CML
COLORADO MUNICIPAL LEAGUE
The Voice of Colorado's Cities and Towns

1144 Sherman Street, Denver, CO 80203 • (p) 303-831-6411 / 866-578-0936 • (f) 303-860-8175 • *www.cml.org*

May 9, 2014

The Honorable John W. Hickenlooper
Governor of Colorado
136 State Capitol
Denver, Colorado 80203

Dear Governor Hickenlooper,

We respectfully request your veto of HB 14-1375, which weakens the effective use of urban renewal to redevelop and make blighted urban properties productive once again. Urban renewal is a public/private partnership used by municipalities across the state to redevelop blighted urban areas plagued by a wide range of difficulties that make the properties financially unfeasible for redevelopment by the private sector. Tax increment financing (TIF) is what makes this possible. TIF is the new tax revenue generated by the project that pays for the public investment in the project.

HB 14-1375 requires the percentage of municipal sales tax increment received from the urban renewal project to mirror the percentage of property tax allocated to the project. While this sounds like a simple equation there is nothing simple about the municipal investment in these projects. Today, many urban renewal TIFs include all or a portion of municipal sales tax increment while others do not. This is because financing for each project has unique challenges. Many factors are considered when crafting a workable financing package.

The bill allows a municipality to strike a deal with a county that would release the city from the sales tax commitment requirement. The underlying goal of this legislation appears to be creating a mechanism for a county to extract a portion of TIF revenue not connected with county service impacts generated by the project.

The bill implies that municipalities take unfair advantage of other taxing entities through the use of urban renewal. This is not true. Municipalities and the private sector are the only entities putting upfront dollars into an urban renewal project. That means that they are the only ones with "skin in the game." Other taxing entities make no upfront investment in urban renewal projects but they do reap benefits as a result. Urban renewal financing packages are complex and difficult to complete - generally taking more than a year and often much longer to work out between the urban renewal authority and the private sector. This bill adds another layer of complication and delay to the process.

The amount of property tax revenue received by all taxing entities is not static but increases during the life of the TIF district. Taxing entities also gain revenue from increased property values for properties adjacent to the urban renewal project. Most counties levy a sales tax. The amount of additional county sales tax generated by the project has not been brought forward in debate over the bill - but county sales tax revenue increases are significant in these retail projects. This bill does not require a county sales tax commitment to the TIF.

While the bill allows municipalities to gain some credit for dollar investments made in the project before the creation of the TIF district, it fails to allow credit for a variety of municipal financial contributions, other than sales tax, made during the TIF period.

It is important to point out the obvious - with no URA project the blighted properties continue their decline in value yielding fewer property tax dollars for all taxing entities.

The bill language poses several legal questions. The effective date language is confusing and introduces concepts that are not presently part of the urban renewal statutes, making it unclear which projects or urban renewal areas will be subject to the legislation. The requirement for a percentage of municipal sales tax increment to be applied to a TIF also leaves much to interpretation - and that will be of concern to the bond market. The bill appears to give other taxing entities standing for legal action to challenge the sales tax increment that is allocated by the municipality. This challenge could come at any time in the future - creating uncertainty that will make it difficult to secure debt financing for projects.

We are compelled to answer statements that have been put forward by proponents of this bill:

1. *Cities use county and district property taxes without their permission.*
   This statement distorts the premise of tax increment financing. The property tax increment is directly allocated to the urban renewal authority because the increment is generated by the urban renewal project. County and district money is not taken - it is the project's money for the first 25 years. Without the project, there would be no increment.

2. *Municipal revenues invested in the project are not equal to the revenue 'lost' to the other taxing entities. Cities have no obligation to commit their own operating revenues.*
   This is a simplistic understanding of urban renewal projects. Committing the municipal sales tax increment to the TIF does not somehow make the investment in the project equal.
   - County and district investment in the project is zero. But their benefit grows.
   - Other taxing entities receive the property tax revenue they have received in the past plus increases due to reassessments. They also benefit from the increased values of

neighboring properties. Counties collect a significant amount of increased county sales tax.

- At the conclusion of the project - all property taxing entities receive the windfall created by a successful project.
- Cities directly support urban renewal projects in a number of ways beyond sales tax including the municipal property tax, use tax, the imposition of public improvement fees, and utility incentives.
- Nearly all the government services provided to the project are municipal services.
- Many municipalities commit their sales tax increment to the project TIF, others don't, and some are municipal sales tax only. These decisions result from the complex negotiations that result in a project financing package. Every project is different in its financing needs and municipal service requirements.

3. *Urban renewal projects in 2012 "diverted" $40 million in school district revenue that was back-filled by the state.*
   Most urban renewal projects are retail projects. Even if we assume $40 million in school district backfill required from the state is a real number - the state general fund comes out ahead due to the amount of new state sales tax generated by these projects. Lakewood has released figures for its Belmar project. Before the Belmar project, the failing retail center it replaced generated $300,000 in state sales tax in 2003. Following completion of Belmar, the state collected $4,600,000 in sales tax in 2012. Less the estimated $2,000,000 in school backfill, the net gain to the state general fund was $2,300,000. Urban renewal is not only the antidote to blight, but it is an economic development stimulus.

