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ORIGINAL REPORTING & COMMENTARY

Senate Bill 194: Expanding use of tax-increment financing wrong for Colorado

Randal O'Toole and Mike Krause

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Colorado municipalities have been abusing tax-increment financing (TIF) for decades, diverting tax dollars from schools, public safety, health & human services, and other programs in order to subsidize economic development. The main beneficiaries of TIF are a few developers and contractors. State taxpayers are often forced to back fill the lost schools revenue.

Now the Colorado legislature is considering a bill to dramatically expand the use of TIF. Under Senate Bill 16-194, a city or county, or combination of local governments could declare an area to be commercially "undeveloped or underdeveloped," establish an "authority" and use TIF to subsidize construction or repair of road or transit projects.

TIF takes place when a local government designates a neighborhood or other land area for redevelopment. All the current property and sales taxes paid in that area continue to go to agencies that normally collect such taxes, but any new taxes collected—that is, the incremental taxes—go to subsidize the new development. This is true even if the increase in taxes is due to inflation or developments that would have taken place without the subsidy.

Research has shown that TIF doesn't lead to new development, but rather subsidizes development that would have taken place anyway. All the TIF does is influence the location and perhaps the form of that development. Economists Richard Dye and David Merriman looked at property value growth rates for 235 northeastern Illinois municipalities, where about 1/3 of those municipalities had adapted the use of TIF. After controlling for sample-selection bias (cities that were already growing and TIF was introduced to capture a property tax-base vs. cities that introduced TIF in an attempt to spur economic growth) they found evidence to show not only that TIF areas grow at the expense of non-TIF areas, but that municipalities that adopt TIF actually grow more slowly than those do not.

California invented TIF in 1952 to help rebuild blighted neighborhoods. No one thinks there are many neighborhoods today that are so blighted that they can't recover on their own, but cities still use TIF because it is an easy way to increase their budgets at the expense of other agencies.

TIF became such a huge burden on schools and other programs in California that the state repealed its TIF law in 2010.

Colorado cities can only use TIF if they can show that an area is so blighted that, “but for” the TIF subsidies, redevelopment could not take place. Yet cities have become adept at getting around this requirement so they could use TIF money to subsidize areas that are far from truly blighted or that developers are already redeveloping without subsidies.

More than 7 percent of Broomfield and nearly 7 percent of Denver property taxes go to TIF subsidies to developers. A 2005 study of TIF-funded urban renewal areas in Denver found that, among other things, “TIF-projects create service needs they don’t pay for.” So the shortfall must be covered by other taxpayers. TIF costs state taxpayers more than $40 million per year, money that contributes nothing to economic growth because the development it subsidizes almost certainly would have happened anyway, just not in the time and place preferred by planners and politicians.

Voters never approved this spending, but they sometimes have to approve increases in the budgets of other agencies to make up for the losses to TIF. For example, a few years ago the North Metro Fire Protection District lost so much of its tax revenue to TIF districts that it had to ask voters for atax increase to make up the difference. Voters approved the increase because they wanted fire protection, but effectively they were supporting subsidies to developers.

It’s conceivable that a new transportation project could generate enough new economic activity to be funded out of sales tax increment revenues. It is far more likely, however, that most or all such projects would be net economic drains on the cities or regions that build them.

The proposed law does require city or other governments to “show how, but for the project, greater commercial development will not occur” in the project area. This is the same “but-for” language that cities regularly circumvent in existing law.

Its odd that the bill sponsors are pushing to expand TIF at the same time there is a growing wave of push-back by Coloradans against abuse of existing TIF authority.

In March 2015, Littleton voters overwhelmingly passed Measure 300, which simply says any urban renewal plan that utilizes TIF must be approved at the ballot. Opponents of the measure claimed that if it passed, Littleton would be “closed for business.” Yet at a city council meeting this April, the city manager reported that Littleton’s planning and development department is “swamped.”

In November 2015, Wheat Ridge voters passed their own Measure 300, which says any TIF of more than $2.5 million must be approved by voters. In addition, any TIF under $2.5 million must be approved by a vote of the city council, rather than approved by an un-elected urban renewal authority (URA).

Early in 2015, Steamboat Springs declared its tourist-destination downtown as “blighted,” and moved forward with a plan to use TIF for downtown re-development projects. Steamboat Springs Board of Education member Scott Bideau pointed out that Steamboat’s existing, TIF-funded mountain URA “currently diverts over $400,000 a year in local property tax revenue away from the school district while also increasing property taxes outside the URA to cover the school mill levy overrides and bond payments that are not paid for by new development within the URA or backfilled by the state.”

In June 2015, the Steamboat Springs City Council reversed itself, voting to kill the TIF scheme they had only months earlier overwhelmingly approved.

TIF is really just a form corporate welfare that allows planers and politicians to give a public subsidy to private interests for their preferred economic development projects. While any profits remain privatized, potential losses are spread out among taxpayers, or socialized. Far from expanding the use of TIF, the legislature should be scaling back existing TIF authority, or as California has done, simply repeal it altogether.

Randal O'Toole (rot@i2i.org) is director of the Independence Institute's Transportation Center and senior fellow with the Cato Institute. Mike Krause (mike@i2i.org) directs the Independence Institute's Local Colorado Project.