Colorado
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Staff

Room 029 State Capitol, Denver, CO 80203-1784
(303) 866-3521 FAX: 866-3855 TDD: 866-3472

MEMORANDUM

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January 8, 2008

TO: Interested Persons

FROM: Ron Kirk, Research Associate, 303-866-4785

SUBJECT: Property Tax Accruing to Tax Increment Financing Districts

This memorandum provides information on property tax revenue accruing to tax increment financing (TIF) districts. This research begins by providing background information on Colorado law that authorizes urban renewal authorities (URAs) and downtown development authorities (DDAs) to use TIF for urban renewal projects and concludes with information on TIF in other states.

Summary

Tax increment financing (TIF) is a mechanism for funding redevelopment projects in Colorado exclusively targeted at improving blighted areas. Property taxes accruing for TIF were $74.5 million in tax year 2006, of which the Denver Urban Renewal Authority's redevelopment projects totaled $31.7 million or about 42.5 percent of total TIF revenue. Under the Public School Finance Act of 1994, state aid to school districts is based on the assessed value of a district excluding the increase in the value of property in an urban renewal area or downtown development authority. State aid is estimated by calculating what the increase in the value of property in an urban renewal area would generate in school operating property taxes and for FY 2007-08, the increase is estimated at $29.9 million. State aid offsets this increase on a dollar-for-dollar basis.

With the exception of Arizona, all states and the District of Columbia use some form of TIF. TIF as a funding mechanism was initially used to offset reductions in federal funding to states for

Summary (continued)

urban redevelopment and as a tool that facilitated economic growth through public-private partnerships. Some states authorize towns, cities, counties, and other local government entities to use TIF for development purposes. A few states require their revenue departments to have oversight over TIF districts and mandate that these departments issue periodic reports to state legislators and the executive branch of government. Similar to Colorado, in other states, the school district portion of property taxes accruing for TIF in relation to other government entities makes up a large part of statewide TIF revenue. Many school districts in other states are often compensated for the loss in local tax revenue through increases in state appropriations for school aid, like Colorado. In lieu of state aid increases, some states shift the property tax burden to other property tax owners.

Tax Increment Financing

Tax increment financing (TIF) is a mechanism for funding development and redevelopment projects. With the exception of Arizona, all states and the District of Columbia use some form of TIF. The concept of TIF has been around since the early 1940s, but California was the first state to adopt a TIF law in 1952. The widespread use of TIF did not occur in most states until the 1970s.

The drive for some states to use TIF in the 1970s was primarily related to economic factors. For example, in 1975 when Wisconsin enacted its TIF law, the state was seeing less federal funding for redevelopment projects that likely resulted from the national recession in 1974 and 1975. TIF was used as a financing mechanism to offset the reduced level of federal funding and allow cities and other jurisdictions to work with the private sector to stimulate economic growth and employment through urban redevelopment projects. Colorado enacted its urban renewal law in 1975. TIF was first used in Colorado by the Boulder Urban Renewal Authority for the initial development of the Crossroads Urban Renewal Project in 1979.

Background. State law in Colorado authorizes urban renewal authorities (URAs) and downtown development authorities (DDAs) to use TIF for projects that improve blighted areas. TIF allows an authority to issue and repay redevelopment bonds by using the "increment" of increased taxes collected within the TIF district after improvements are made (Section 31-25-101 *et seq.*, C.R.S.). Tax increment revenue may be generated from property or sales taxes.

For TIF purposes, to determine the increment amount of property tax revenue, the base valuation must first be determined. The base valuation is certified by the county and is equal to the total assessed valuation within the TIF district prior to the approval of the redevelopment plan. As phases of redevelopment are completed, the county reassesses the properties in the TIF district. Over time, improvements add to the property tax base. The revenue that is attributed to the growing tax base becomes the incremental revenue that is used by the authority for debt service on the bonds that are used to finance the redevelopment project.

