

# Tax Increment Financing

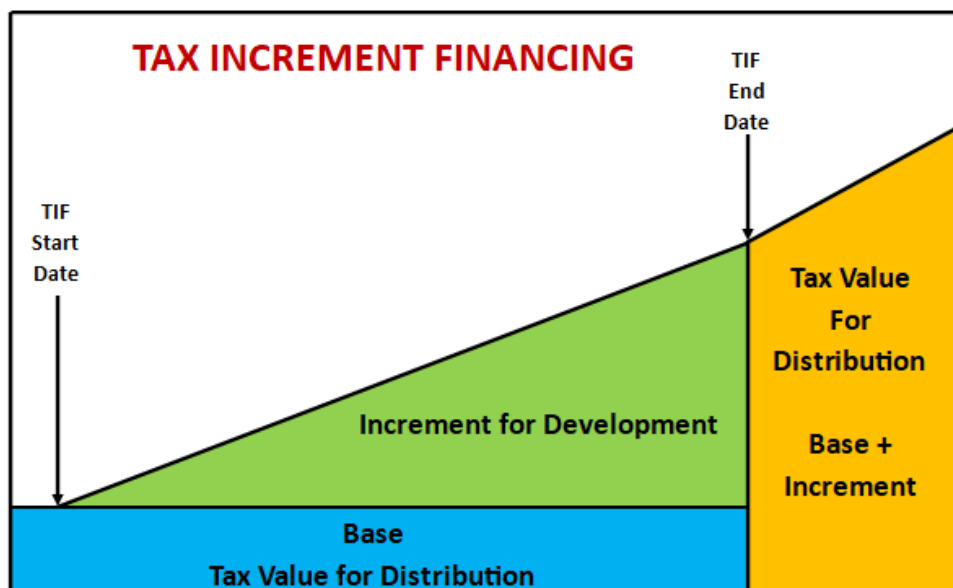


City of Ralston  
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## Tax Increment Financing

Tax Increment Financing (TIF) is a tool used by municipal government to stimulate economic development. TIFs finance redevelopment projects or other investments using anticipated future tax revenue resulting from new investments.

TIF separates the “before-project” or base real estate taxes, from the increased taxes paid by the owner/developer after a redevelopment project is completed. The difference creates the “tax increment.” The base tax portion is collected and distributed to the various taxing jurisdictions as if the project has not occurred, thereby insuring no loss of tax revenue by any local property tax collecting governmental subdivision. The additional, or “incremental” real estate taxes paid by the new project provide an income stream that can be set aside for up to 15 years to fund local participation in the redevelopment project.



Typically, the developer of a project obtains a loan to pay for TIF eligible expenses that will be paid back using the anticipated TIF revenues. Cities can also use TIF to make public improvements themselves by using anticipated TIF revenues to pay debt incurred for such public improvements.

A Community Redevelopment Authority (CRA) implements and oversees TIF projects on behalf of the City of Ralston. The CRA members are:

Bill Haas, Chair

Tom Kjar

Dennis Tribbie

Jerry Krause, Council Person Ward IV

Brian Kavanaugh, Council Person Ward III

Don Ficenec, City Attorney (non-voting)

Dan Freshman, Public Works Director (non-voting)

Rick Hoppe, City Administrator (non-voting)

Timothy Bohling, City Finance Director (non-voting)

### **Tax Increment Financing may be used for the following purposes:**

- Public improvements associated with a redevelopment project, which are located in the redevelopment area. Examples of these improvements include streets, street lighting, sewers, sidewalks, utilities, public parking area, parks/recreation facilities, landscaping of public areas and any other legally permitted municipal activities.
- Preparation of applications for approval of redevelopment projects including architectural, engineering and legal fees.
- Acquisition of redevelopment sites, including all costs related to acquisition such as surveys and environmental studies.
- Site preparation, demolition, grading, surcharging, special footings and foundations, and other pre-construction work.
- Utility extensions and connection.
- Private or public rehabilitation of structures within the redevelopment project area.

### **Requirements for TIF Assistance**

Developers applying for TIF assistance must qualify by meeting certain criteria consistent with the Nebraska Community Development Law and development objectives of the City of Ralston. The Community Redevelopment Authority will review the project applications, submitted to the City Clerk, for compliance with the criteria. There are two types of criteria – Mandatory and Discretionary. Mandatory criteria must be met for the project to warrant further consideration.

Discretionary criteria enable the Community Redevelopment Authority to evaluate the benefits of the project and to tailor the amount of assistance to these benefits. The project application must demonstrate how the project meets the required criteria.

