Final Report

Larimer County
Tax Increment Financing Study

The Economics of Land Use

Prepared for:

Larimer County TIF Study Group

Prepared by:

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Table of Contents

List of Tables

List of Figures

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1. EXECUTIVE SUMMARY

Introduction

This report presents the analysis and conclusions of Economic & Planning Systems, Inc. (EPS) regarding the impacts of tax increment financing (TIF) in Larimer County and recommendations for how future TIF projects should be reviewed and evaluated. The report was prepared as input to the Larimer County Tax Increment Financing Study Group (TIF Study Group) which is working to develop policies and evaluation tools for the future use of TIF that address impacts on the County's taxing districts. The TIF Study Group has received the EPS Study and is contemplating its next steps to complete its stated objectives.

The TIF Study Group is comprised of County government officials and representatives of the three municipalities in Larimer County currently utilizing tax increment financing (Fort Collins, Loveland, and Timnath); plus representatives from the other five municipalities in the county; and representatives from selected taxing districts and special districts. The TIF Study Group was formed to discuss issues that have arisen regarding the use of tax increment financing, to quantify related economic effects and fiscal impacts on Larimer County, and to seek policies and agreements that balance the interests of the County, other taxing districts, and the participating municipalities. The TIF Study Group acknowledges the positive contributions of public investments provided by tax increment financing to the economic development and vitality of Larimer County's municipalities, and seeks to find solutions to allow for its beneficial use in the future consistent with sustainable funding for Larimer County and the other taxing districts that are highly dependent on property tax for funding.

Background

Colorado law allows for the creation of urban renewal authorities (URAs) within municipalities to implement redevelopment and revitalization projects. Among a URA's powers is the ability to utilize tax increment financing (TIF) for purposes of addressing extraordinary costs associated with redevelopment and/or for paying for other eligible public expenses. Downtown development authorities (DDAs) also have the power to utilize TIF.

The term tax increment refers to the incremental property taxes created by new development within a designated URA plan area or DDA boundary. Under Colorado law, TIF allows a URA or DDA to redirect the incremental property taxes from all taxing entities within a Plan Area to be used for financing eligible project-related expenses for a period of up to 25 years in a URA and 30 years in a DDA.

Three municipalities in Larimer County – Fort Collins, Loveland, and Timnath – have formed URAs and DDAs resulting in 8 districts which have TIF (TIF districts). These existing TIF districts have a total assessed value of $163 million, which is 4.2 percent of the total County assessed value of $4.1 billion based on 2015 data used in this study. As of 2016, the percentage of assessed value in TIF districts is 4.9 percent. Larimer County has the highest percent of TIF assessed value compared to total assessed value among the 10 largest counties in the state.

The County and selected taxing districts affected by TIF, along with the municipalities currently using TIF, have come together to form the Larimer County TIF Study Group to evaluate the future of URAs and TIF in Larimer County. The TIF Study Group acknowledges the positive impacts of TIF in providing needed financial support for redevelopment and economic development investments in the County and all involved are committed to the best use of this important financing tool going forward. However, the TIF Study Group was convened because of concerns about requirements to provide services to the new development created by TIFs and the redirection of related property tax revenues that would otherwise pay for these services and future needs of County residents.

Purpose and Goals

The participants in the TIF Study Group agreed to undertake this Regional TIF Study to examine and discuss a process for the evaluation of future TIF proposals. The overall purpose of the Study was to provide direction on the future use of TIF for the future economic wellbeing of the citizens of Larimer County, and also to serve as a model for other Colorado counties. The three major goals created by the TIF Study Group are as follows:

- Develop a method to qualify and quantify the fiscal and economic impacts and financial risks of TIF proposals;
- Develop a way to evaluate the indirect impacts of TIF projects and corresponding financial effects on taxing entities; and
- Establish a framework for formal agreements that balance the benefits and risks among participating entities in Larimer County.

Scope of Work

Larimer County retained EPS to work with the TIF Study Group to address the above goals. EPS' Scope of Work within the Regional TIF Study focused on developing a direct cost fiscal impact model and an overall framework and approach for estimating the impacts of future TIFs including the following major tasks:

- A <u>fiscal impact analysis</u> model that estimates the direct government-related costs and revenues of TIF projects by land use type on the County and other taxing districts affected by the diversion of property taxes for TIF.
- An <u>economic impact evaluation framework</u> that estimates the indirect economic impacts of TIF projects including jobs, wages, and a qualitative evaluation process for assessing indirect impacts such as property value changes.
- An <u>analysis of the individual and cumulative impacts</u> of the redirection of property taxes due to TIF on the provision of services for the community.
- <u>Recommended policy actions</u> to mitigate potential negative impacts of TIF.

Study Findings

1. ***Public investments using tax increment funds have resulted in positive contributions to economic development and vitality in Larimer County.***

   Tax increment financing in URA and DDA settings has leveraged private investment in Larimer County real estate projects over the last 15 years. The TIF Study Group members agree that urban renewal TIF has been and will continue to be an important financing tool for municipalities in the County for providing economic development incentives, for addressing revenue shortfalls for redevelopment projects, and for accelerating and improving the quality of development. The TIF Study Group also recognizes that the use of TIF has captured property tax revenue growth that the County and other taxing districts depend upon for providing services to Larimer County residents that will need to be addressed by future TIF projects.

2. ***The number and size of urban renewal districts using TIF has resulted in unintended negative impacts on the ability of the County and other local taxing districts to provide services to new development and growth.***

   While individual TIF projects have been beneficial to local and countywide economic development, cumulatively they have had unintended negative impacts on the tax base of the County and other taxing districts. The assessed value captured in TIF areas has grown over 15 percent annually (compounded) since 2000 and accounted for 4.2 percent of total assessed value at the end of 2014. Larimer County is fortunate that it has also had rapid growth in assessed value countywide (4.5 percent per year), which has mitigated some of the revenue losses attributable to TIF. Nevertheless, the growth in TIF has raised concerns among the County and other taxing districts that rely on property tax to fund services. If this trend continues, service levels will be degraded as there is little other revenue available to backfill revenues captured in TIF. As citizens' expectations for expanded and improved services grow over time, the 25-year life of TIF interceptions limit funding available to meet these demands.

   There continues to be debate on whether TIF "diverts" revenue or if it captures revenue that would not have otherwise been created. This argument hinges on how well a project satisfies the "but for" criteria that must be met for TIF to be used. In other words, if the project would truly not have occurred "but for" the TIF, then the revenue growth is not lost because it would not have occurred without the use of TIF. With broad criteria for meeting the definition of blight under Colorado law, and assumptions by developers and landowners that TIF will be built into a deal structure, there is some subjectivity in the criteria used for the "but for" test.

3. ***The use of TIF has expanded from its originally intended purpose as a tool to remove urban blight to a tool more broadly used for a wider range of economic development projects.***

   With tax increment financing, future property taxes generated by the new development investments can be used to fund revenue bonds to pay for eligible expenses without imposing an additional tax burden on the project. Because it does not impose new taxes or fees, it is the most effective tool available that has been frequently used and with increasingly broader applications than was the original intent of urban renewal legislation, which was focused on urban blight conditions.

   While specific TIF practices and policies vary by municipality, the use of TIF has expanded over time. In Larimer County, TIF has been used on many types of development projects including retail and commercial developments, mixed use developments, residential development, and economic base jobs. The increase in the number and size of TIF districts has resulted in a larger percentage of assessed valuation and the associated property taxes diverted away from in the County and other taxing districts to URAs. These cumulative impacts are limiting property tax revenue growth and the ability of these taxing jurisdictions to provide services to new development and expanded services to the community as a whole.

4. ***There is increased awareness and scrutiny of the use of TIF in Colorado and nationally.***

   The impact of TIF on counties, schools, and other taxing districts has been debated at the state level for several years, resulting in legislation passed in 2006 that requires a county impact analysis to be conducted for all new TIF projects. Prior to that, legislation was passed to limit the formation of URAs on agricultural land in response to some controversial applications of TIF. In 2015, new legislation passed that requires the URA and the affected county and other taxing districts to agree to the distribution of property taxes based on an impact report, or a mediation process is triggered. The expectation is that municipalities will be more selective in the use of TIF and enter into more agreements with taxing districts to mitigate impacts and/or share revenues. A challenge for counties and other taxing districts is that they rely on property tax for capital projects, reserves, and unforeseen events in addition to funding everyday services. If revenue sharing is limited to the direct *cost* of services, taxing districts may feel that they are not "made whole."

   The use of urban renewal and TIF are being critically examined in other states as well. Legislation in several other states has enabled an increase the level of involvement from counties and school districts including Texas, which allows for their voluntary participation. And in the most extreme example, California repealed redevelopment districts in 2011 as a result of the state's budget crisis during the recession and due to the amount of statewide property taxes that were captured in TIF areas.

5. ***Larimer County, along with many other Colorado counties, has structural fiscal constraints that have been exacerbated by the use of TIF by municipalities.***

   The State of Colorado requires counties to maintain four funds to account for the revenues and expenditures associated with the state mandated government services which counties are required to provide: the General, Road and Bridge, Health and Environment, and Human Services funds. Each of these funds is supported by a dedicated property tax mill levy, and in Larimer County property tax comprises 51 percent of the revenue in the four statutory funds. The County also receives some additional revenue from charges for services and fees to recover direct service costs, and from state and federal grants. Many fees are set by state statute, and state and federal grants fluctuate with changing legislative mandates and state and federal funding availability. State and federal grants are also earmarked for specific programs such as assistance for low income families and various health initiatives. General fund revenues can be used to supplement a wider array of County services.

   While the services counties provide are largely mandated and subject to general cost inflation, they have little control over their revenues, which are heavily reliant upon property taxes. In turn, property tax growth is limited by TABOR, which requires a vote for any tax increase. As the use of TIF grows, an increasing portion of property tax revenues are captured by URAs and DDAs. Some counties collect a general purpose sales tax or a sales tax for capital improvements that can be used to supplement as well as diversify its revenue sources. At least three other large counties – Mesa, La Plata, and El Paso Counties – collect a general and/or capital projects sales tax.

6. ***As a result of the Gallagher Amendment, local governments receive 3.6 times more property tax from commercial development than from an equivalent market value of residential development; yet the majority of local government service costs are based on serving population and housing.***

   The Gallagher Amendment, passed in 1982, was designed to maintain a constant ratio between the property tax revenue that comes from residential property (approximately 45 percent) and from commercial property (approximately 55 percent). The effect of the Gallagher Amendment over time was to reduce the assessment rate for residential property because residential property values have increased faster than commercial property values. Commercial property is now assessed at 29 percent of market value, which is 3.6 times higher that residential property which is assessed at 7.96 percent of market value. From the perspective of counties and many municipalities, residential development has higher service demands but generates less revenue than commercial development.

   As a result of low property taxes statewide, Colorado's municipal governments are highly dependent on sales tax. Sales tax is supported largely by household or per capita spending and is relatively fixed unless there is residential (population) growth. There is competition among municipalities to increase and retain sales tax dollars, and TIF is one of the tools used to incentivize retail development in one community over another. When commercial property is included in a TIF, it captures revenues used to subsidize residential service costs and capital spending.

7. ***The impacts of TIF upon the County and other local taxing agencies are more highly correlated to revenue diversion than to increased service costs. Moreover, it is not the impact of any individual TIF-funded project, but rather the cumulative effect of the municipalities' multiple TIF projects that are most responsible for the County's fiscal concerns.***

   Since the majority of the County's and other taxing districts' service costs are attributed to residential development, the service cost impacts of individual TIF projects that are largely commercial in land use are relatively minor. However, the revenue diversion impacts are greater, as the County depends on the property tax revenue generated by commercial development to subsidize residential development, as well as to fund capital projects and maintenance. It is therefore growth in the number of projects that have received TIF that is creating a cumulative impact on revenue growth that could, if it continues, degrade the level of service that the County and districts can provide.

   The application of TIF to retail development is a major factor in the cumulative impact of TIF. Retail development is built as a response to the market demand created by a growing population or "rooftops," and most of the County's other taxing districts' costs are to serve residents; yet residential development is approximately fiscally neutral to negative. When TIF is used on retail development (i.e., "retail follows rooftops"), much of which is built in response to population growth, it captures the revenues needed to subsidize residential land uses and to fund capital projects and capital maintenance. Over the 25-year length of a TIF, residents' demands and expectations for services can also grow.

8. ***The TIF Study Group has agreed to consider the fiscal impacts of new TIF projects on the County and other taxing districts as a part of future URA and DDA formation procedures. The Fiscal Impact Model (FIM) developed as part of this Study estimates the direct revenues and costs from TIF projects.***

   Fiscal impact analysis is a planning and decision support tool that can be used to estimate the costs and revenues resulting from real estate developments and land use changes at the site and community level. It is not a budget forecasting tool, however, and is best used in comparing alternative scenarios. Scenario testing performed during this Study demonstrated that residential development has a negative fiscal impact on the County's other taxing districts that depend on property tax. The fiscal impact becomes further negative without property tax (i.e., under a TIF program). Commercial development in general is fiscally positive with and without property tax, although much less so without. These results reflect the County's and other taxing districts' cost structure, which is driven largely by services provided to residents (residential development rather than commercial development) and the property tax structure under the Gallagher Amendment.

   The FIM can be used as a starting point for revenue sharing negotiations and resulting agreements; it estimates project-related impacts on County and other taxing district revenues and costs on an annual basis and for the 25 year duration of the TIF period.

9. ***TIF projects completed by the municipalities can generate positive spinoff benefits that indirectly generate new economic development activity and associated tax revenues within the County. While many of these indirect impacts cannot be quantified, they are equally important to consider as the direct fiscal impacts.***

   This Study has also provided an Indirect Evaluation Framework for evaluating the indirect impacts of new TIF projects. The key criteria to be evaluated include the number and quality of net new jobs created in Larimer County; the revenue contributions by entity compared to the benefit by entity; the synergies with surrounding development and the potential for areawide property value increases; and catalyzing development that would not otherwise occur in another area without TIF.

