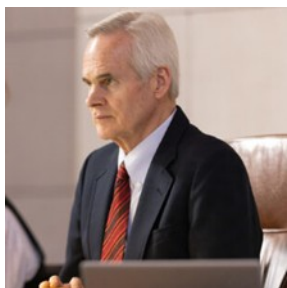
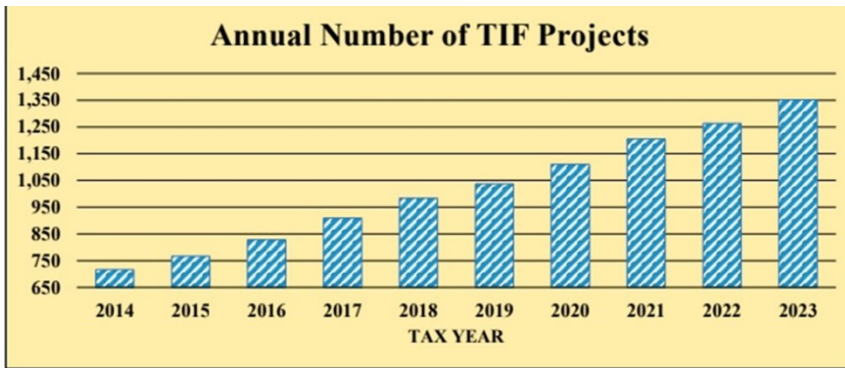


**NEBRASKA TAXPAYERS FOR FREEDOM ISSUE PAPER:  
STATE AUDITOR FINDS THAT OMAHA MISUSED TAX INCREMENT FINANCING FOR ITS  
STREETCAR PROJECT, ETC.**

**BACKGROUND.** Tax increment financing (TIF) is a statutory mechanism by which a city can create a redevelopment authority to help rehabilitate an area that the local governing body has designated as substandard and blighted. A municipality can spend public funds, normally bonds, loans, notes, advances of money, or other forms of indebtedness of a Community Redevelopment Authority created by a municipality on a redevelopment project, repaid by dividing the ad valorem property tax on the formerly blighted area. The “base” tax, determined by the value of the property immediately prior to the redevelopment work, continues payments to the political subdivisions that levied the taxes upon such property. The “excess” tax paid on the subsequent increase in property value resulting from the redevelopment work remits to a separate fund for the purpose of relieving the debt incurred by the redevelopment project. When that debt paid in full or after 15 years, or 20 years for extremely blighted areas, whichever comes first, the division of the ad valorem property tax on the redeveloped land stops, and the total tax amount paid once more to the political subdivisions. TIF only diverts temporarily the revenues from that portion of the increased property valuation generated by improvements financed with public funds. During the time that they become restricted exclusively to paying off the costs of the redevelopment project, those excess taxes are unavailable for any other public purpose. Created decades ago by the Legislature, this financing mechanism wins praise from many as a great way to erase urban blight.

**THE PROBLEM.** The Nebraska Auditor of Public Accounts (APA) has received complaints over the years about TIF funding and its use by local municipalities for redevelopment projects throughout the state. As a result, the APA took action to ascertain if redevelopment money spent correctly and if applicable statutory requirements observed. Auditor Mike Foley questioned the escalating cost and use of TIFs that cities use for economic development in a 26-page letter to state senators, specifically mentioning the detested Omaha streetcar project. In 2016, he examined in depth TIF projects throughout Nebraska and noted significant errors with several projects, including many that had received a disproportionate share of TIF proceeds. At that time, there were 828 active TIF projects with total excess property valuations of \$3.3 billion. Foley found that during the 5-year period from 2019 to 2023, TIF projects resulted in over a half-billion dollars in property tax collections used to fund urban redevelopment. The number of TIF projects in Nebraska, including Omaha, has almost doubled during the past decade, swelling to more than 1,350 separate ventures with over \$6 billion in increased property valuations. TIF utilization continues to grow significantly, diverting for payment of redevelopment project costs, at least for a number of years, a portion of ad valorem property tax revenues that otherwise would become available for other public purposes, with little monitoring and oversight across the state. During 2023, over \$121 million in property tax collections paid for TIF projects approved by municipal taxing authorities, more than double the amount of such funding a decade earlier. Overused and questionably used, this financing tool undermines local property taxpayers. The Auditor believes that millions of improperly-collected funds could have lowered property taxes in several communities. This misuse actually causes property taxes to rise for residents. The Legislature created TIF to allow cities to help private developers pay the costs of redeveloping blighted areas that otherwise would remain decrepit. Base property tax valuation on such properties then frozen for 15-20 years, depriving local taxing authorities like school districts of needed revenue based on the promise of future higher property valuations/taxes. The problem is that municipalities are bending the state law to allow themselves too much flexibility in utilizing TIFs. Lax and inconsistent interpretations of this law permit municipalities to amass great amounts of undeserved TIF proceeds by misrepresenting blighted land and collecting funds beyond the times intended. The failure of several redevelopment projects to operate strictly within the statutory timeframe results in sizeable overcollections of TIF proceeds. The Auditor believes that the legislature should review TIF provisions to stop such misuse.