### **Mandatory Criteria**

**In order to be considered for TIF, a project must meet each of the following criteria:**

- The project is located in an area previously declared substandard and blighted by the City of Ralston, or an area eligible for such a designation, as required by Nebraska State Statutes.
- The project must be economically feasible and in conformity with the objectives of the Comprehensive Development Plan for the City of Ralston.
- The use of TIF must not result in a loss of pre-existing tax revenues to the City of Ralston or other taxing jurisdictions.
- The project includes a capital investment of not less than \$150,000.00 and the minimum supportable TIF loan is \$20,000.
- The developer is able to demonstrate that the project would not be economically feasible without the use of TIF.
- The developer is able to demonstrate that the project would not occur in the redevelopment area but for the use of TIF.
- The cost vs benefits of the project have been found to be in the long-term best interests of the City.

### **Discretionary Criteria**

In addition, the project shall be evaluated for approval according to the following criteria:

- The project will eliminate an actual or potential hazard to the public. Such hazards may include unsafe or potentially unsafe buildings and structures, or sites that require extensive clean-up or present potential hazards to the public.
- The project will reuse a currently vacant building or a building that has less than 50% of its floor area in active use.
- The project will provide a minimum of 30 new jobs or represents an investment of at least three million dollars.

- All TIF proceeds are used for the construction of public improvements.
- The project provides housing for senior citizens or is used for the development of affordable housing.
- The project involves the start-up of an entirely new business, the establishment of a business new to the City of Ralston, or the significant expansion of an existing business within the City of Ralston.
- The redevelopment site has displayed a recent pattern of declining real property assessments, as measured by the Douglas County Assessor's Office.

If the Community Redevelopment Authority determines that a project meets the required criteria, it then may proceed through the approval process.

### **TIF Application Requirements**

The Ralston Community Redevelopment Authority must have the following in order for a developer to apply for TIF:

- A completed preliminary TIF application and cost-benefit analysis sheet in the format provided by the CRA.
- A detailed project description.
- A development financing plan, specifying sources of funds and loan terms.
- A preliminary commitment for financing and/or equity.
- A proforma indicating projected revenues and expenses related to the project.
- A "But-For" letter describing why this project is not financially feasible without TIF, and why this project will not be built in the redevelopment area without TIF.
- Evidence that the project meets the evaluation criteria included in this policy.
- Map showing the existing uses, conditions and improvements on the property.
- A proposed site-plan showing boundaries, elevations, proposed uses, street and sidewalk layouts, completed improvements, parking, land coverage and landscaping.
- A development schedule.
- If applicable, a list of public improvements which will be constructed along with the project.
- Corporation or partnership papers if necessary.
- An audited financial statement of the corporation, partnership, or individual for the most recent full calendar year.
- Other information that may be required by the Community Redevelopment Authority.

## The TIF Approval Process

The project application and approval process proceeds as follows:

- 1) **Designation of the Blighted Area** – The Redevelopment Area must have been designated as substandard and blighted by the City prior to introduction of the Redevelopment Plan. If the Redevelopment Area incorporating the project is not already designated as such pursuant to Nebraska State Statutes, the City may prepare such a declaration if allowed by law.
- 2) **Preparation of a Redevelopment Plan**- The Developer prepares a Redevelopment Plan for the project in conformance with the requirements of the Nebraska Community Development Law and submits it to the City Clerk, who forwards it to the Community Redevelopment Authority.
- 3) **Approval of the Redevelopment Plan**- The Community Redevelopment Authority forwards the Plan to the Planning Commission for its recommendation. The Planning Commission determines if the Plan is in conformity with the City's Comprehensive Development Plan and will submit its recommendations, in writing, to the Community Redevelopment Authority within thirty days after receipt of the Plan for review. Following Planning Commission action and required notification, the Community Redevelopment Authority shall hold a public hearing to consider the Plan according to statutory criteria and the City's discretionary criteria, and may either reject the Plan or recommend the Plan to the City Council for approval. The City Council, following notification to all affected taxing authorities and published in the local newspaper, shall hold a public hearing to determine if the Plan meets statutory and discretionary criteria and either deny or approve the Plan by a written resolution.
- 4) **Approval of the Redevelopment Agreement**- Following approval of the Redevelopment Plan, the Community Redevelopment Authority and the Developer negotiate a Redevelopment Agreement which specifies the contractual obligations of the Developer, CRA and City. The Community Redevelopment Authority gives notice to the City Council of its intent to enter into a redevelopment agreement after 30 days.. The City Council then holds a public hearing and reviews and approves the Redevelopment Agreement by a resolution.