Recommendations

The TIF Study Group's consideration of the impacts of TIF and the development of policies and guidelines for future TIF use is an ambitious and potentially precedent-setting endeavor. Mutual cooperation and consideration of the concerns and interests of all parties is paramount to preserving TIF as an effective public financing tool for redevelopment and economic development efforts. If a mutually beneficial course of action is not defined, agreements on revenue distributions will be increasingly difficult to achieve. Further state legislative restrictions are also a possibility. Larimer County, representatives from other taxing districts, and the municipalities using TIF therefore have an opportunity to be leaders in regional and statewide cooperation on this important issue. With these considerations in mind, EPS recommends the TIF Study Group consider the following actions.

1. ***Develop policies for the use of TIF that prioritize its application to economic development projects that create net new economic activity for the County and region.***

   Currently, there is a great deal of variance between Larimer County municipalities on where and how TIF has been applied. In our opinion, the most important TIF applications are for economic development projects that created primary jobs and for major redevelopment projects that create net new economic activity in the County or that truly address blight. It is easier to identify what projects do not meet this definition than those that do. Projects that do not meet this objective include residential or predominately residential mixed use projects. Subsidizing market rate residential development does not directly expand the economic base of the County, is unlikely to generate indirect economic spinoff benefits, and—as the fiscal analysis has shown—creates the highest service cost requirements and results in the greatest cost burden on the taxing entities.

   Retail projects that largely serve the local market and do not generate new retail sales at the County level are another example of projects that don't meet this objective. Most new retail projects in the County tend to shift retail sales from one location to another. While this can be beneficial to an individual municipality's sales tax base, it does not generate new economic activity at the County level. In addition, the County and other taxing districts do not have a general sales tax that can be used to fund ongoing services. Municipalities have a viable alternative to TIF that can be used in some cases to incentivize retail projects in the form of sales tax sharebacks implemented through a developer agreement.

2. ***Apply a higher standard of evaluation to TIF projects that involve vacant suburban or exurban land.***

   National as well as Larimer County research and analysis suggest that TIF applied to large "greenfield" sites is more likely to capture development that would otherwise occur elsewhere in the county without, or with fewer, incentives. In addition, this practice incentivizes sprawl and potentially increases land costs. The value of land has traditionally been determined by its development potential, less the cost to make it development ready or on even par with comparable sites. TIF therefore subsidizes land owners through infrastructure financing using public revenues. When TIF is widely used as an incentive for commercial development, as is common in Colorado, the assumption of TIF or other incentives becomes implied in real estate values and transactions.

3. ***The County and its municipalities should create a more consistent standard for the use of TIF and other incentives.***

   One way of mitigating and even preventing unacceptable cumulative impacts from multiple TIFs is to agree on more consistent standards for using TIF in all of Larimer County. TIF has been used for different purposes by each municipality currently using TIF. In some cases, TIF has been used in a more targeted manner to address blight while in others it has been used more broadly for economic development. There are also cases where TIF has been used broadly on previously undeveloped land. If the County and municipalities can agree on a set of criteria to guide future TIF projects, the number of new TIFs may be reduced and cumulative impacts minimized. The Indirect Evaluation Framework can serve a guide for adopting a set of criteria or guidelines. In addition, this would create a level playing field across municipalities for TIF as a development incentive.

4. ***Create a process for identifying the benefits and negative impacts of TIF projects as a basis for determining the level of support from other taxing entities.***

   This Study has produced a fiscal impact model (FIM) and a TIF Project Evaluation Criteria matrix and process which can be used to evaluate the fiscal, economic, and community benefits as well as negative impacts of real estate development projects considering TIF. The FIM estimates the percentage of property tax the County and districts would have to retain under a TIF for a project to be fiscally neutral with respect to the direct cost of current services. Setting a fixed percentage for revenue sharing only addresses direct impacts and therefore should not be the sole determinant of an appropriate set-aside of revenues to provide for service related expenses.

   The indirect economic benefits of projects should also be considered using the jobs impact model and the Indirect Evaluation Framework as the spinoff benefits of major economic development projects can be expected to generate indirect revenues as well. The impact evaluation matrix estimates the job types and wage levels of a project as a measure of job quality and overall economic impact. The Evaluation Criteria matrix includes the key economic and community impacts to be considered in approving a TIF project and determining impacts that need to be mitigated through revenue sharing, or project entitlement modifications and other available methods in the development process. Projects that have negative fiscal impacts under TIF may need to have a greater degree of revenue sharing. On the other hand, the affected taxing entities should consider greater participation in projects that are clearly beneficial to regional economic vitality.

5. ***Structure financing agreements to provide project financing revenue in the early years, with more revenue returned to other taxing entities in later years.***

   The result of recent Colorado and other state urban renewal statutory changes has been an increase in revenue sharing agreements between the URA and other taxing entities. Two Colorado examples of negotiated agreements are Denver Urban Renewal Authority’s Stapleton Redevelopment project and the Timnath Urban Renewal Authority (TURA) project. In both cases the URAs agreed to rebate a percentage of the property tax allocated to TIF on a sliding scale over the 25-year tax increment time period based on the premise that the service cost impacts associated with the project will occur after it is built. This allows the URA to benefit from receiving most of the TIF on the front end when it is most needed for redevelopment and the city/county to receive a greater portion of the revenues in the later stages of the 25-year TIF period when it is required to pay for additional services.

6. ***Require TIF districts to sunset after TIF-backed project revenue bonds are retired and after eligible costs have been paid for.***

   TIF is most often enabled to provide a revenue stream for a bond issue to finance infrastructure improvements. In many cases the bonds are issued for the maximum time period of the district, which is 25 years. However, if a project performs above expectations the bonds can sometimes be retired early and the unallocated tax increment would continue to flow to the district, which could use the revenues for other eligible expenses within the urban renewal plan area. Our recommendation is that when the bonds are paid off the district should be terminated and any surplus revenues be returned to the taxing entities based on their proportional share of the mill levy.

7. ***Promote the use of sales tax sharebacks for retail incentives as an alternative to TIF.***

   Colorado's local governments are highly dependent on sales taxes that on average comprise over 50 percent of general fund revenues. The need for sales tax revenues encourages the recruitment of new retail stores. TIF and sales tax sharing are used as incentives to attract retailers to the offering municipality, sometimes to match or beat a competing incentive from an adjacent or nearby municipality. In some cases, a sales tax sharing agreement alone, rather than TIF, can provide enough incentive and therefore leaves property tax unaffected. Before TIF is used, a municipality should demonstrate that other mechanisms were examined first and that the TIF is needed to make the project financially viable.

8. ***Consider implementing a half-cent County sales tax for general fund operations (in concert with a commensurate reduction in the existing property tax mill levy) to diversify revenue sources.***

   The County general fund is heavily reliant on property taxes as the County has no general sales tax or any other large local revenue sources. An unintended impact of commercial TIF projects is that, although they generate relatively low direct service requirements, the diversion of TIF revenues has a much larger impact on revenues due to the Gallagher Amendment. As a result, the County cross-subsidizes services to residents with revenues collected from commercial property. This is a structural budget issue that cannot be remedied solely through cost sharing on TIF projects based on the direct impacts of the proposed project. However, if the County diversifies its revenue sources, it can become less reliant on property taxes.

   A half-cent general purpose sales tax would raise approximately $22.5 million annually and would allow the General Fund mill levy to be reduced from 18.109 mills to approximately 13.4 mills to maintain the same level of General Fund revenues. It would be a way for the County to diversify and thus allow for greater revenue increases during economic growth cycles. This recognizes that sales taxes are more volatile than property taxes. A sales tax could diversify the County's revenues and provide a way for the County to tap into fluctuations in the economic cycle. The County would also benefit from retail projects that generate net new sales at the county level. Other taxing entities that cannot levy sales tax, however, will not see the same benefit.

9. ***Assign or appoint the appropriate County, municipal, and special district represents to continue this process to draft and implement an intergovernmental agreement on the use of TIF, a process for evaluating new TIF projects, and specific procedures to carry out the process.***

Larimer County, its incorporated municipalities, and other taxing entities should be commended for convening the TIF Study Group to evaluate the impacts of TIF on the budgets of the affected taxing entities, and to design a process for the review of future TIF projects that mitigates these impacts while preserving TIF as an important economic development financing tool. The findings of this Study have provided important data, analysis, and discussion that can inform the evaluations of future TIF projects so that its use is fair, equitable, and in the best interests of all parties. This will require some compromise on the part of all parties, keeping in mind that all parties involved have a mutual stake in serving the interests of the citizens of Larimer County.

The first step recommended in this Study is to form a working group of stakeholders to draft an intergovernmental agreement (IGA). The IGA would set forth the principles to which the parties agree to on the use of TIF, and the process in which new TIF projects would be evaluated before the statutory process defined in Colorado urban renewal law. Project specific agreements would be structured separately as an outcome of the Project Review Process.

As described in this Report, a TIF Project Review Process is proposed that includes applying the TIF Project Evaluation Criteria and the direct cost model to evaluate new TIF proposals. The intent is to provide enough transparency and opportunities to make modifications to the project itself and the financing plan in advance of a URA Board decision to avoid an arbitration process.

This is an important process for Larimer County with broader statewide implications as TIF is increasingly scrutinized by the state legislature, citizens, and interest groups. It is in the best interest of all affected parties, especially municipalities who see the most benefit from TIF projects, to define and follow policies for the responsible use of TIF going forward.

2. *TAX INCREMENT FINANCING IN LARIMER COUNTY*

This chapter provides an overview of tax increment financing, its history and purpose, and an analysis of assessed value and property tax trends related to TIF in Larimer County. The chapter is divided into five major sections as follows:

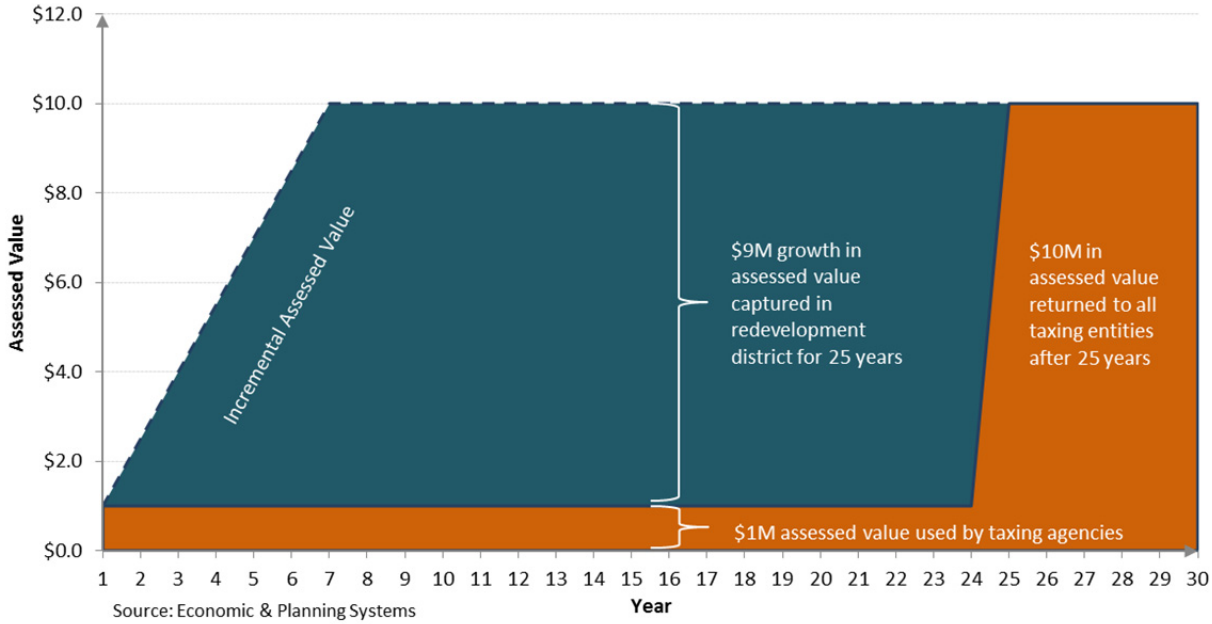
- Tax Increment Financing (TIF)
- TIF History
- Larimer County TIF Areas
- Assessed Value Trends
- Key Findings

Tax Increment Financing

TIF is enacted by first establishing a DDA or URA district, and adopting a plan for the district that identifies the projects and public improvements eligible to be financed with TIF revenues. The base assessed value (and property tax) is then set or "frozen" at the amount existing as of the date chosen to establish the base assessed value. After this date, the assessed value to which the mill levy for the city, the county, school district, and other taxing jurisdictions is applied, would be the same each year with adjustment for general reassessments over the life of the district. However, any new tax revenues generated as a result in an increase in assessed value due to new development would be redirected to the authority to pay for eligible redevelopment expenses.

For example, if the assessed value in a redevelopment district is $1 million on the date of plan adoption, then the mill levy for each of the overlapping taxing jurisdictions is applied to that $1 million assessed value each year of the plan. As the properties in the redevelopment district begin to increase in value due to the redevelopment efforts, that increase in assessed value multiplied by the combined mill levy of the overlapping taxing jurisdictions goes to the URA or DDA. If the assessed value of property in the district increases to $10 million in Year 5, the taxes derived from multiplying the combined mill levy by the $1 million base go to the existing taxing jurisdictions, but the mill levy times the $9 million in new assessed valuation goes to the URA or DDA (**Figure 1**). In home rule cities, local sales tax revenues can also be included in the TIF, but not state revenues.

Figure 1
Tax Increment Financing Illustration



No new taxes are established using TIF nor are taxes increased. The revenues produced by increased property values and increased retail sales activity are redirected to benefit the redevelopment district. Other overlapping taxing districts (e.g., counties, school districts, library districts, recreation districts) do not receive any of the incremental tax revenue, unless a specific revenue sharing agreement is created. To the extent that the base assessed value increases, and if surrounding property values increase due to redevelopment activities and public investments, the other districts would receive some increase in property tax revenue due to these indirect impacts. At the end of 25 years, the TIF district expires and the additional taxes created within the plan area revert to the taxing entities.