All property taxes attributable to the base valuation are paid to each taxing entity in the TIF district. For these taxing jurisdictions, tax revenue remains the same until the incremental revenue pays off the redevelopment bonds. Thus, local taxing jurisdictions are unable to receive any of the additional revenue from improvements until the TIF bonds are paid off. In 1980, state law extended TIF to municipal sales taxes (Section 31-25-807 (3) (a), C.R.S.).

Property tax impacts. The following tables summarize the property tax impacts that result from the use of TIF by counties, municipalities, schools, and special districts. The data summarized in the tables were taken from the Division of Property Taxation's 2006 Annual Report. Statewide, property taxes accruing for TIF were $74.5 million for tax year 2006, of which, the Denver Urban Renewal Authority's redevelopment projects totaled $31.7 million or about 42.5 percent of total TIF revenue. Table 1 shows property taxes accruing for TIF by project in the City and County of Denver. For additional information, Appendix A provides information on property taxes accruing for TIF by project on a county-by-county basis.

Table 1: Property Taxes Accruing for TIF in the City and County of Denver

(2006 property tax year)

DURA Project	Property Taxes Accruing For TIF
Alameda Square	$75,257
American National	124,742
California Street Parking Garage	41,158
Cherokee	12,643
City Park South	126,879
Downtown	4,170,389
Elitch's	1,146,133
Guaranty Bank	89,599
Highlands Gardens	276,990
Lowenstein Theater	40,605
Lowry	6,918,040
Mercantile Square	122,084
Northeast Park Hill	343,049
Pepsi Center	2,207,478
Point Urban	61,094
South Broadway	896,979
St. Luke's #1	590,043
St. Luke's #2	469,902
Stapleton	13,341,439
Westwood	315,671
York Street	304,592
Total Property Taxes Accruing for TIF	**$31,674,766**

Source: Thirty-Sixth Annual Report —Division of Property Taxation 2006

Table 2 shows the property tax impacts by government entity type — counties, municipalities, school districts, and special districts. The TIF impact for school districts at $40.1 million makes up the largest share of TIF revenue at nearly 54 percent of total revenue.

Table 2: Property Taxes Accruing for TIF by Government Entity
(2006 property tax year)

Government Entity	Property Taxes Accruing for TIF	Percent of Total
County	$21,931,912	29.43%
Municipality	4,955,409	6.65%
School Districts*	40,132,727	53.85%
Special Districts	7,511,040	10.08%
Grand Total	**$74,531,088**	**100.00%**

Source: Thirty-Sixth Annual Report —Division of Property Taxation 2006
*Includes all possible property tax losses to school districts in addition to school operating property taxes.

Interpreting the Impacts of Property Taxes Accruing for TIF

An important point should be made in order to correctly interpret the data presented in the above and attached tables. The property taxes accruing for TIF are not always losses to local governments; they represent a maximum potential impact. In instances where a local government is not at its property tax revenue limit, all taxpayers in the jurisdiction will pay higher taxes than they would have if the TIF was not in place, assuming the development would have otherwise occurred. For those districts at their property tax revenue limit, the additional assessed value from the new development would only serve to lower the mill levy, *not* increase property tax collections. This happens due to the interaction between TIFs and mill levies. If a TIF was not in place and similar development occurred, then mill levies would fall in these districts and taxpayers would pay less. Presence of the TIF causes the mill levies to remain the same or not fall as far as they would have without the TIF to finance the projects. In situations where governments have been exempted from the limit or are collecting revenue below the limit, the government forgoes the revenue from the TIF.

State Aid To School Districts

Under the Public School Finance Act of 1994, state aid to school districts is based on the assessed value of a district excluding the increase in the value of property in an urban renewal area or downtown development authority. Because those increased values are excluded, the state pays more to school districts than would otherwise be the case. As a result, the question arises as to how much the state spends to "backfill" the loss in property tax revenue from TIF. However, identifying today's actual state cost would require a database of information that both spans the period of time that the backfill has been in effect and is capable of calculating school district property taxes annually under various school finance laws. Since compiling such a database is not feasible, the amount the state spends is estimated by calculating what the increase in the value of property in an urban renewal area would generate in property taxes. State aid to school districts offsets the increase in school operating property taxes on a dollar-for-dollar basis. Table 3 includes the school districts that are impacted by TIF showing TIF assessed valuations for FY 2007-08, respective school finance levies, and the school finance impact for each district which is estimated at $29.9 million for FY 2007-08.

