

TAX INCREMENT FINANCE (TIF) FREQUENTLY ASKED QUESTIONS

TAX INCREMENT FINANCE (TIF) BACKGROUND

Tax increment financing (TIF) is a mechanism for funding redevelopment activities or undertakings (undertakings) in Colorado targeted at improving blighted areas or deterring blight in commercial business areas. 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.

WHO CAN USE TIF?

	URA	DDA
FUNDING	Tax Increment Financing	<ul style="list-style-type: none"> Tax Increment Financing + 5 Mill Levy Assess all affected
FORMATION	Ordinance	<ul style="list-style-type: none"> Ordinance Vote of all affected
GOVERNANCE	Appointed	Appointed
PLANNING	Urban Renewal Plan	Plan of Development

State law in Colorado authorizes urban renewal authorities (URAs) and downtown development authorities (DDAs) to use TIF for undertakings that relate to blighted areas. TIF allows an authority to use the "increment" of increased taxes collected within the TIF district once the plan is approved and taxable improvements are made (Section (URA) 31-25-101 et seq., and Section (DDA) 31-25-801 et seq.C.R.S.). Tax increment revenue may be generated from property or municipal sales taxes or both.

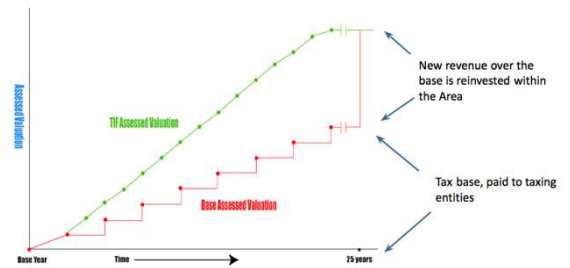
WHERE DOES TIF COME FROM?

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 last certified by the county assessor prior to the approval of the urban renewal plan or plan of development. As assessed value increases the resulting tax revenue is dedicated to pay the costs of carrying out the plan. To protect the revenue allocated to taxing bodies, the base assessed value is increased from time to time and the taxing bodies continue to receive the revenue produced by the levy of such taxing bodies against the adjusted base value.

All the revenue generated by the redevelopment within an area reverts to the normal taxing entities when the urban renewal district sunsets at the close of 25 years for urban renewal and 30 years for downtown development authorities. Thus, the neighborhood benefits from the creation of revitalized, productive properties and amenities, the taxing entities, as well as the entire community, enjoy new, permanent sources of revenue that wouldn't have existed if the authority had not implemented the approved plan and enabled the redevelopment and improvements to happen.

HOW IS PROPERTY TIF CALCULATED?



HOW IS TIF USED?

TIF revenues go into a special fund and, as it grows, the funds can be leveraged for support of undertakings in the geographic boundaries of the Tax Increment Finance Plan Area. TIF revenue can be used in a variety of ways for those activities that carry out the basic plan. The authority may issue bonds, pay for eligible costs directly, or reimburse public and private entities for eligible costs.

TIF allows redevelopment authorities to leverage future increased property taxes (and sales tax if the plan includes such) to help finance redevelopment efforts. As redevelopment happens, any of the incremental taxes collected above the adjusted base revenues are invested in the redevelopment itself.

WHY IS TIF NEEDED?

The remediation of blight, redevelopment and construction of public improvements can be very expensive and hard to accomplish, often requiring public investment to remedy. It can be difficult to assemble and redevelop property with dilapidated structures, environmental contamination, lack of proper infrastructure, dangerous conditions, topographical restraints, and undevelopable parcels of land. TIF financing is used to promote and facilitate redevelopment of these areas for the long term benefit of the community.

DOES THE SCHOOL CARE ABOUT TAX INCREMENT, SINCE THEY GET BACKFILL FROM THE STATE?

The school cares about tax increment, and the school gets backfill from the state, but revenue is based on the number of students. The number of students in rural communities is lower than it used to be, but in urban areas many schools are at higher capacity.

WHAT IF THE COMMUNITY MEMBERS ARE OPPOSED TO TIF?

Communication is key, and having an open conversation is really important. Having multiple opportunities to educate, and have a dialogue is critical. Take the time to educate the community, and share the value proposition. Many people don't understand TIF, and miscommunication is a major contributing factor. When doing education with the public, there will always be folks who say "i didn't know about the xxx", if you have an open and transparent process, you can help win the public who might not be a part of the decision, but can accept the process was fair.