TIF History

Tax increment financing originated in California in 1952 as a method of raising the local match funds for federal urban renewal programs. The 1949 Housing Act required cities of 50,000 people or more to finance one-third of the cost of redevelopment activities. By 1970, there were 76 TIF districts in California and the practice had spread to six other states. During the 1970s, federal dollars for urban renewal declined and TIF became an alternate way for funding urban redevelopment projects. There was dramatic growth in the number of states enabling TIF in the 1980s and 1990s as the federal role in urban renewal was eliminated. By 1992, TIF had expanded to 44 states and today every state except Arizona and the District of Columbia has adopted some form of TIF.[1]

[1] Briffault, R. (2010) The Most Popular Tool: Tax Increment Financing and the Political Economy of Local Government. The University of Chicago Law Review, 77:65 2010.

TIF was originally used strictly as an urban renewal financing tool focused on assisting with the extraordinary costs of redevelopment in depressed inner city settings. Most states had what is referred to as a "but for" criteria requiring a determination that "but for" the public investment, the proposed project would not be able to proceed. Most also required a "finding of blight" and the definition of blight was focused on tangible economic and physical distress.

Over time, TIF has evolved from an urban renewal program targeted at depressed central city areas to a broader infrastructure and development financing tool. The "but for" requirement has been weakened in many states, and today only 33 states actually require a finding of blight. In a number of states including Colorado, the definition of blight has been broadened to include criteria such as "irregular curb cuts", "faulty street or lot layout", or "improper subdivision or obsolete platting".

The use of TIF has also been expanded in many states for a wider range of economic development activities as described below. These examples illustrate both the popularity and controversial aspects of TIF.

- The Montana Urban Renewal statutes (1974) allow for the formation of urban renewal districts to use TIF to fund new development in blighted or infrastructure deficient areas. In 2013, the legislature passed an amendment that allows cities or counties to form Targeted Economic Development Districts with the power to use TIF to assist with infrastructure financing for what is termed "secondary value-adding industries". This amendment therefore now allows for the use of TIF for general economic development and business recruitment projects generating new economic activity at the state level.
- The New Mexico Metropolitan Redevelopment Act (1978) allowed cities to form redevelopment areas with limited TIF capabilities. In 2006, the Tax Increment Development Act was passed with a broader mandate allowing cities or counties to form Tax Increment Development Districts (TIDDs) with the power to use TIF property taxes and gross receipts taxes at the city, county and state level for projects supporting economic development and job creation.
- Kansas allows cities to establish TIF districts to fund redevelopment projects in eligible areas. However, in conjunction with the approval of the state Sales Tax and Revenue (STAR) Bond Program which allowed for the use of state sales tax increment for major tourism projects, the criteria for TIF were expanded. The current conditions to establish a TIF district require the property to be: "blighted; be in need of conservation (proactive actions) to avoid being blighted; or be in a major tourism area, an intermodal transportation area, a bioscience development area, or an enterprise zone".
- Both Iowa and Indiana have both broadened their eligibility criteria for the use of TIF beyond blighted areas and permit its use in designated Economic Development Areas with the requirement for the project to show "significant economic benefit".
- Illinois and Missouri require an analysis determining that "but for" the use of TIF the development would not occur. In addition to blighted areas, Missouri permits the use of TIF in areas that are "threatened by blight". In Missouri, these are termed "Conservation Area" and TIF can be used to prevent the area from descending into a blighted condition. Both states also allow for TIF in economic development areas.

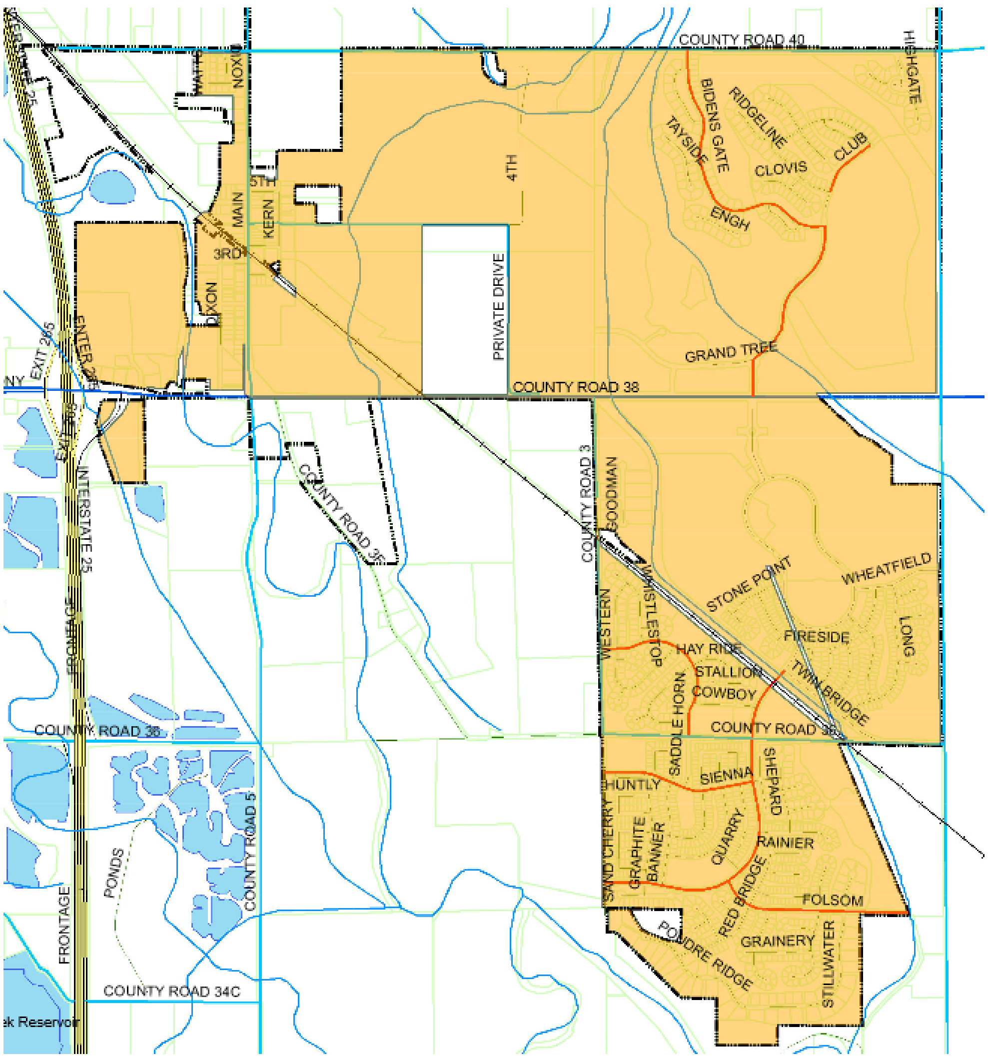
Larimer County TIF Areas

There are eight active TIF districts in Larimer County including one DDA and seven URAs. A brief description of each URA and DDA and the major projects that were financed with TIF is provided below.

Timnath URA

The Town of Timnath established the Timnath Development Authority (TDA) in 2004 and approved the revised Timnath Urban Renewal Plan in 2007. The Plan area is approximately 1,900 acres, encompassing much of the Town's incorporated boundary (**Figure 2**). Much of the tax increment in this URA is generated by a new Walmart superstore and Costco built at the interchange of I-25 and Harmony Road. TIF was used to help fund land acquisition and street and utility improvements for the two major retailers. The Town also entered into a five year sales tax sharing agreement with Costco for 50 percent of the sales tax. The remaining portion is dedicated to improvements in Timnath's "Old Town" area.

Figure 2
Timnath URA Boundary



Fort Collins

The Fort Collins Downtown Development Authority (DDA) was created in 1981 and uses property and sales tax increment financing to leverage private investment and stimulate redevelopment in the central business district of the city, illustrated in **Figure 3**. The DDA has been a key factor in the strength of Downtown Fort Collins and its attractiveness to businesses, residents, and shoppers and diners. In the 1980s, before the DDA was formed, Downtown Fort Collins had numerous vacant buildings and fewer businesses and residents. The DDA has used its funds successfully to incentivize redevelopment.

The DDA boundary includes a large amount of land east of the Cache La Poudre River and Lemay, outside the historic Downtown core. A Walmart and a Home Depot were constructed along Lemay in 2001, and the DDA boundary was expanded to encompass the resulting tax increment from these projects. Recent projects undertaken as part of the DDA include the collaborative workspace Galvanize and phase one of the Woodward Turbomachinery Systems Campus. The DDA will expire in 2030.

The Fort Collins North College Avenue URA, established in December 2004, was the first TIF district in the city outside of the DDA. The 800 acre URA boundaries are the Cache La Poudre River on the south, the Larimer-Weld Canal on the north and approximately one half mile on either side of North College Avenue (**Figure 4**). The tax increment is currently committed to bond debt service that is financing several projects consisting of storm drainage, road, and streetscape improvements. Real estate projects completed with TIF assistance from the URA include the King Soopers Marketplace development, the Rocky Mountain Innosphere office building and outdoors outfitter Jax Mercantile. Ongoing projects include storefront and roadway improvements along North College Avenue/US-287. The TIF is scheduled to expire in 2029.

The Fort Collins Midtown URA was originally comprised of 660 acres running along College Avenue from Prospect Road to Harmony Road. In December 2015, the City greatly reduced the size of this URA to remove property that was within the URA but not within a TIF district. The reasoning was to protect the revenues dedicated to two existing projects (Prospect South and Foothills Mall). The City was concerned that any additional projects or activities that the URA might undertake could be interpreted as a change in the Urban Renewal Area Plan defined in House Bill 15-1348. The new legislation would then trigger a negotiation process with the County and other taxing districts, and the City was concerned that existing revenue streams (dedicated to bond debt service) could be affected by the outcome of the process. The Midtown URA is now an area of 168 acres, shown in **Figure 5**. The change removed all property from the URA that was not subject to TIF.

As with the North College URA, the intent is to provide TIF to selected projects meeting the City's criteria and with a financial need. The Prospect South TIF district, formed in 2011, was established to help finance the Summit student housing development. The Foothills Mall TIF district, formed in 2013, was established to help finance the revitalization of the mall and redevelopment of the surrounding pad sites.