4. *Counties should have a voice in the process*
   Counties already have a voice in the process - but rarely use it. Under current statute municipalities are required to submit to counties an impact report estimating county service costs created by the project. Counties then have 30 days to object to those estimates and provide their own. Testifying before the Senate Judiciary Committee on the bill, Anne Ricker with the firm Ricker Cunningham noted she has written 55 urban renewal project impact reports to counties. Only once has a county replied disputing the report's recommended compensation for service costs. Urban renewal authorities have a strong track record of negotiating arrangements with counties, fire districts and school districts to meet their service impacts created by a project. These efforts have ranged from paying for school buildings and fire stations to negotiating annual allocations to support specific program costs.

5. *The Colorado Municipal League will not negotiate urban renewal issues.*
   CML and Colorado Counties, Inc. (CCI) have a close working relationship. Last summer CCI took a new tack on the urban renewal issue by promoting a position that would have automatically taken a percentage of the tax increment and given it to the county. This would have effectively ended the use of urban renewal. With CCI sticking to this

approach, there was nothing to negotiate. Following the introduction of HB 14-1375, CML supported an amendment changing the bill to order an independent study of costs and benefits for each taxing district - because we know urban renewal projects benefit not only the cities but all other taxing entities, including the state general fund. That amendment was opposed by the counties, special districts, and bill sponsors.

We have cooperated in reforming urban renewal. In 2010 CML supported a reform bill that eliminated the inclusion of agriculture land in urban renewal projects. This was a major change that ended the ability to convert cornfields into shopping centers under the urban renewal umbrella. That was the right thing to do. Now urban renewal has been restored to its original intent - urban in-fill redevelopment.

The following are two examples that illustrate the importance of this tool. The first is a new project; the second a completed project:

1. Leprino Foods has constructed a cheese processing plant on the site of an abandoned sugar factory in east Greeley because urban renewal made it financially feasible. Since it closed 25 years ago, the factory site has been a deteriorating eye-sore. It was only through the use of TIF dollars that this 100-acre brownfield site was cleaned-up, huge concrete silos and the factory building were razed, and a company that was looking to locate a cheese processing plant somewhere in the West chose to locate it in Colorado. Beyond the rehabilitation of this blighted property, 300 jobs were created and millions of private dollars will be pumped into the regional economy. The City of Greeley will be spending millions of dollars in police, fire, utilities and other city services for the plant area over the next 25 years.

2. The Downtown Golden Urban Renewal Project shows how every taxing entity benefits. The Golden TIF expired this year following a 25 year life-span. This urban renewal project transformed a dying downtown full of boarded up buildings and empty store fronts into a vibrant core of the city where residents come to shop the many small businesses, enjoy restaurants and entertainment, or walk the banks of a restored riverfront. The property tax yield to taxing districts did not remain stagnant during the 25 year TIF period. Due to biennial reassessments the amount of property tax received by all taxing entities doubled in the 25 year period. And now that the TIF period has ended, all taxing entities will receive double the amount of property tax revenue this year than they received last year. They receive a windfall impossible without the urban renewal project.

This redevelopment tool is vital to the effort of turning away from sprawl and encouraging urban in-fill. Urban renewal projects are the only financially feasible way of redeveloping most failing urban centers. That is why we now see "first-ring" suburbs beginning to use this tool to solve the same type of redevelopment challenges that Denver has addressed through urban renewal for several decades, including many successful projects completed during your time as mayor.

You've placed a priority on wise water use in your Colorado Water Plan. Urban in-fill redevelopment made possible by urban renewal encourages the re-use of existing resources rather than sprawl development that will place greater pressure on Colorado's water supply, not to mention impacts on air quality and transportation.

The root of this bill stems from an instance where a county believes it won't get enough compensation from a proposed urban renewal project. In this case, it is not to cover the costs of services delivered to the project area, but rather for county services in general. This was a local issue that was carried to the legislature for a statewide "solution." The fact is these types of compensation issues are routinely worked out project by project at the local level. Imposition of a "one size fits all" solution does not work well as each project is different.

We do not like to see disagreements between local governments brought before the General Assembly. Asking the central government in Denver to "help" on local issues is usually the last thing that local governments want to do. However, we find ourselves in the regrettable position of defending municipal interests against just such a situation in HB 14-1375. Our preference is to solve local problems locally, in discussions seeking reasonable outcomes, and simply leave the General Assembly out of it. That is why we respectfully ask for your veto of HB 14-1375.

Sincerely,

Marc Williams, Mayor of Arvada
President, Colorado Municipal League

Sam Mamet, Executive Director
Colorado Municipal League

cc: Roxane White, Office of the Governor
Alan Salazar, Office of the Governor
Jack Finlaw, Office of the Governor
Ken Lund, Executive Director, Office of Economic Development and International Trade
Reeves Brown, Executive Director, Department of Local Affairs
Colorado Municipal League Executive Board

For additional information please contact:
Mark Radtke, CML Legislative and Policy Advocate mradtke@cml.org or 303-831-6411