**CITY OF OMAHA MISUSES TIF.** The city, by offering TIF to the Aksarben Apartments project, allowed huge amounts of TIF proceeds to continue coming in after the legal deadline had passed. The amount of property tax revenues received improperly totaled \$1.21 million, all monies wrongly withheld from local government units that could have used the funds to pay for basic citizen services. CF Studio LLC received extra, undeserved TIF proceeds of \$77,544 in a 20-yr. TIF payback. Yet, the city approved this project prior to the law revision allowing 20 yr. TIF abatements. In the Jackson Development LLC case, the city received payments of TIF proceeds totaling \$831,863, with the same violation. Downtown Dodge Development LLC witnessed the city receiving \$154,418 in extra TIF payments, tagged by the Auditor with the same violation.

**STREETCAR MISUSED TIF.** \$350 million in TIF proceeds supposedly will finance the project, resulting in the largest diversion of property tax dollars for a development project in NE. The city covered over 1,100 parcels of prime real estate with TIF. Several of the locations included in the Omaha TIF streetcar project area are 6 blocks away from the route and do not appear blighted. Many of the buildings located within the TIF district do not appear sufficiently dilapidated to earn a blighted term. The city intends to capture TIF proceeds on properties not actually undergoing redevelopment. TIF proceeds are already being collected solely from increases in valuations not attributable to the streetcar construction. During examination of the Redevelopment Plan, the Auditor found that



neither the City nor the Streetcar Authority would manage the finances of the redevelopment project. Instead, revenues, including funds received from the division of ad valorem property taxes, would transfer to a Redevelopment Plan Area Alliance, a nonprofit corporation, for overall financing and management. The Auditor could not locate filings made with the Nebraska Secretary of State by the Redevelopment Plan Area Alliance. He could find no provision in the Community Development Law authorizing a nonprofit entity to act as custodian of the “excess” ad valorem property taxes received by a municipality. In fact,

statute § 18-2147(1)(b) requires that all “excess” ad valorem property taxes collected “shall be allocated to and, when collected, paid into a special fund of the municipal authority. Mayor Jean Stothert retorted repeatedly that anticipated development and higher property values sparked by the streetcar should produce enough TIF revenue to pay off bonds without requiring a tax increase. At a June news media conference to update costs, she said: “Taxpayers will not pay for the streetcar, there will not be a tax increase, and the streetcar will not put the city in debt.” City officials have said that TIF will pay off \$389 million in bonds. However, non-TIF property owners may have to “make up the difference” needed to finance this governmental function. The city cited a statute that allows TIF use in a project site, if more than 50% declared blighted. However, the city declared areas extremely blighted that it already had designated blighted, which earns only a 15 yr. abatement of taxes. State Sen. Lou Ann Linehan had introduced 2 bills in the 2024 session that would have prohibited TIF status for the streetcar project, but the bills failed to advance from committee. “My purpose for discussing the ‘Streetcar Project’ in the letter is not to criticize or pass judgment on this half-billion dollar undertaking, which uses TIF on over 1,100 parcels of prime real estate,” Foley stated, “It is merely to shed light on the potential impact of the financing techniques being employed to fund it. In the final analysis, construction of the ‘Streetcar Project’ will be anything but free.”

**TAKE ACTION NOW.** It is folly to believe that the gross misapplication of TIF in the streetcar project will spare Omaha taxpayers. The only means to stop the City of Omaha and other municipalities from misusing TIF funding that places an added burden on local property taxpayers is to convince state senators to tighten the use of TIF to cover only truly blighted rural and urban areas, the original intent. Email [netaxpayers@gmail.com](mailto:netaxpayers@gmail.com) for state senator contact information and join our *NTF City Watch Project*.