Figure 3
Fort Collins DDA Boundary

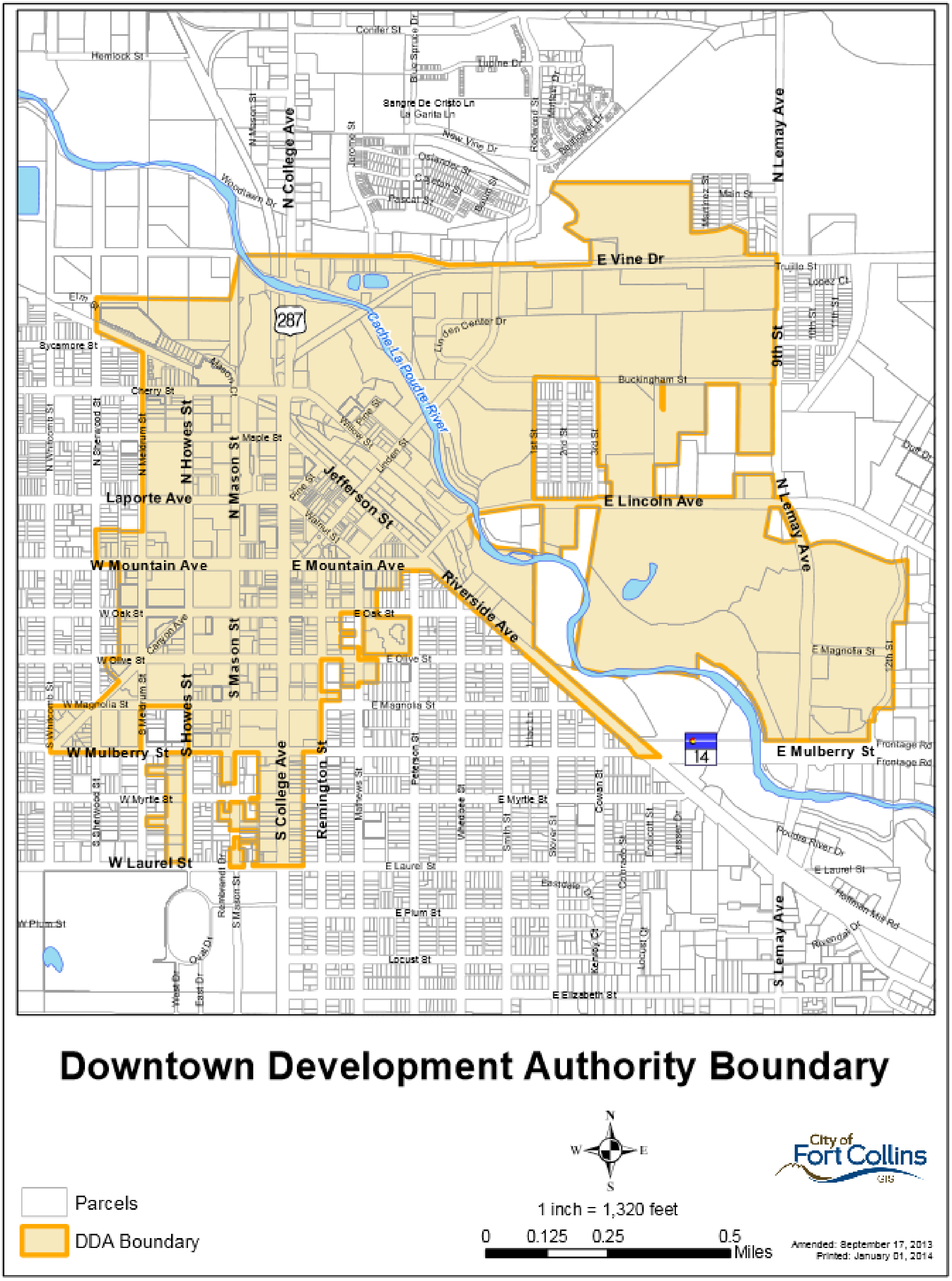


Figure 4
Fort Collins North College URA Boundary

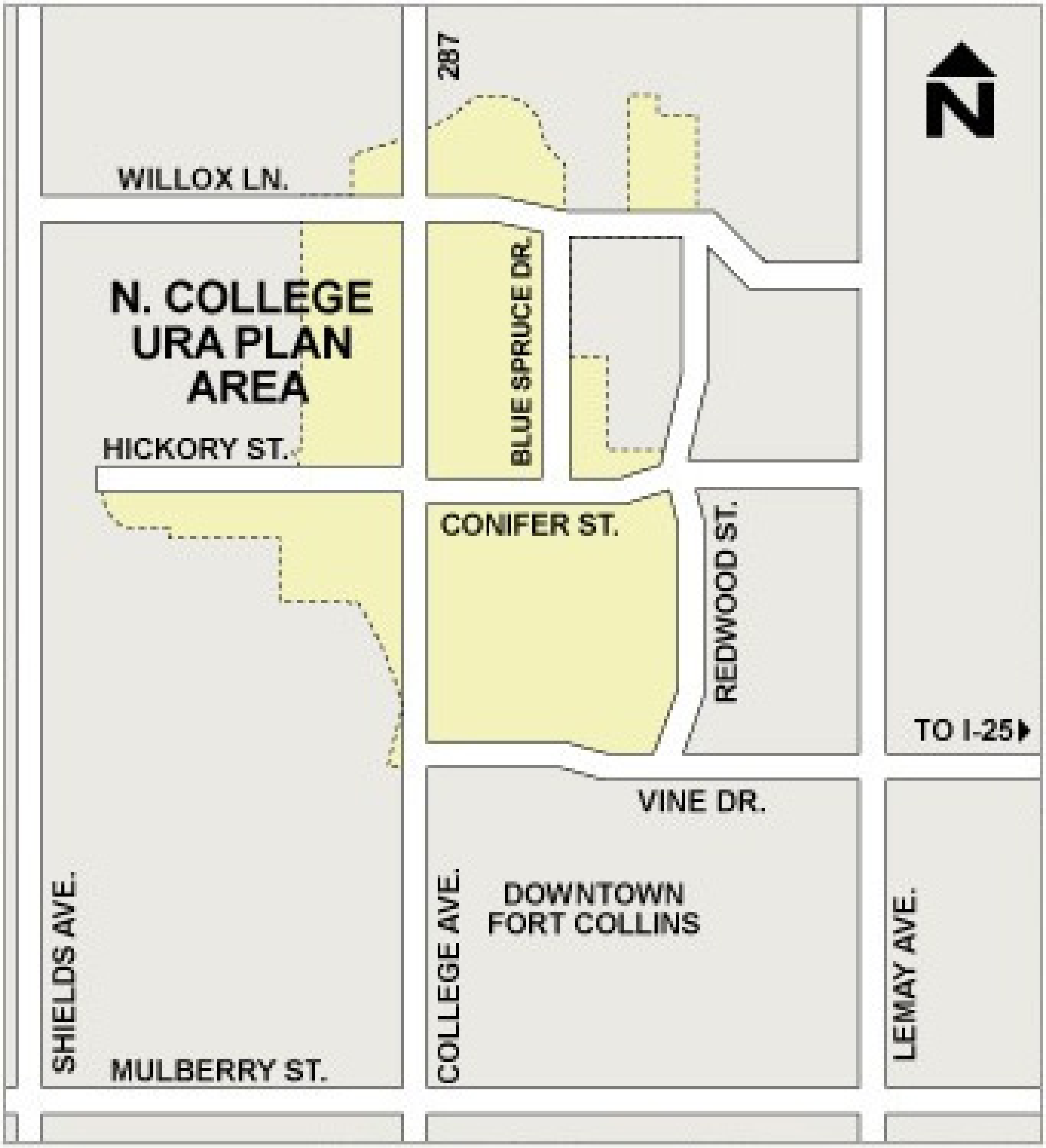
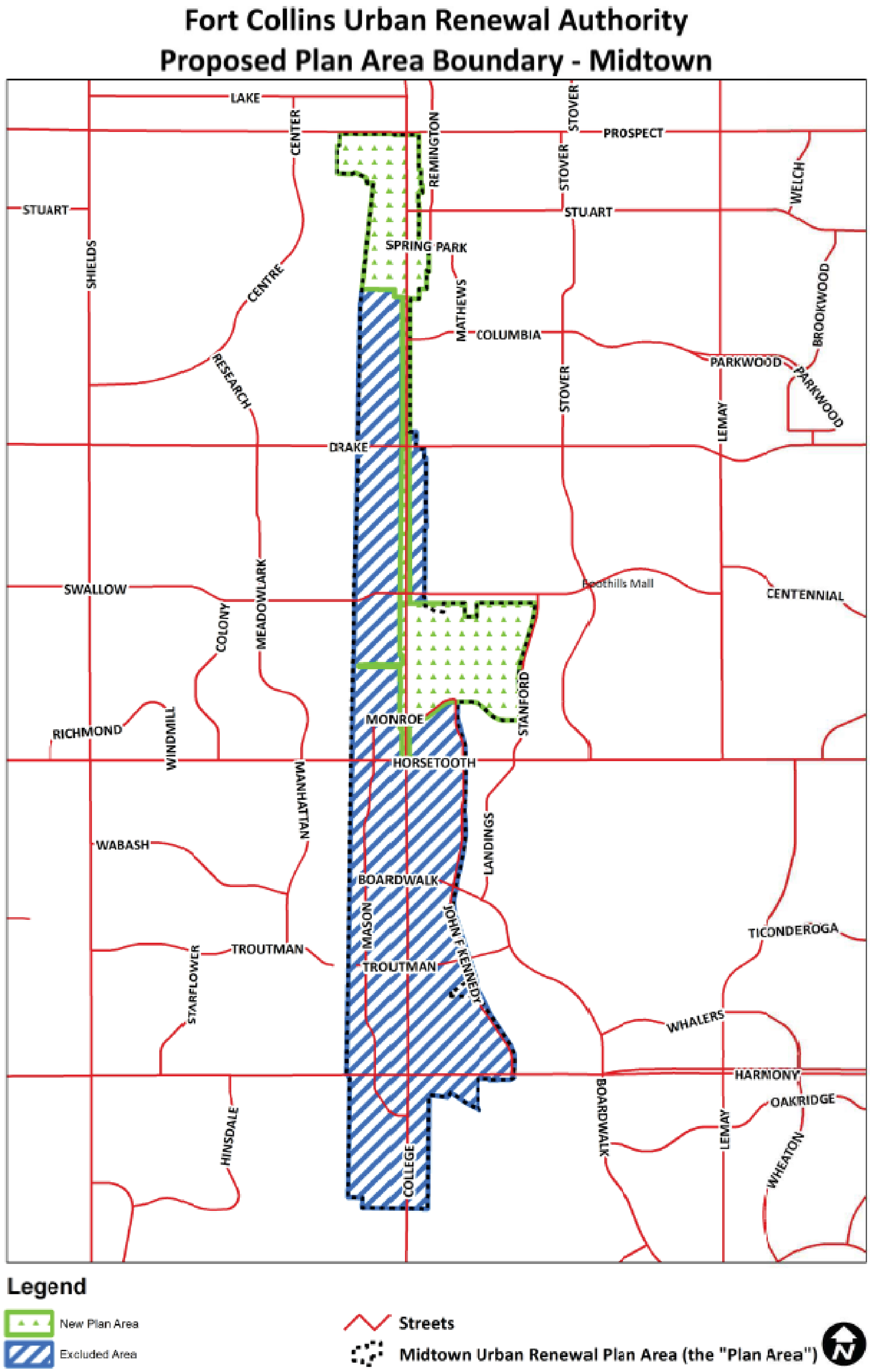


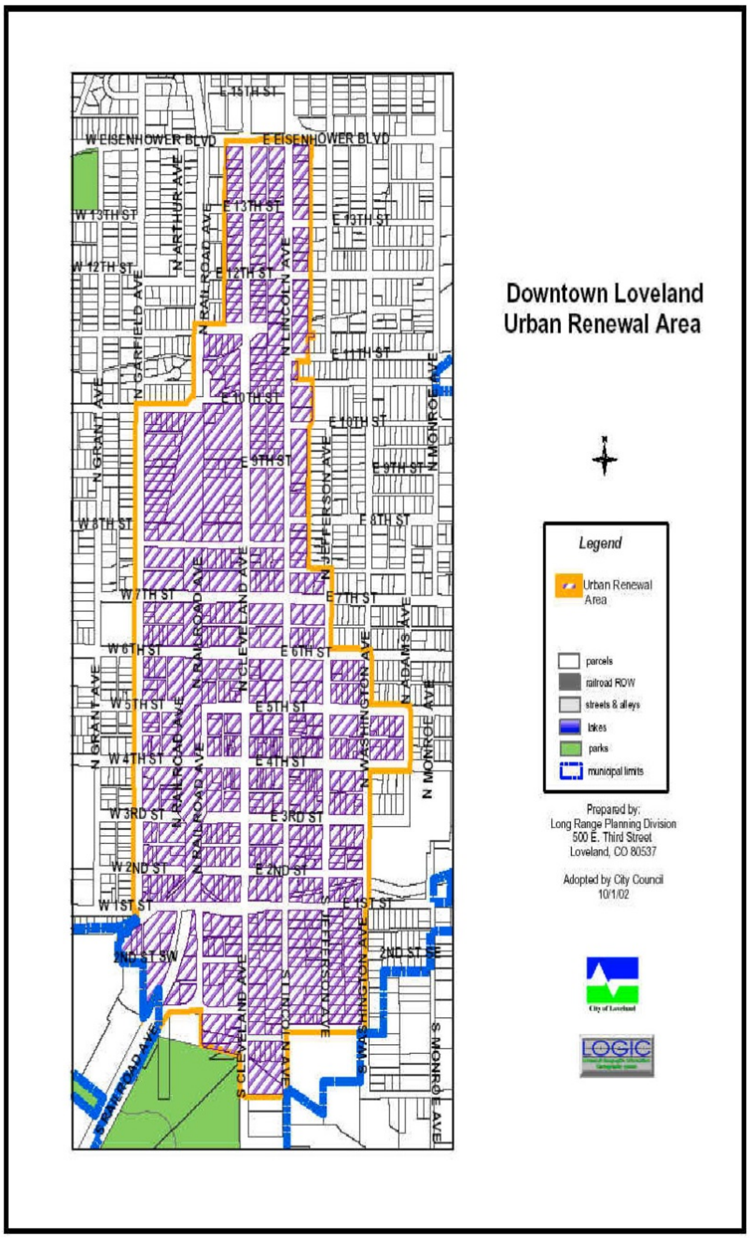
Figure 5
Midtown URA Boundary



Loveland

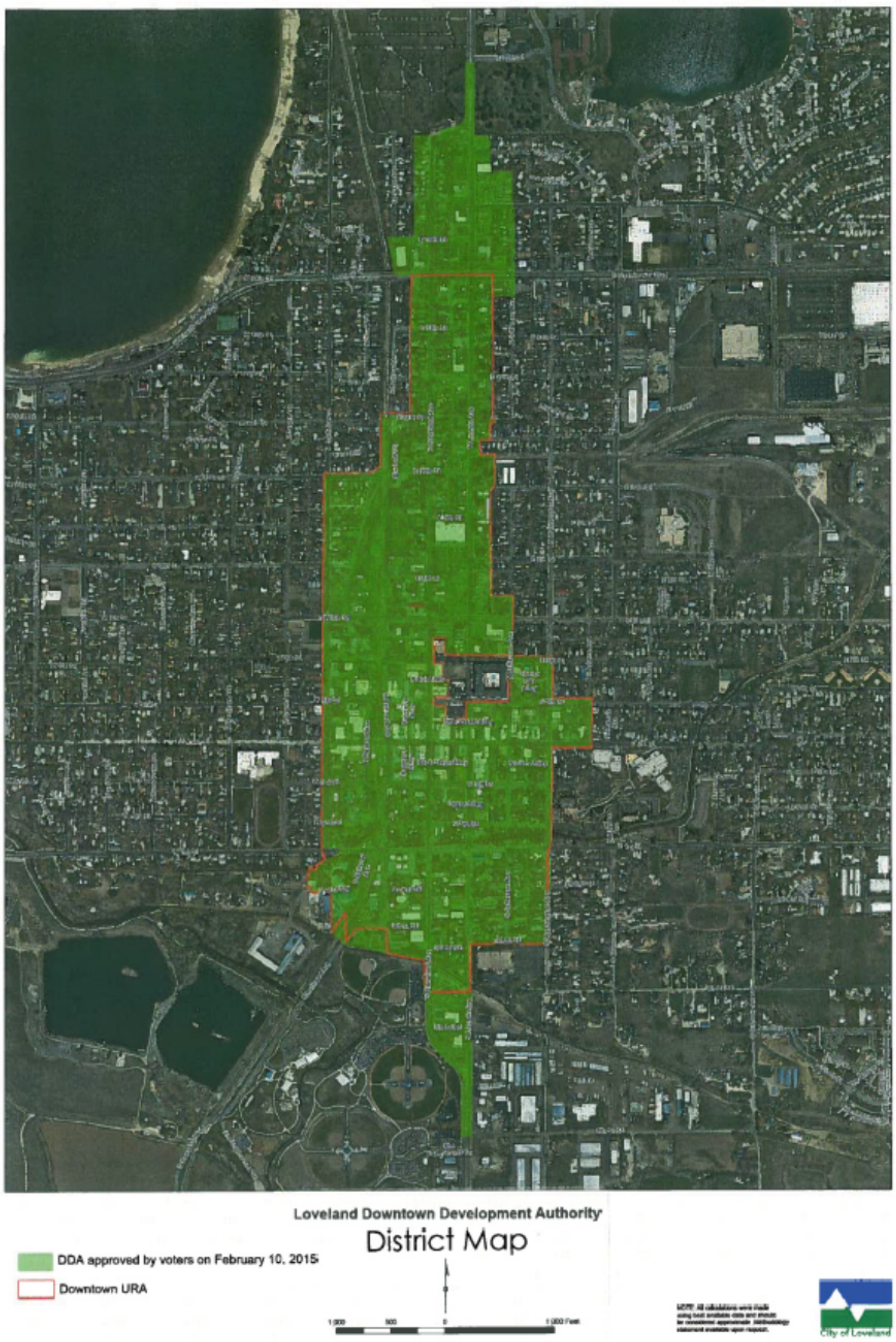
The Loveland Urban Renewal Authority (LURA) was created in 2002 and there have been three URA plan areas formed; Downtown Loveland, US36/Crossroads Corridor, and Block 41-Finley's Addition. The Downtown is an areawide TIF URA totaling 230 acres including the historic downtown business district and extending north and south along US-287 as shown in **Figure 6**. This URA collects TIF from all new investments and uses TIF for the development of catalyst, historic preservation and capital infrastructure enhancement projects. The approved plan allows for the use of both property and sales tax increments, estimated to be $5 million and $27 million, respectively. Actual tax increment collections have been much lower than expected, however.