**Redevelopment Plan:**

It is the responsibility of the Developer to submit a redevelopment plan to the CRA that conforms with the requirements of the Nebraska Community Development Law, including but not limited to:

- The boundaries of the redevelopment project area, with a map showing the existing land uses and condition of the real property;
- A map showing proposed land uses of the area;
- Information regarding population densities, land coverage, and building intensities in the area after redevelopment;
- A statement of the proposed changes, if any, in zoning ordinances or maps, street layouts, street levels or grades, or building codes and ordinances;
- A site plan of the area; and
- A statement of additional public facilities or utilities which will be required to support the new land uses in the area after redevelopment.
- An estimate of the costs of acquisition and preparation of redevelopment project site;
- A statement of the proposed method of financing the redevelopment project;
- A statement of the method proposed for relocating families to be displaced, if any;
- If applicable, a proposal for the designation of an enhanced employment area.

A redevelopment plan needs to be sufficiently complete to outline appropriate land and building uses, improved traffic, public transportation, public utilities, recreational and community facilities and other public improvements in the redevelopment project area. The plan should demonstrate that these factors are consistent with local objectives.

**Cost-benefit Analysis:**

The CRA will conduct a cost-benefit analysis for each proposed redevelopment project which includes a division of taxes. The cost-benefit model used must analyze the following factors:

- Tax shifts resulting from the use of TIF;
- Public infrastructure, the impact on community public service needs, and local tax impacts caused from the approval of the redevelopment project;
- Impacts on employers and employees of firms locating or expanding within the boundaries of the area of the redevelopment project;
- Impacts on other employers and employees within the city or village and the immediate area that are located outside of the boundaries of the area of the

redevelopment project;

- Impacts on the student populations of school districts within the city or village; and
- Any other impact determined by the authority to be relevant to the consideration of costs and benefits arising from the redevelopment project.

### **Approval of the Redevelopment Plan:**

If the City Council approves the redevelopment plan, it must make specific written findings that:

- The plan is feasible and in conformity with the Comprehensive Plan for the development of the city as well as legislative declarations and determinations.
- If TIF is sought, that (a) the project would not be economically feasible without the use of tax-increment financing, and (b) the project would not occur in the community redevelopment area without the use of TIF. A written “but-for” test must be provided by the developer to support this.
- The costs and benefits of the redevelopment project are in the long-term best interest of the community.

A redevelopment plan which has not been approved by the CRA, or City Council when recommended by the CRA, may again be submitted and recommended by the CRA to the City Council with any modifications deemed advisable. Once approved, a redevelopment plan cannot be modified or amended in any substantial way without the approval of the CRA and City Council according to the same procedure and criteria for initial approval of the plan.

### **Redevelopment Agreement:**

The redevelopment agreement is the legally binding contract between the Developer, CRA, and the City for completion of the redevelopment project which specifies the mutual responsibilities of all three parties. The redevelopment agreement must specify, among other things, the following:

- The financial terms of the project, including an itemization of TIF eligible expenses, and verification that the developer can finance the project. A promissory note is then issued by the CRA to the developer stating that the CRA will borrow money from the developer to finance for those TIF eligible expenses, which will be paid back with the incremental taxes, or “TIF revenues”. The developer typically borrows the funds from a private lender then assigns the CRA’s note to their lender, and the CRA repays the lender with the TIF revenues.



- An obligation for the developer to complete the redevelopment plan as approved by the CRA and City Council.
- A project schedule, including the anticipated effective date when the division of taxes will begin.
- An agreement by the Developer that he/she will not appeal an assessment below a specified value necessary to underwrite the TIF loan. Further, the developer agrees not to take any action which causes the project to become non-taxpaying.
- A provision requiring that the Developer retain copies of all supporting documents that are associated with the redevelopment plan, including proof of the actual TIF eligible expenses, and provide copies to the City as needed to comply with the City's retention requirements.

### **Division of Taxes (TIF)**

A redevelopment plan may contain a provision to divide taxes, for a period not to exceed 15 years, after the effective date as identified in the project redevelopment. The CRA must incur a debt before the taxes can be divided on a redevelopment project. The debt can be in the form of a loan note, a bond, an advance of money, or other form of indebtedness used to finance the eligible expenses and purposes for TIF financing described earlier in this document.

The redevelopment agreement provides the method by which the CRA's indebtedness is paid. The tax increment, or amount of property tax on the redevelopment property collected above the base or "before project" taxes, is paid into a special fund of the CRA. The fund is to be used solely to pay the principal of, the interest on, and any premiums due for the debt incurred by the CRA as part of the redevelopment project. If such taxes are not sufficient to repay the entire indebtedness over the 15 year period, the developer rather than the CRA or the City is responsible for the remainder. The base taxes continue to be collected and distributed to all appropriate taxing authorities throughout the entire 15 year period, and all taxes thereafter are collected and distributed in full to the appropriate taxing authorities.

**For additional information regarding TIF, please contact City Hall at 402-331-6677**

