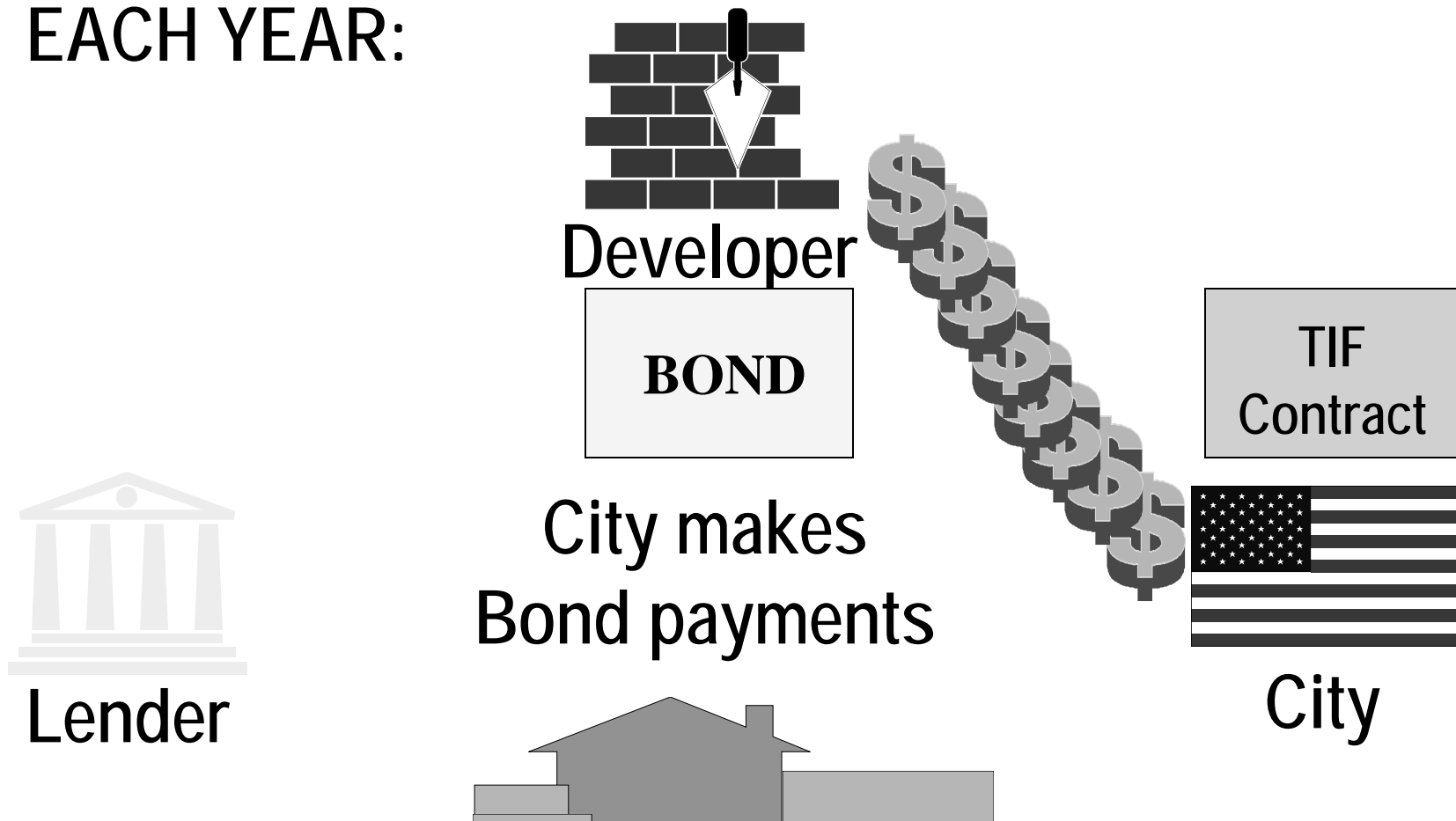
Option 2: Developer uses cash to pay lender

EACH YEAR:



Option 2: Developer uses cash to pay lender

EACH YEAR:



ISSUES:

How do you determine the bond amount?

- Projected assessed value of completed project
- Interest Rate on Bond
- Tax Rate

Use Amortization
computations to
determine amount



EXAMPLE:

- \$1,000,000 project
- 2% tax rate
- Bond Issue August 1, 2009

\$1,000,000 X 2% = \$20,000

Semi-Annual payments = \$10,000

Start Date : 08-01-2009

Bond issued

Loan is made and money disbursed

Project is built in 2009

Goes on Tax Rolls: 01-01-2010

Tax statement 12-01-2010

First tax payment 05-01-2011



- EXAMPLE:***
- \$1,000,000 project
 - 2% tax rate
 - Bond Issue August 1, 2009
-

Compound Period	Semiannual
Nominal Annual Rate	9.000%
Loan Amount	\$142,317.24
Payment (semiannual)	\$10,000
Number of payments	28 payments



EXAMPLE: Amortization Schedule

<u><i>Date</i></u>	<u><i>Accrued Interest</i></u>	<u><i>Principal Payment</i></u>	<u><i>Interest Payment</i></u>	<u><i>Loan Balance</i></u>
06-01-11	23,494.04	0	10,000.00	142,317.24
12-01-11	6,404.28	0	10,000.00	142,317.24
06-01-12	6,404.28	0	10,000.00	142,317.24
12-01-12	6,404.28	0	10,000.00	142,317.24
06-01-13	6,404.28	888.84	9,111.16	141,428.40
12-01-13	6,364.28	3635.72	6,364.28	137,792.68



ISSUES:

What if taxes collected are too low?

(Lower assessed value. Lower property tax.

Cash stream not enough to pay off bond/loan)

- Developer agrees in contract to pay difference
- Bond contains clause to accelerate
if fail to pay taxes
- Bank can take a second DOT



ISSUES:

*What if we underestimate real estate taxes?
(Assessment is correct but tax rate increases,
Assessed value is higher than anticipated,
Business grows and doubles in size in 3 years)*

- If taxes are higher then the bond will be paid off faster than planned
- Developer will only get back a portion of total taxes paid.



What can TIF be used for?

- Project Acquisition
 - (purchase of the property)
- Preparing Site for Development
 - (demolition of existing structures)
 - (dirt work....land leveling)
 - (on site underground utilities and foundations)
- Public Infrastructure
- Redevelopment of the Site

What should TIF be used for?

- What is not being done by the private sector
 - Single family housing?
 - Subdivision development?
- What service is lacking in the City?
- What area needs a shot in the arm?

OTHER STUFF THATS' COOL

- Area wide TIF capture for street paving.
- Capture new building TIF for downtown improvements.
- General tax for downtown facade improvements.

Funding Redevelopment Agency

- General funds from city



Wisdom from the Ancients

- “I truly believe that a community can design its own future with the proper use of a redevelopment authority and tax increment financing.”

- Mike Bacon ...2009

Wisdom from 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

ISSUES:

Should the bank buy the bond?

- Don't buy the bond !!!
- Take an assignment of bond and payments
- Take custody of the bond
- File notice of assignment with City Clerk



ISSUES:

What about guaranteed loans?

- TIF financing is allowed with government guaranteed loans.

Is the TIF grant Equity or Debt?

- Developer wants to consider it Equity.
- Lender may consider it Debt.