Figure 6
Downtown Loveland URA Boundary



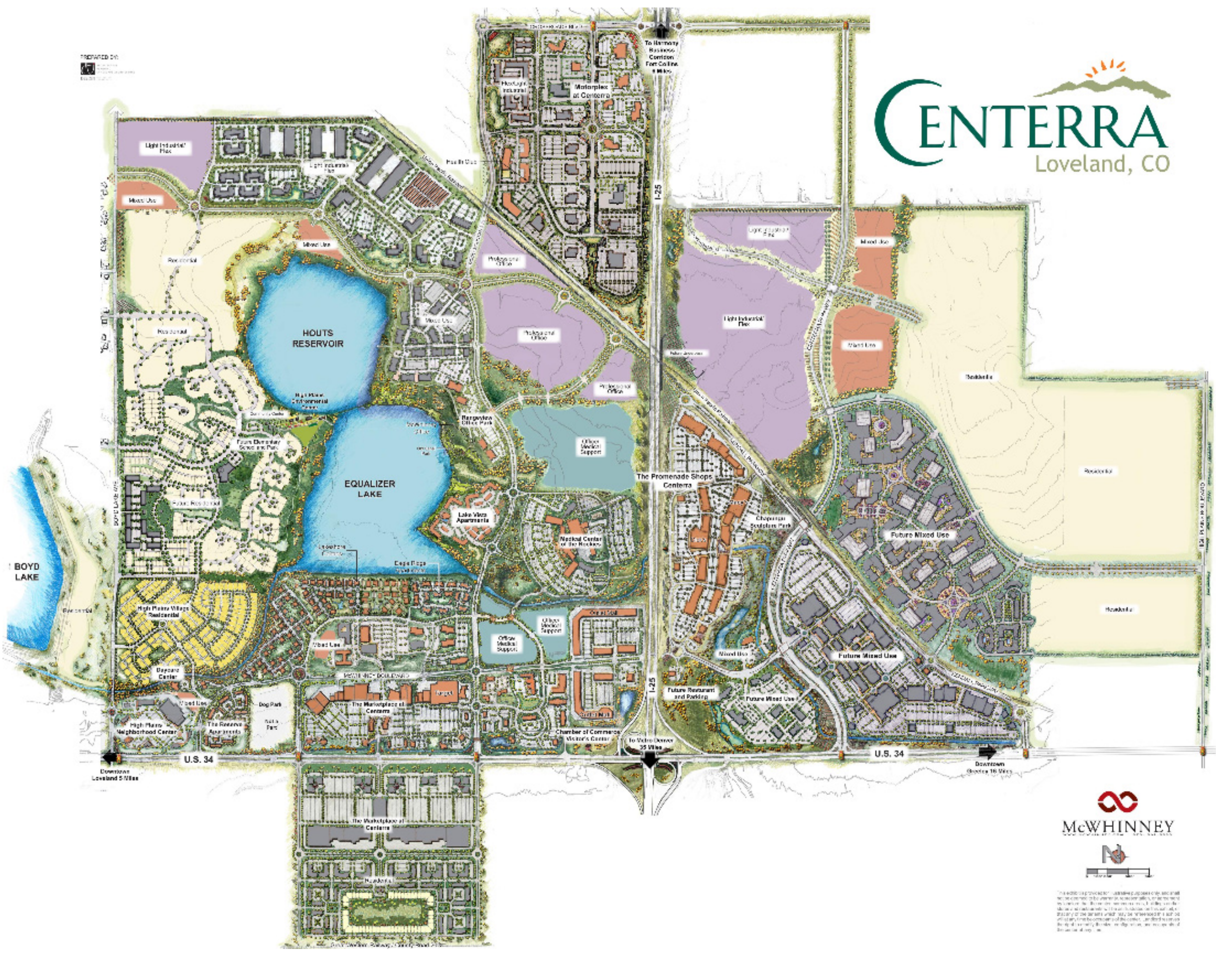
In 2015, Loveland voters approved the formation of a DDA that overlaps with and is slightly larger than the existing URA (**Figure 7**). Due to restrictions placed on the DDA by voters, the DDA was not able to levy a requested 5.0 mill property tax, nor issue debt. Without the ability to issue debt, TIF is limited to "pay as you go" and projects can only be funded when enough money accrues.

Figure 7
Downtown Loveland DDA Boundary



The 1,300 acre US36/Crossroads Corridor Renewal Plan, more commonly referred to as Centerra, was approved in 2004. The master plan for the development is shown in **Figure 7**. The purpose of this URA was to partially fund public improvements within the Centerra development and regional improvements adjacent to the project. Examples of site level improvements are roadway and utility infrastructure and irrigation ditch relocation while regional improvements include several major interchanges such as those at I-25 and Crossroads Boulevard and I-25 and US 34 as well an extension of Centerra Parkway/Crossroads Boulevard. Financing comes from a combination of property tax increment, public improvement fees, metropolitan districts and a privately imposed 1 percent retail sales fee. The tax increment agreement will remain in place until 2029 or until the financing obligations are paid in full, whichever comes first. Much of the land in the URA was previously undeveloped.

Figure 7
US36/Crossroads Corridor URA Boundary



The Block 41-Finley's Addition URA was carved out of the Downtown URA in 2005 to provide project specific TIF for Lincoln Place mixed use apartment development. The project is comprised of one city block between 5th and 6th and Lincoln and Jefferson. The 2.15 acre site includes 22,000 square feet of retail and restaurant space along with 200 multifamily residences and a 290-space parking structure. The agreement calls for the developer to receive property tax increment for certain public improvements and is capped at $917,456 over eight years. The overall property tax increment is expected to accrue approximately $5.4 million until its expiration in 2027.

Assessed Value Trends

Trends in assessed value by TIF area were analyzed to determine the extent of TIF use in the County, and to compare rates of growth in base and incremental assessed value (AV) by area. Within the eight existing TIF districts, the base AV totals $108.3 million and the AV subject to TIF totals $184.1 million as shown in **Table 1**. Currently, three TIF areas make up 87.5 percent of the AV increment; US34/Crossroads Corridor URA, Timnath URA, and the Fort Collins DDA. Approximately half of the tax increment is in the US36/Crossroads URA, with $93.5 million in tax increment over a base of $1.1 million. The Timnath URA contains another 20 percent of the tax increment at $36.7 million over a base of $2.1 million. The Fort Collins DDA accounts for another 16.7 percent of the increment at $30.7 million.

Table 1
Summary of Tax Increment by TIF District, Larimer County, 2014

TIF Area	Start - End Dates	Base AV	Increment AV	Total AV	Pct. of Tax Increment	Increment as Pct. of County AV
Timnath URA	2004-2029	$ 2,128,391	$ 36,745,109	$ 38,873,500	20.0%	0.9%
Block41 URA	2005-2027	170,896	2,677,564	2,848,460	1.5%	0.1%
Fort Collins DDA	1981-2030	40,523,380	30,714,540	71,237,920	16.7%	0.7%
North College Ave URA	2004-2029	20,016,051	12,741,789	32,757,840	6.9%	0.3%
Downtown Loveland URA	2002-2027	26,849,739	298,661	27,148,400	0.2%	0.0%
US-34 Crossroads URA	2004-2028	1,137,799	93,519,010	94,656,809	50.8%	2.2%
Midtown Prospect South URA	2011-2036	8,691,259	3,718,121	12,409,380	2.0%	0.1%
Midtown Foothills Mall URA	2013-2037	8,691,259	3,646,861	12,338,120	2.0%	0.1%
Total TIF Areas		**$ 108,208,774**	**$ 184,061,655**	**$ 292,270,429**	**100.0%**	**4.4%**
County Assessed Value				**$ 4,216,130,533**		**100.0%**

Source: Larimer County, Economic & Planning Systems

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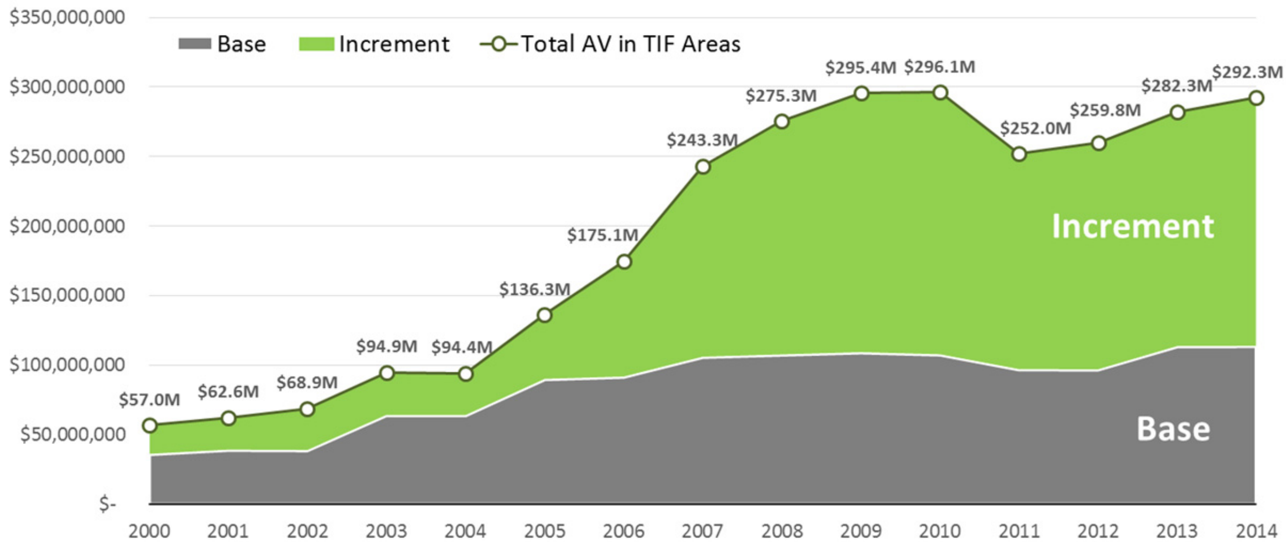
The amount of AV in tax increment roughly quadrupled between 2005 and 2009 when the Medical Center of the Rockies and Shops at Promenade were built in Centerra (**Figure 8** and **Table 2**). There were also large increases in Timnath with construction of the Walmart Superstore. Several real estate projects were built in the Fort Collins DDA in the late 2000s which contributed to approximately $10.0 million in assessed value growth including the Old Town Lofts, Lofts at Magnolia Street, and Cherry Street Lofts.

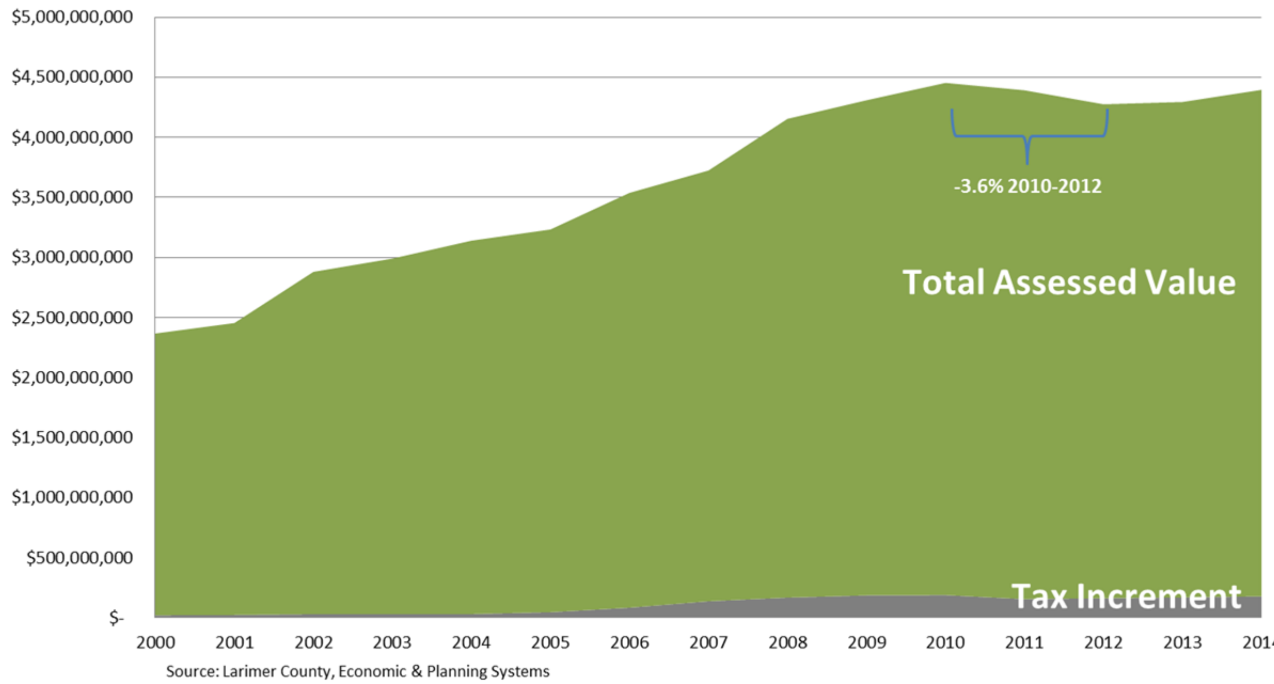
Figure 8
Tax Increment Base and Increment Trends, Larimer County, 2000-2014



Source: Larimer County, Economic & Planning Systems

Total assessed value (AV) in Larimer County allocated to TIF has grown from $57.0 million in 2000 to $292.3 million in 2014 which is a 12.4 percent annual growth rate. This equates to 4.2 percent of the total AV in the County of $4.2 billion (**Table 2**, **Table 3**, and **Figure 9**).