IN TRINIDAD, WE HAVE A URA AND THE BOUNDARIES INCLUDE MOST OF TRINIDAD. WOULD IT MAKE MORE SENSE TO HAVE SMALLER URA PLAN AREAS?

Sometimes with big areas, there can be changes that cause decrement. The taxing entities may have some changes, including that properties may change ownership with taxing entities, and properties themselves may change. Property values may decrease, and a catalyst project would have to generate the negative amount and the increment before the URA sees money.

Major modifications of your plan require compliance with HB 15-1348. The administrative cost with complying with HB 15-1348 for plan areas is high, and for small plan areas it can be a lot. Thus, smaller plan areas can be beneficial.

IF YOU HAVE A LARGE EXISTING URA AREA, CAN YOU START SMALLER TIF PROJECTS WITHIN THEM?

Yes, although the recommendation is not to do that because of potential issues with decrement and assessments., As you make "major modification" to the URA plan, HB 15-1348 would come into play.

WHAT ARE THE INTEREST RATES FOR URA BONDS USUALLY?

There's usually a portion of it that's tax exempt. The bond issuer looks at estimated revenue and the underlying security of the repayment. If there are taxable and non-taxable bond series, the taxable series will be at a higher rate. If the municipality issues the bonds, the bonds are issued at a municipal rate. If the URA/DDA bonds are guaranteed by municipal general funds, the interest rate will be lower.

AS A FINANCIAL BROKER, WOULD YOU RATHER HAVE THE TIF AGREEMENT THROUGH THE DEVELOPER OF THE URA?

Through the URA would be preferable for the TIF agreement. Control of the funds from start to finish is a key asset of URA financed bonds.

HOW DO DDAS AND URAS COEXIST?

You can only have one TIF on a parcel. First in time equals first in right for TIF priority. Good relationships between DDAs and URAs are important. URAs' debt authorizations are not subject to TABOR, while DDAs can only be allowed multi-year authorization based on the language in the debt authorization ballot measure.

CAN YOU HAVE A SALES TAX INCREMENT AGREEMENT WITH THE CITY IF IT IS NOT IN THE PLAN OF DEVELOPMENT?

Yes, but they must be individually negotiated with the City.

WHAT IS THE DIFFERENCE BETWEEN A LARGE PROJECT AND A SMALL INFILL PROJECT?

\$10M-15M with bonding capability generally indicates a large catalytic project. \$1M-\$2M probably isn't worth it to issue bonds, maybe \$5M could be. Commercial will add return on investment, while housing will have a nice return on investment if it is on vacant ground.

WHAT IS AN EXAMPLE OF A GOOD USE OF URA/DDA BONDS?

Good examples of bond use are for utilities and infrastructure. When additional water, sewer, or road extensions help to make other land more accessible, the cost-benefit analysis will start to work. This can also leverage grants and federal assistance for infrastructure like ARPA funding.

HOW IS SALES TAX INCREMENT CALCULATED OVER TIME?

Base is set 12 months back from the start. Sales tax increment is negotiated with the city, and the sales tax is paid to the city first and then apportioned out to the URA or DDA based on the agreement. Often a sales tax increment will consider previously 'pledged' sales tax funds, for things like streets, public safety, etc. With that lower amount, a percentage may be committed.

HOW DO YOU CONVINC THE MUNICIPALITY THAT IT'S IN THEIR INTEREST TO SHARE THE SALES TAX WITH THE URA?

For the right catalyst project, there might be a need for a sales tax increment agreement to land a key retail anchor or a project that hits many of the URA/ Council goals. Sales Tax Increment also helps the Council negotiate with other taxing entities by showing that the City itself is pledging revenue.

DOES THE SALES TAX ALLOCATION FROM THE CITY HAPPEN THE ENTIRE 25 YEARS?

The allocation depends on the agreement. The allocation could go beyond 25 years, depending on the type of agreement. When negotiating with the municipality, being aware of sales tax revenue bonds is important, and being aware of where the municipality uses sales tax they receive.

HOW CAN WE THINK CREATIVELY ABOUT PUBLIC BENEFITS FOR TIF AGREEMENTS?

DDAs are a lot more flexible than URAs, in using TIF for improvements. But even URAs are using TIF to encourage the types of uses a community wants - this could be housing units, safety improvements, etc.

HAVE YOU SEEN ANYONE USE PACE FINANCING?

PACE - Property Assessed Clean Energy. It is secured by a special assessment on the property regarding clean energy.