Table 3: Property Taxes Accruing for TIF in School Districts

(FY 2007-08)

School District	2007 TIF Assessed Value	FY 2007-08 School Finance Mill Levy	Property Taxes Accruing For School Districts
Northglenn	$68,956,290	0.027	$1,861,820
Brighton	18,309,090	0.02626	480,797
Westminster	5,374,580	0.027	145,114
Littleton	5,931,070	0.02535	150,353
Aurora	6,202,670	0.02601	161,331
St. Vrain	11,940,730	0.025	298,518
Steamboat Springs	13,105,320	0.01397	183,081
Boulder	62,277,530	0.02502	1,558,184
Denver	635,601,651	0.02554	16,233,266
Colorado Springs	5,735,520	0.02383	136,677
Roaring Fork	3,334,390	0.02176	72,556
Greeley	3,230,580	0.027	87,226
Gunnison	12,202,630	0.01477	180,233
Jefferson	123,977,690	0.02625	3,254,414
Poudre	65,399,425	0.027	1,765,784
Thompson	71,959,900	0.02236	1,609,023
Estes Park	13,884,853	0.02055	285,334
Valley	12,838,560	0.02665	342,148
Mesa Valley	22,828,540	0.02421	552,679
Eagle	31,169,620	0.01162	362,191
East Otero**	0	0.02442	0
Pueblo City	4,670,822	0.027	126,112
Woodland Park	2,371,459	0.02255	53,476
Cherry Creek 5 School District*	507,500	0.02771	14,063
Pueblo SD 70*	1,078,226		0
Sheridan School District*	1,245,540		0
Totals	**$1,204,134,186**	**N/A**	**$29,914,381**

** New districts for 2007.*
*** The old TIF district was dissolved, a new TIF district has been formed in its place but the increment for 2006 is zero.*

Passage of the mill levy stabilization. Given the passage of the mill levy stabilization in the school finance act during the 2007 session (Senate Bill 07-199), local school mill levies are no longer required to decrease when assessed values increase faster than enrollment growth plus population. This will have an effect on the impact that tax increment financing has on the local share of public school finance.

Prior to the passage of the mill levy stabilization, the impact of TIF was muted by the fact that most school districts, particularly in reassessment years, were already reducing their operating mill levies. By adding the TIF assessed value to a district's tax base, the mill levy simply would have been lowered further, but no additional revenue would be generated. As a result, in reassessment years the school finance impact of removing the assessed value attributable to TIF was as low as $112,248 (FY 2001-02). Meanwhile, in non-reassessment years, the impact could reach as high as $18.5 million (FY 2004-05). With the passage of the mill levy stabilization, all of the value attributable to TIF would generate additional local property tax revenue for schools, thus reducing the state share. This assumes that the project would have been built without TIF.

Tax Increment Financing In Other States

Forty-nine states and the District of Columbia allow some form of TIF. For additional information, Appendix B provides a state-by-state summary showing the duration for each states' TIF district and enabling legislation.

TIF in other states is a mechanism for funding development and redevelopment projects. In Colorado, the use of TIF is restricted to urban renewal projects but in other states, TIF is used by various government entities for urban renewal and other mixed-use development such as low- to moderate- income housing (Iowa). The TIF concept is similar in other states — TIF allows local government entities to work with the private sector to stimulate economic growth and urban redevelopment projects with the theme that all local governments should share in the costs of redevelopment. Unlike Colorado, some states authorize towns, cities, counties, and other local government entities to use TIF for development purposes. Some states have even extended TIF laws to allow the respective state to have oversight of TIF districts by a state's taxing agency, such as an agency similar to the Colorado Department of Revenue. In some states, these agencies are required to issue periodic reports on TIF districts to state legislators and the executive branch of government.