Figure 9
Total Assessed Value Trends, Larimer County, 2000-2014

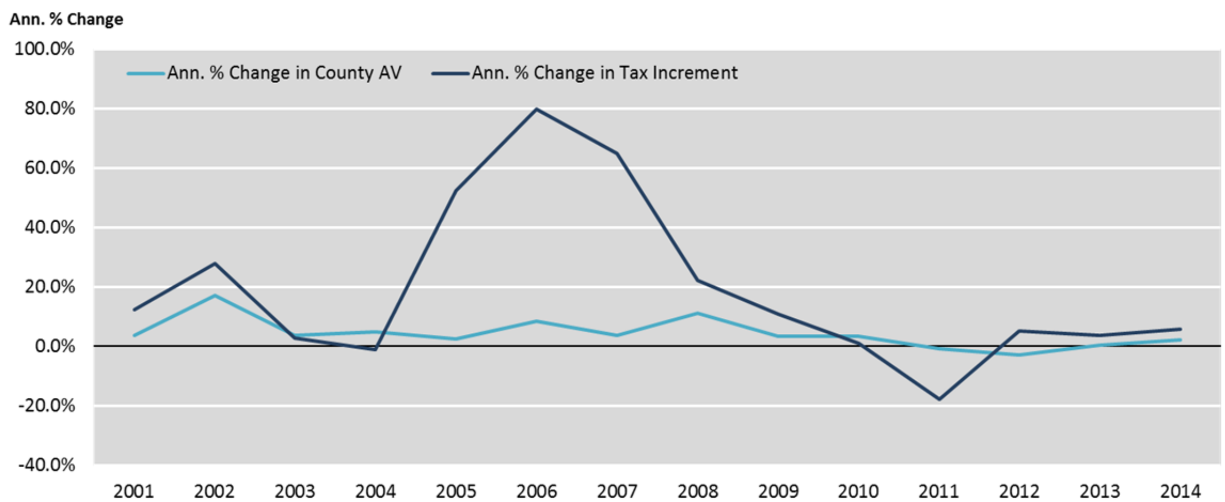


The base assessed value in TIF areas (URAs and DDAs) has grown at 8.5 percent per year, although this figure is largely influenced by two large TIF areas: the Fort Collins DDA and the US36/Crossroads Corridor URA (**Table 2**). From 2003 through 2010, the Fort Collins DDA base AV grew 5.2 percent per year before the base was reset in 2011 and the term extended for 20 years. During the 20 year extension of a DDA, it can only collect half of the tax increment which is reflected in the lower base and increment figures shown. Including resetting the base, AV in the Fort Collins DDA grew at 2.8 percent per year from 1981, when it was formed, through 2014. In the US36/Crossroads URA, the base grew at an annual rate of 13.3 percent from $369,700 to $1.1 million from 2005 through 2014. This base in this URA was small as the land was largely vacant when the URA was formed, which creates an artificially high growth rate. In addition, an expansion of the URA boundary to add 500 acres of land created additional growth in the base assessed value. In all other URAs except the US36/Crossroads URA, the base has grown at less than 1.0 percent per year.

Countywide, AV has grown at a strong annual rate of 4.3 percent since 2000 including a decline of 3.6 percent from 2010 through 2012 during the Great Recession (**Figure 9** and **Table 3**). Tax increment values declined during this period as well.

The decline in property values after 2010 did not have a large effect on the total percentage of assessed value in TIF, as shown in **Figure 10**. The amount of assessed value in TIF grew every year from 2004 until 2010, growing by 80 percent from 2005 to 2006. In 2009, TIF was 4.5 percent of total assessed value, and in 2010 TIF was 4.4 percent of total assessed value. From 2010 through 2011, countywide assessed value declined by 0.7 percent and the assessed value in TIF declined by 17.8 percent bringing it to 3.7 percent of total assessed value. From 2011 through 2012, the assessed value in TIF grew by 5.1 percent bringing it to 4.0 percent of total assessed value, while total assessed value continued to decline (-2.9 percent). From 2012 through 2014, both total assessed value and the assessed value in TIF grew. The value in TIF grew faster though, by 3.6 percent from 2012 through 2013, and by 5.8 percent from 2013 through 2014. Total assessed value grew more slowly, by 0.3 percent and 2.2 percent, respectively, during this time. In 2014, 4.2 percent of assessed value was in TIF areas.

Figure 10
Percent Change in Assessed Value and TIF by Year, 2001-2014



Source: Larimer County Assessor; Economic & Planning Systems

Table 2
Base and Incremental Assessed Value Trends by TIF Area

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total	Ann. %
Timnath URA																**2006-2014**	
Base							$ 2,034,500	$ 2,207,636	$ 2,211,228	$ 2,236,213	$ 2,202,772	$ 2,113,454	$ 2,109,560	$ 2,130,910	$ 2,128,391	$ 93,891	0.6%
Total AV							$ 4,635,790	$ 10,482,890	$ 20,876,530	$ 23,546,680	$ 26,689,400	$ 25,168,740	$ 27,512,890	$ 32,794,100	$ 38,873,500	$ 34,237,710	30.4%
Increment							**$ 2,601,290**	**$ 8,275,254**	**$ 18,665,302**	**$ 21,310,467**	**$ 24,486,628**	**$ 23,055,286**	**$ 25,403,330**	**$ 30,663,190**	**$ 36,745,109**	**$ 34,143,819**	**39.2%**
Block41 URA																**2006-2014**	
Base						$ 174,880	$ 174,880	$ 189,762	$ 189,762	$ 191,906	$ 187,818	$ 180,418	$ 169,170	$ 170,896	$ 170,896	$ (3,984)	-0.3%
Total AV						$ 174,880	$ 235,420	$ 1,178,350	$ 2,166,090	$ 2,214,050	$ 2,287,140	$ 2,805,830	$ 2,613,400	$ 2,659,970	$ 2,848,460	$ 2,673,580	36.6%
Increment						**$ -**	**$ 60,540**	**$ 988,588**	**$ 1,976,328**	**$ 2,022,144**	**$ 2,099,322**	**$ 2,625,412**	**$ 2,444,230**	**$ 2,489,074**	**$ 2,677,564**	**$ 2,617,024**	**60.6%**
Fort Collins DDA																**1981-2014**	
Base	$ 36,194,390	$ 39,210,040	$ 38,944,210	$ 39,450,390	$ 39,450,390	$ 43,975,233	$ 43,975,233	$ 54,165,745	$ 55,093,165	$ 57,295,134	$ 56,263,304	$ 39,045,225	$ 38,876,529	$ 40,529,802	$ 40,523,380	$ 24,720,370	2.9%
Total AV	$ 57,002,950	$ 62,615,020	$ 68,880,190	$ 70,187,630	$ 69,859,780	$ 82,035,250	$ 84,831,050	$ 107,913,360	$ 114,636,610	$ 120,952,050	$ 119,287,780	$ 62,942,600	$ 63,989,370	$ 67,115,610	$ 71,237,920	$ 54,030,510	4.4%
Increment	**$ 20,808,560**	**$ 23,404,980**	**$ 29,935,980**	**$ 30,737,240**	**$ 30,409,390**	**$ 38,060,017**	**$ 40,855,817**	**$ 53,747,615**	**$ 59,543,445**	**$ 63,656,916**	**$ 63,024,476**	**$ 23,897,375**	**$ 25,112,841**	**$ 26,585,808**	**$ 30,714,540**	**$ 30,714,540**	**9.8%**
North College Ave URA																**2006-2014**	
Base						$ 19,361,180	$ 19,347,870	$ 20,994,374	$ 20,994,374	$ 21,231,611	$ 20,939,619	$ 20,025,954	$ 19,957,399	$ 20,112,768	$ 20,016,051	$ 668,181	0.4%
Total AV						$ 19,361,180	$ 20,608,610	$ 24,370,930	$ 24,100,310	$ 27,041,580	$ 27,045,790	$ 30,222,310	$ 34,008,140	$ 32,584,550	$ 32,757,840	$ 12,149,230	6.0%
Increment						**$ -**	**$ 1,260,740**	**$ 3,376,556**	**$ 3,105,936**	**$ 5,809,969**	**$ 6,106,171**	**$ 10,196,356**	**$ 14,050,741**	**$ 12,471,782**	**$ 12,741,789**	**$ 11,481,049**	**33.5%**
Downtown Loveland URA																**2003-2014**	
Base				$ 24,720,650	$ 24,588,490	$ 26,116,950	$ 25,836,770	$ 28,020,357	$ 28,020,357	$ 27,166,848	$ 26,984,252	$ 26,035,690	$ 26,292,479	$ 26,648,689	$ 26,849,739	$ 2,129,089	0.8%
Total AV				$ 24,743,710	$ 24,588,490	$ 26,244,760	$ 25,836,770	$ 28,220,340	$ 28,101,520	$ 27,802,790	$ 27,370,290	$ 26,723,200	$ 26,735,070	$ 27,055,650	$ 27,148,400	$ 2,404,690	0.8%
Increment				**$ 23,060**	**$ -**	**$ 127,810**	**$ -**	**$ 199,983**	**$ 81,163**	**$ 635,942**	**$ 386,038**	**$ 687,510**	**$ 442,591**	**$ 406,961**	**$ 298,661**	**$ 275,601**	**26.2%**
US-34 Crossroads URA																**2005-2014**	
Base						$ 369,700	$ 369,700	$ 401,161	$ 1,121,277	$ 1,133,947	$ 1,126,960	$ 1,082,539	$ 1,070,222	$ 1,073,720	$ 1,137,799	$ 768,099	13.3%
Total AV						$ 8,515,800	$ 38,948,290	$ 71,172,490	$ 85,466,746	$ 93,889,441	$ 93,415,195	$ 95,558,981	$ 96,427,177	$ 96,391,800	$ 94,656,809	$ 86,141,009	30.7%
Increment						**$ 8,146,100**	**$ 38,578,590**	**$ 70,771,329**	**$ 84,345,469**	**$ 92,755,494**	**$ 92,288,235**	**$ 94,476,442**	**$ 95,356,955**	**$ 95,318,080**	**$ 93,519,010**	**$ 85,372,910**	**31.2%**
Midtown Prospect South URA																**2011-2014**	
Base												$ 8,555,900	$ 8,505,190	$ 8,691,259	$ 8,691,259	$ 135,359	0.5%
Total AV												$ 8,555,900	$ 8,505,190	$ 9,583,850	$ 12,409,380	$ 3,853,480	13.2%
Increment												**$ -**	**$ -**	**$ 892,591**	**$ 3,718,121**	**$ 3,718,121**	**---**
Midtown Foothills Mall URA																**2013-2014**	
Base														$ 14,256,270	$ 14,256,270	$ -	0.0%
Total AV														$ 14,152,510	$ 12,338,120	$ (1,814,390)	-12.8%
Increment														**$ -**	**$ -**	**$ -**	**---**
Total TIF Areas																**2000-2014**	
Base	$ 36,194,390	$ 39,210,040	$ 38,944,210	$ 64,171,040	$ 64,038,880	$ 89,997,943	$ 91,738,953	$ 105,979,035	$ 107,630,163	$ 109,255,659	$ 107,704,725	$ 97,039,180	$ 96,980,549	$ 113,614,314	$ 113,773,785	$ 74,563,745	8.5%
Total AV	$ 57,002,950	$ 62,615,020	$ 68,880,190	$ 94,931,340	$ 94,448,270	$ 136,331,870	$ 175,095,930	$ 243,338,360	$ 275,347,806	$ 295,446,591	$ 296,095,595	$ 251,977,561	$ 259,791,237	$ 282,338,040	$ 292,270,429	$ 229,655,409	12.4%
Increment	**$ 20,808,560**	**$ 23,404,980**	**$ 29,935,980**	**$ 30,760,300**	**$ 30,409,390**	**$ 46,333,927**	**$ 83,356,977**	**$ 137,359,325**	**$ 167,717,643**	**$ 186,190,932**	**$ 188,390,870**	**$ 154,938,381**	**$ 162,810,688**	**$ 168,723,726**	**$ 178,496,644**	**$ 155,091,664**	**16.6%**
Total - Ann. % Change																	
Base	3.8%	8.3%	-0.7%	64.8%	-0.2%	40.5%	1.9%	15.5%	1.6%	1.5%	-1.4%	-9.9%	-0.1%	17.2%	0.1%		
Total AV	1.5%	9.8%	10.0%	37.8%	-0.5%	44.3%	28.4%	39.0%	13.2%	7.3%	0.2%	-14.9%	3.1%	8.7%	3.5%		
Increment	**-2.2%**	**12.5%**	**27.9%**	**2.8%**	**-1.1%**	**52.4%**	**79.9%**	**64.8%**	**22.1%**	**11.0%**	**1.2%**	**-17.8%**	**5.1%**	**3.6%**	**5.8%**		

Source: Larimer County, Economic & Planning Systems

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Table 3
Countywide Assessed Value and Tax Increment Trends