Generally, the concept of the incremental base value is first determined in other states like Colorado — prior to development, the base value for all of the taxable property is determined within the TIF district and assessed until the project/bonds are terminated. The "tax increment" equals the general property taxes levied on the value of the TIF district in *excess* of its base value and can only be generated by an increase in the value of taxable property within the TIF district.

Similar to Colorado, the school district portion (mill levy) of property taxes accruing for TIF in relation to other government entities makes up a large part of statewide TIF revenue. Many school districts in other states are often compensated for the loss in local tax revenue through increases in state aid, like Colorado. Table 4 provides general information for a small sample of the 49 states that have TIF legislation. Some statistics on TIF districts are older data but used for illustrative purposes.

Table 4: Tax Increment Financing In Colorado and Other States

State/TIF Law Enacted	Government Entities Using TIF	TIF Districts	District Statistics
Colorado 1979 § 31-25-101 et seq.	Urban renewal authorities (URAs); and downtown development authorities (DDAs).	TIF districts are exclusively authorized for projects that improve blighted areas.	In property tax year 2006, total TIF revenue was a maximum of $74.5 million.
Wisconsin 1975 §66.1105 et seq.	Cities; village governments; towns; and counties.	TIF districts may be created if 50 percent of more of the proposed district is "blighted" in need of rehabilitation or conservation work, or suitable for industrial sites or mixed-use development (combination of industrial, commercial, and residential use). Fees are assessed by the state for TIF district creation and the Wisconsin Department of Commerce must issue a biennial report to the Governor and the legislature as to the social, economic, and financial impacts of TIF projects.	Between 1976 and 2005: of the 1,428 TIF districts created, 516 (36.1 percent) have been terminated and 912 (63.9 percent) remain in existence. Total TIF revenue for villages and cities was $243.6 million in 2005 or about 4.3 percent of the total mill levy revenue.
Nebraska 1978 NRS §18-2100 et seq.	Local governments.	TIF districts may be created only in redeveloping substandard and blighted areas within a community. TIF projects may be commercial, residential, industrial, or mixed use. On or before December 1st of each year, cities having TIF projects must file with the State Property Tax Administrator a report on the property tax levy and taxes in the redevelopment project.	In 2006 there were 443 TIF projects statewide that generated $30.4 million in property tax revenue.
Iowa 1958 § 403.1 et seq.	Cities; counties; and community colleges for job training projects.	TIF districts in the 1980 were created for redevelopment purposes of blighted areas but evolved in the 1990s to other allowable uses such as the development of low- and moderate-income housing.	In FY 1997, there were 1,453 TIF areas statewide that generated about $72.1 million for TIF projects.

Appendix A

Property Taxes Accruing for TIF by County

(2006 property tax year)