Description ($000s)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total	Ann. %
County Assessed Value	**$ 2,345,415**	**$ 2,429,999**	**$ 2,849,324**	**$ 2,959,483**	**$ 3,108,530**	**$ 3,185,729**	**$ 3,453,386**	**$ 3,585,397**	**$ 3,985,511**	**$ 4,121,837**	**$ 4,264,024**	**$ 4,235,932**	**$ 4,111,603**	**$ 4,124,936**	**$ 4,216,131**	**$ 1,870,716**	**4.3%**
Ann. % Change	**---**	**3.6%**	**17.3%**	**3.9%**	**5.0%**	**2.5%**	**8.4%**	**3.8%**	**11.2%**	**3.4%**	**3.4%**	**-0.7%**	**-2.9%**	**0.3%**	**2.2%**		
Total TIF Areas																	
Base	$ 36,194	$ 39,210	$ 38,944	$ 64,171	$ 64,039	$ 89,998	$ 91,739	$ 105,979	$ 107,630	$ 109,256	$ 107,705	$ 97,039	$ 96,981	$ 113,614	$ 113,774	$ 77,579	8.5%
Total AV	$ 57,003	$ 62,615	$ 68,880	$ 94,931	$ 94,448	$ 136,332	$ 175,096	$ 243,338	$ 275,348	$ 295,447	$ 296,096	$ 251,978	$ 259,791	$ 282,338	$ 292,270	$ 235,267	12.4%
Increment	**$ 20,809**	**$ 23,405**	**$ 29,936**	**$ 30,760**	**$ 30,409**	**$ 46,334**	**$ 83,357**	**$ 137,359**	**$ 167,718**	**$ 186,191**	**$ 188,391**	**$ 154,938**	**$ 162,811**	**$ 168,724**	**$ 178,497**	**$ 157,688**	**16.6%**
TIF AV as Pct. of County	**0.9%**	**1.0%**	**1.1%**	**1.0%**	**1.0%**	**1.5%**	**2.4%**	**3.8%**	**4.2%**	**4.5%**	**4.4%**	**3.7%**	**4.0%**	**4.1%**	**4.2%**	**3.3%**	
TIF Area Base	---	8.3%	-0.7%	64.8%	-0.2%	40.5%	1.9%	15.5%	1.6%	1.5%	-1.4%	-9.9%	-0.1%	17.2%	0.1%		
TIF Area Total AV	---	9.8%	10.0%	37.8%	-0.5%	44.3%	28.4%	39.0%	13.2%	7.3%	0.2%	-14.9%	3.1%	8.7%	3.5%		
Increment	**---**	**12.5%**	**27.9%**	**2.8%**	**-1.1%**	**52.4%**	**79.9%**	**64.8%**	**22.1%**	**11.0%**	**1.2%**	**-17.8%**	**5.1%**	**3.6%**	**5.8%**		

Source: Larimer County, Economic & Planning Systems

H:\143066-Larimer County TIF Consulting Services\Data\[143036-AV Trends-04-21-2015.xlsm]Gross Taxable

Key Findings

The growth in property values and in base assessed value varies widely in each TIF area, suggesting that broad conclusions on benefits such as increased base assessed value or positive impacts to surrounding properties are difficult to make. In all but two TIF areas, the base assessed value has grown at less than 1 percent per year. The two exceptions are the Fort Collins DDA which had growth of 2.8 percent per year from 2000 through 2014, and 5.2 percent per year from 2000 through 2011 when the base was reset. The growth of the base in the US36/ Crossroads Corridor URA was 13.3 percent per year, but this is largely attributed to an expansion of the boundary which added to the base AV rather than property value growth.

Two TIFs are located in central downtown cores, the Downtown Loveland URA and the Fort Collins DDA. The base AV in the Downtown Loveland URA has only experienced 0.8 percent annual growth in contrast to the much higher growth in the Fort Collins DDA which has stronger overall market conditions and higher real estate values. One conclusion from these data is that market conditions in and around a TIF area are the largest factor in base assessed value and surrounding property value growth. It is also hard to imagine surrounding property value growth being any higher than the base within the URA, as most impacts tend to diminish with distance.

Other conclusions from the data analysis presented in this section are as follows:

- The appreciation of base assessed value and surrounding property value impacts is more closely related to overall market conditions in the TIF area than any other factor. Therefore, attempting to establish standards or rules of thumb for estimating surrounding property value impacts is not appropriate since they cannot be generalized.
- Greenfield TIFs may divert a larger proportion of revenue from the County and other districts than TIFs in developed areas. The base assessed value is typically much lower when established as the land is largely undeveloped or very low density development. The tax increment growth is typically proportionally larger, and as academic research suggests, these larger TIF areas are more likely to cannibalize development which could have occurred elsewhere without a subsidy.
- Due to state legislation changes, as well as local political resistance, it is unlikely that additional large greenfield TIF projects like Timnath and US36/Crossroads will occur in the future. If Larimer County’s trend of strong assessed value growth continues, and the use of TIF is limited to more specific purposes and to smaller areas, the percentage of revenues allocated to TIFs can be expected to decline following the expiration of the existing large TIF projects in 2029 and 2030. The long-term effect will be to therefore reduce the cumulative impact to the County and districts. In the short to mid-term, until 2029 or 2030, the cumulative impact of TIF will likely continue to grow.

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3. BUDGET STRUCTURE

The chapter summarizes the budget structure for Larimer County and three other taxing districts: the Poudre River Valley Public Library District (a special district), the Health District of Northern Larimer County (a special district), and Foothills Gateway (a Community Centered Board). The fiscal impact model (FIM) developed as part of this Study is designed around an evaluation of the dependence of each entity on property taxes. Each entity described in this chapter collects property tax. It is the dominant revenue source for the County, Library District, and Health District and a more minor source for Foothills Gateway. The chapter begins with an overview of the Taxpayer's Bill of Rights (TABOR) and the Gallagher Amendment which are large influences on local government finance.

Taxpayer's Bill of Rights (TABOR)

In November 1992, the voters of the State of Colorado approved an amendment to Article X, Section 20, of the state constitution. This amendment is popularly known as Amendment I or the TABOR Amendment. This amendment limits growth in both state and local government expenditures and revenues. Annual local government expenditure and revenue increases are limited to inflation in the prior calendar year plus annual local growth (construction less demolition). In order to increase revenues and/or expenditures above the limitations, to increase any taxes, to increase the mill levy or to increase bonded debt, a local government must first obtain voter approval in an election held for such purposes annually in November.

In 1999, Larimer County obtained voter approval to keep and spend all revenues it receives from current tax rates and other revenues generated by the County beginning in budget year 2000. With this permission, the County may retain and spend the income from all sources of income and growth. However, Larimer County still needs voter approval to increase tax rates and issue bonded debt. The County will also continue to reserve 3.0 percent of fiscal year spending as required for emergencies by TABOR.

Gallagher Amendment

The Gallagher Amendment, passed in 1982, was designed to maintain a constant ratio between the property tax revenue that comes from residential property (approximately 45 percent) and from commercial property (approximately 55 percent). The effect of the Gallagher Amendment over time was to reduce the assessment rate for residential property, as residential property AV has increased faster than commercial property value AV. Commercial property is now assessed at 29 percent of market value while residential property is assessed at 7.96 percent of market value. The same amount of statutory actual value (market value) in commercial development therefore generates 3.6 times the revenue as an equivalent amount of residential market value. From counties' and many municipalities' perspectives, residential development has higher service demands but generates less revenue than commercial development.

Every year, the Department of Local Affairs prepares a report to the legislature documenting the property tax burdens by property type and identifies the adjustments to the assessment ratios needed to maintain the 45:55 percent property tax burden. It is then up to the legislature to enact any changes in the assessment ratios. The residential assessment ratio needed to maintain these property tax burdens defined in the Gallagher Amendment is now 8.24 percent, however this has not been adopted by the legislature and the residential assessment ratio stands at 7.96 percent.

As a result of low property taxes statewide compared to other states, local governments rely on sales tax to raise additional revenue. Sales tax is supported largely by household or per capita spending, and is relatively fixed unless there is residential (population) growth. There is competition among municipalities to increase and retain sales tax dollars, and TIF is one of the tools used to incentivize retail development in one community over another to capture the increase in sales generated by population growth.

Larimer County Statutory Funds

The State of Colorado requires counties to maintain four funds to account for the revenues and expenditures associated with the state mandated government services provided under each fund. The four Statutory Funds are the General, Road and Bridge, Health and Environment, and Human Services. Each fund is supported by a dedicated mill levy (**Table 4**), charges for services and fees to recover direct service costs, and state and federal grants.

Table 4
Taxing Entity Mill Levies

Fund/District	Mill Levy
County	
General Fund	18.592
Road and Bridge [1]	0.572
Health and Environment	0.658
Human Services	1.749
Other Taxing Entities	
Foothills Gateway	0.750
Health District	2.167
Poudre River Library	3.024

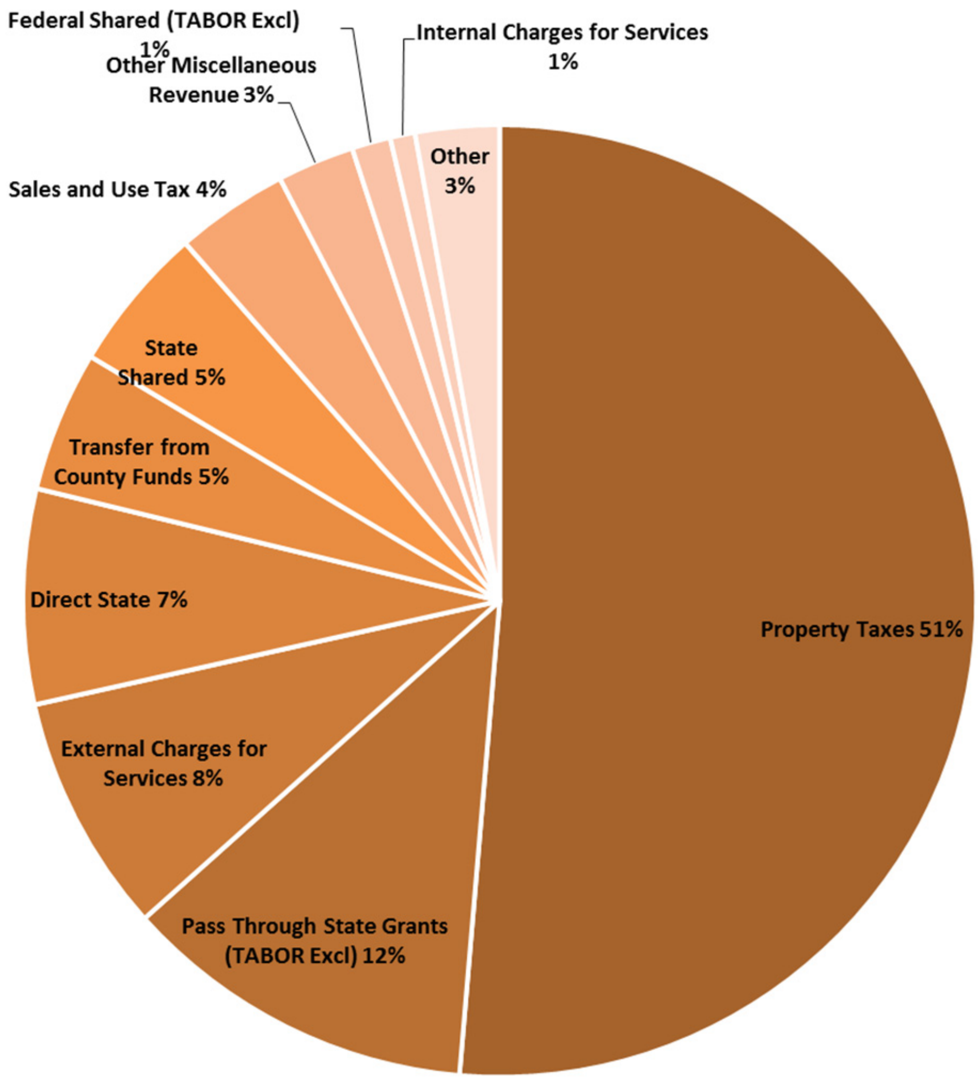
[1] The County receives 50% and the cities receive the other 50% of property tax on properties within municipal boundaries. 100% of the mill levy revenue applied to properties in unincorporated areas.

Source: Larimer County 2015 Approved Budget; Economic & Planning Systems

H:\143066-Larimer County TIF Consulting Services\Models\[143066_Fiscal Model-REVISED-2-16-2016.xlsm]A-Mill Levies

Property tax from the above mill levies comprises approximately half of the revenue supporting the four statutory funds. State and federal formula grants account for another 12 percent of revenues and are a larger part of the Health and Environment and Human Services departments. These revenues are subject to funding availability at the state and federal levels, as well as changing legislative mandates that affect the level of service and specific services that must be provided.

Figure 11
Larimer County Statutory Fund Revenues, 2013



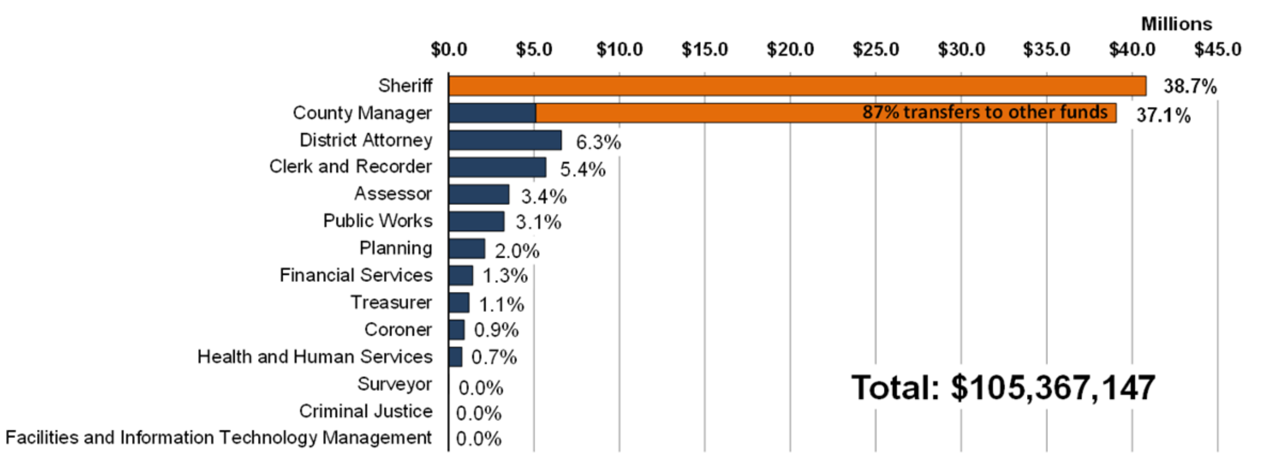
Source: Economic & Planning Systems analysis of Larimer County Budget data

A description of each County statutory fund is given below, including its major revenues and costs and services provided. The County maintains several other funds, but these four statutory funds make up the majority of the budget and are more directly impacted by TIF activities than other funds. State legislation requires counties to provide many of the services included in the four statutory funds.