County	TIF Area/Project	Property Taxes Accruing for TIF	County	TIF Area/Project	Property Taxes Accruing for TIF
ADAMS	Aurora	$68,279	EAGLE	Vail Reinvestment Authority	$707,707
	Brighton URA	$1,122,424	**EAGLE Total**		**$707,707**
	Federal Heights URA	$1,242,414	EL PASO	North Arvada URA	$17,499
	North Huron	$406,663		South Central Downtown URA	$226,139
	Northglenn URA	$1,787,790		Southwest Downtown URA	$2,311
	Thornton Economic Development Authority	$9,470,467	**EL PASO Total**		**$245,949**
	Thornton North Washington	$2,067,506	GARFIELD	Glenwood Springs DDA	$178,527
	Westminster Center	$13,006	**GARFIELD Total**		**$178,527**
	Westminster Economic Development Authority	$342,370	GUNNISON	Mt. Crested Butte DDA	$406,368
ADAMS Total		**$16,520,919**	**GUNNISON Total**		**$406,368**
ARAPAHOE	Aurora URA	$340,343	JEFFERSON	Arvada URA	$2,432,825
	Englewood URA	$1,800,394	**JEFFERSON Total**		**$2,432,825**
	Littleton Riverfront Authority	$496,052	LARIMER	Block 41-Finleys Add URA	$7,916
ARAPAHOE Total		**$2,636,789**		Estes Park URA	$858,839
BOULDER	BURA 9th & Canyon	$512,469		Fort Collins DDA	$3,962,251
	Lafayette URA	$84,827		North College Ave. URA	$1,360,869
	Longmont DDA	$871,871		Timath URA	$254,087
BOULDER Total		**$1,469,167**		US34 URA	$4,361,290
BROOMFIELD	Hunter Douglas URA	$1,611,613	**LARIMER Total**		**$10,805,252**
	Interlocken URA	$989,718	LOGAN	Sterling URA	$924,737
	Wadsworth Interchange URA	$35,065	**LOGAN Total**		**$924,737**
	West 120th Avenue URA	$1,700,420	MESA	Downtown Development Association	$1,114,765
BROOMFIELD Total		**$4,336,816**	**MESA Total**		**$1,114,765**

Appendix A

Property Taxes Accruing for TIF by County (continued)
(2006 property tax year)

County	TIF Area/Project	Property Taxes Accruing for TIF	County	TIF Area/Project	Property Taxes Accruing for TIF
DENVER	DURA Alameda Square	$75,257	OTERO	Central Business Project - Urban	$79,236
	DURA American National	$124,742	**OTERO Total**		**$79,236**
	DURA California Street Parking Garage	$41,158	PUEBLO	Pueblo URA	$201,756
	DURA Cherokee	$12,643	**PUEBLO Total**		**$201,756**
	DURA City Park South	$126,879	ROUTT	Steamboat URA	$274,108
	DURA Downtown	$4,170,389	**ROUTT Total**		**$274,108**
	DURA Elitch's	$1,146,133	TELLER	Woodland Park DDA	$199,619
	DURA Guaranty Bank	$89,599	**TELLER Total**		**$199,619**
	DURA Highlands Gardens	$276,990	WELD	10th St. GURA	$22,771
	DURA Lowenstein Theater	$40,605		Greeley DDA	$45,449
	DURA Lowry	$6,918,040		GURA	$253,562
	DURA Mercantile Square	$122,084	**WELD Total**		**$321,782**
	DURA Northeast Park Hill	$343,049			
	DURA Pepsi Center	$2,207,478	**Grand Total**		**$74,531,088**
	DURA Point Urban	$61,094			
	DURA South Broadway	$896,979			
	DURA St. Luke's #1	$590,043			
	DURA St. Luke's #2	$469,902			
	DURA Stapleton	$13,341,439			
	DURA Westwood	$315,671			
	DURA York Street	$304,592			
DENVER Total		**$31,674,766**			

Appendix B

State TIF Enabling Legislation

State	Duration	Legislation
Alabama	30 years per TIF district	ARS 11-99.1 et seq
Alaska	None specified Improvement Area Projects	AS 29.47.460
Arizona	None	
Arkansas	25 years per district Community Redevelopment	AR Code 14-168-301 et seq
California	30 years (plus up to 15 year extension)Community Redevelopment Law	California Code 33000 et seq
Colorado	25 years per project to fund bonds Urban Renewal Law	CRS 31-25-101 et seq
Connecticut	As determined by CT Development Authority Tax Incremental Financing Program	Title 8 Chapter 130 Sec 8-124 et seq
Delaware	30-year bond issuance Municipal Tax Increment Financing Act	22-1701 et seq
District of Columbia	Per project area Tax Increment Financing	§ 2-1217.01 et seq.
Georgia	Dissolve by resolution of council and no debt	Redevelopment Powers Law 36-44-1 et seq
Hawaii	Dissolve as established by ordinance	Tax Increment Financing Act 46-101 et seq
Florida	40 years from adoption of redevelopment plan	Community Redevelopment Act 163.330 et seq
Idaho	24 years	Local Economic Development Act § 50-2901 et seq.
Illinois	23 years per district	Tax Increment Allocation Redevelopment Act 65ILCS 5/11-74.4-1 et seq
Indiana	30 Years	IC 36-7-14 et seq; IAC50-8-1
Iowa	20 years per district	Urban Renewal Law § 403.1 et seq.
Kansas	20 years	KRS 12-1770 et seq
Kentucky	20 years	Increment Financing Act KRS65-680 - 699
Louisiana	30 years	Tax Increment Development Act Title 47, Subtitle 9, Chapter 1
Massachusetts	30 years	District Improvement Financing Ch 40Q, Sec 1-4

Appendix B

State TIF Enabling Legislation (continued)

State	Duration	Legislation
Maine	30 years per district	Title 30-A, §5227
Maryland	Per development district agreement	Tax Increment Financing Act § 14-201 et seq. (2001)
Michigan	Active until purpose has been accomplished	Tax Increment Finance Authority Act § 125.1801 et seq.
Minnesota	25-years per district (30 for pre-1979)	Tax Increment Financing Act Minn Statutes 469.174-469.179
Mississippi	Per individual financing plans	Tax Increment Financing Act § 21-45-1 et seq. (2001)
Missouri	23 years per district	Real Property Tax Increment Allocation Redevelopment Act 99.800 RSMo et seq
Montana	15 years	Urban Renewal Law § 7-15-4201 et seq.
Nebraska	15 Year per districts; no limit of number per city	Community Development Law NRS 18-2100 et seq
Nevada	Up to 45 years	Community Redevelopment Law § 279.382 et seq.
New Hampshire	30 years Municipal Economic Development and Revitalization Districts	§ 162-K et seq
New Jersey	Until obligations for any project in the district cease to be outstanding	Revenue Allocation District Financing Act C.52:27D-459 et seq
New Mexico	5 years	Urban Development Law § 3-46-1 et seq.
New York	Per redevelopment plan	Municipal Redevelopment Law § 970-a et seq.
North Carolina	30 years	Project Development Financing Act Chapter 159, Article 6
North Dakota	By local ordinance	Urban Renewal Law § 40-58-01 et seq.
Ohio	30 years	Municipal Tax Increment Financing Act § 5709.40 et seq.
Oklahoma	25 years	Local Development Act § 850 et seq.
Oregon	30 years	Urban Renewal Law § 457.010 et seq.
Pennsylvania	20 years	Tax Increment Financing Act tit. 53.§ 6930.1 et seq.

Appendix B

State TIF Enabling Legislation (continued)

State	Duration	Legislation
Rhode Island	By project plan	Tax Increment Financing Act § 45-33.2-1 et seq.
South Carolina	Per redevelopment plan	Tax Increment Financing Law § 31-6-10 et seq.
South Dakota	15 years	Tax Incremental Districts § 11-9-1 et seq.
Tennessee	Per redevelopment plan	Redevelopment § 13-20-201 et seq.
Texas	By local ordinance or when all project costs, tax increment bonds, and interest are paid.	Tax Increment Financing Act § 311.001 et seq.
Utah	25 years	Redevelopment Agencies Act § 17 B-4-101 et seq.
Vermont	On project basis	Tax Increment Financing title 24, § 1891 et seq.
Virginia	For so long as any obligations or development project costs are unpaid	Tax Increment Financing § 58.1-3245 et seq.
Washington	30 years	Community Revitalization Financing § 39.89.010 et seq.
West Virginia	30 Year district; no limit of number per municipality	West Virginia Tax Increment Financing Act WV code 7-11B-1 et seq
Wisconsin	27 years (raised from 23 in 2003)	Tax Increment Law § 66.1105 et seq.
Wyoming	25 years	Wyoming Urban Renewal Code § 15-9-101 et seq.

Source: Council of Development Finance Agencies (CDFA); http://www.cdfa.net/cdfa/cdfaweb.nsf/pages/tifstatestatutes.html