General Fund

The General Fund is the general operating fund for the County. It includes law enforcement, County governance, policy making, management, planning, public works, and budget functions. Direct services to Larimer County residents include the Clerk and Recorder, Assessor, and several law enforcement functions (**Figure 12**). The Sheriff's department is the largest service funded through the General Fund, accounting for 38.7 percent of the budget, or just over $40.0 million per year out of the $105.4 million General Fund budget. The Sheriff's department budget includes operation and maintenance of the county jail.

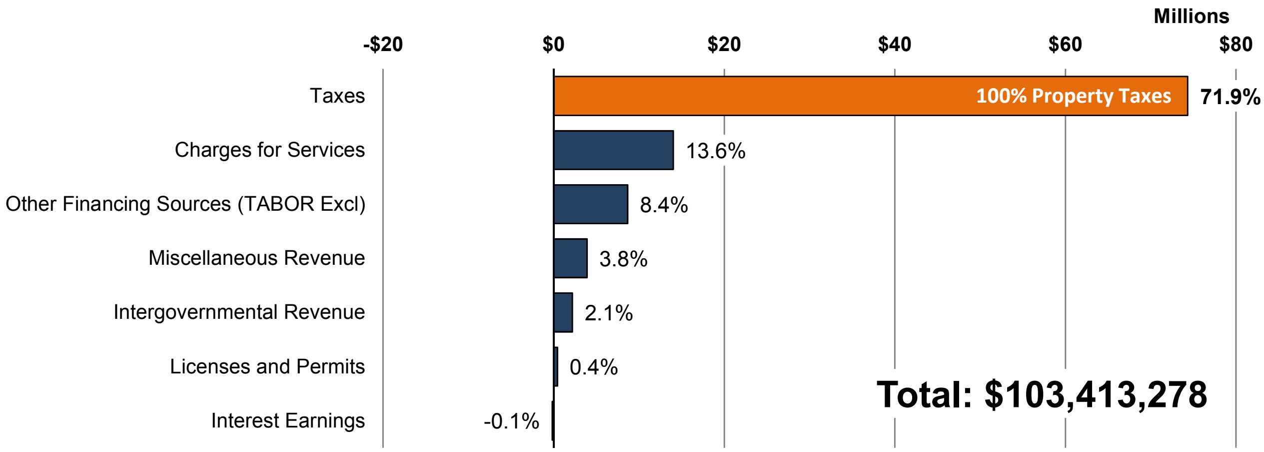
Figure 12
General Fund Expenditures, 2014



The Budget department is within the County Manager Division. This is where transfers from the General Fund to other funds are accounted for. Approximately $5.0 million is transferred to the Criminal Justice Fund for alternative sentencing programs. These programs are a major initiative to reduce incarceration rates and to preserve capacity in the jail so that constructing a new jail can be avoided or deferred for as long as possible since it is a major capital cost of several tens of millions of dollars. Approximately $12.0 million per year will be transferred to the Information Technology and Facilities department which is being established under its own fund. Capital replacement funding also comes from whatever funding is available to transfer from the General Fund. In 2014 the County Manager budget also included several million dollars of natural disaster recovery costs. These expenditures are not typical and have been adjusted for in the fiscal impact model.

Property tax from an 18.593 mill levy rate generated 72 percent of the General Fund revenue, or $77.0 million in 2014 (**Figure 13**). The remaining 28 percent of revenue comes from charges for services such as marriage licenses, driver's licenses, District Attorney fees for discovery data, and real estate and other document recording fees. "Other Financing Sources" includes transfers from other funds.

Figure 13
General Fund Revenue, 2014

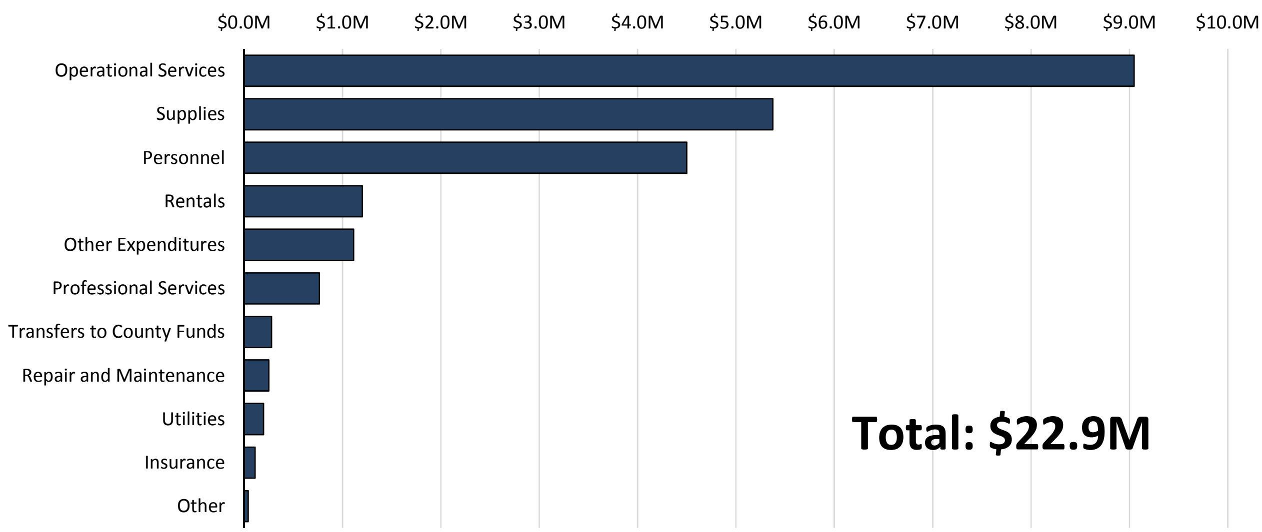


Road and Bridge Fund

Road and Bridge maintains and improves county roads and road structures. These activities include providing signage on roads and bridges. Road and Bridge maintains safety standards on county roads, and provides snow and ice control as well. State law requires Larimer County to maintain a Road and Bridge fund; the fund records costs of road and bridge construction, except for engineering and public works. State law also requires a portion of Road and Bridge property taxes to be allocated to cities and towns for their road and street activities. Half of the property tax collected by the 0.572 mill levy (2015 adopted rate) on properties within municipal boundaries is shared with the municipalities in Larimer County. The County retains all property tax collected by the Road and Bridge mill levy on properties in unincorporated areas. In total approximately 39 percent of the Road and Bridge mill levy is shared back with municipalities.

Maintenance and operations expenses (excluding personnel) make up nearly 80 percent of the budget, or approximately $18.2 million per year. Road and Bridge personnel expenses account for just under 20 percent of the budget or $4.5 million in 2013. The breakdown of Road and Bridge expenses by category is shown in **Figure 14**.

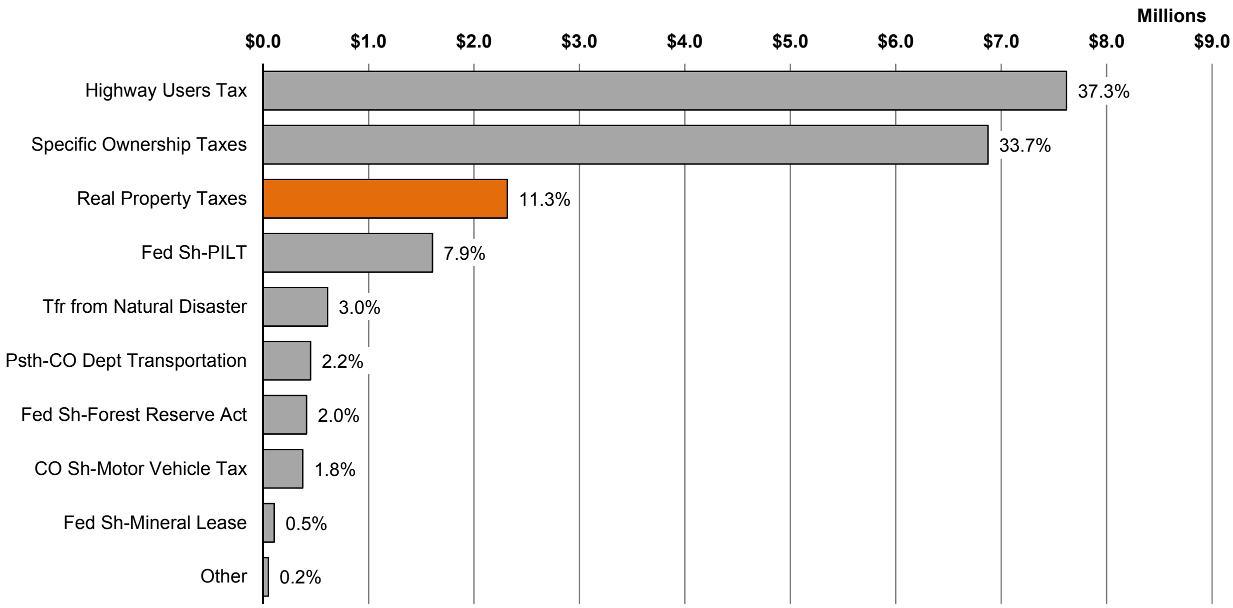
Figure 14
Road and Bridge Expenditures, 2013



Source: Economic & Planning Systems analysis of Larimer County budget data

The largest revenue source in the Road and Bridge fund is the Highway Users Tax (HUT) at 37 percent of the revenue, or $7.6 million in 2013 (**Figure 15**). Specific ownership taxes (vehicle registration taxes) make up one-third of the revenues at $6.9 million. Property tax from the 0.572 mill levy generates $2.3 million. The County keeps approximately 61 percent of this and shares 39 percent with the municipalities for road maintenance funding. The County also receives some federal money, Payment in Lieu of Taxes (PILT) and Forest Service funds for road maintenance activities related to public lands.

Figure 15
Road and Bridge Revenues, 2013

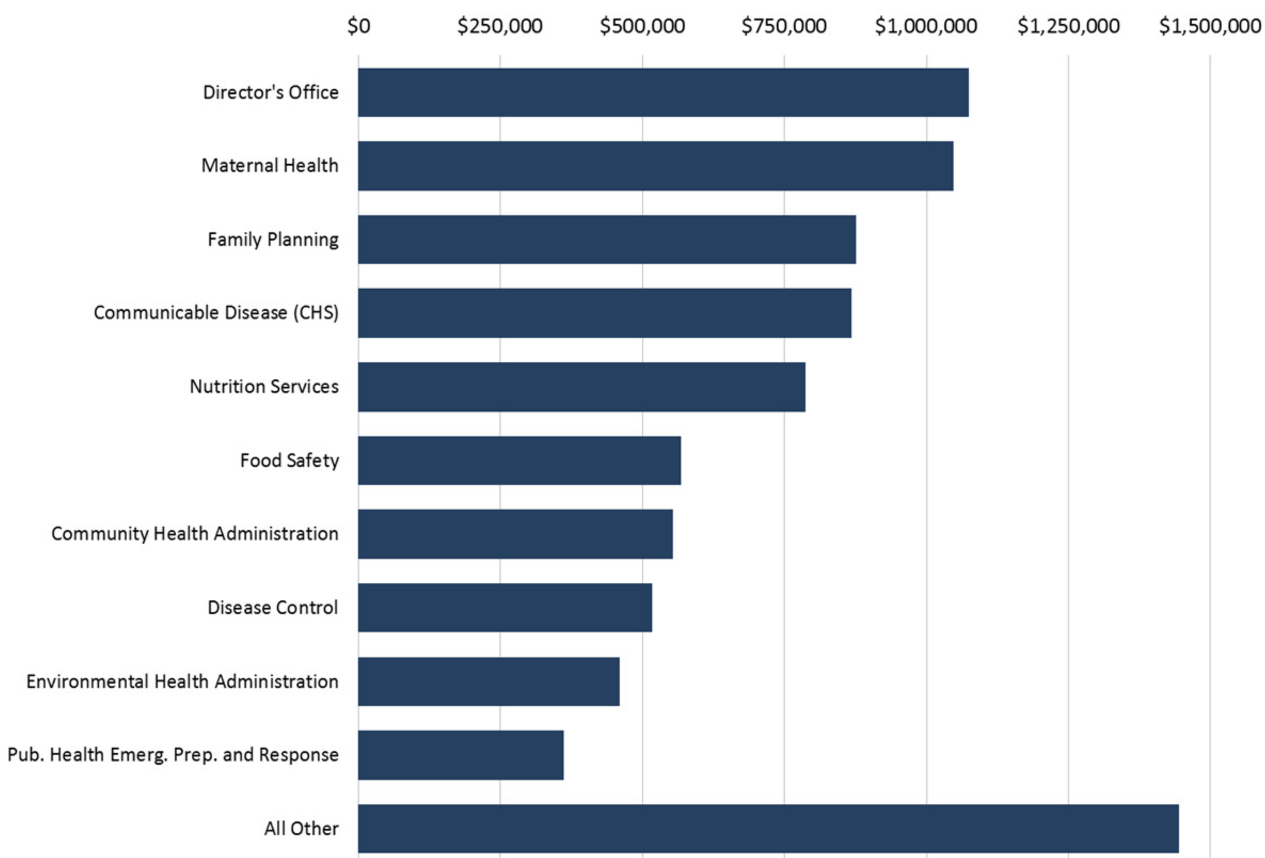


Health and Environment Fund

Health and Environment provides a broad range of services that promote health and reduce preventable causes of disease, disability, and death. This department is also responsible for ensuring food safety through restaurant inspections and water quality monitoring. Disease prevention activities include reducing the spread of animal borne diseases such as insecticide spraying to reduce mosquito populations and the threat of West Nile Virus. The Health and Environment department also runs routine and emergency vaccination programs for human transmitted diseases, and provides family planning and other health services.

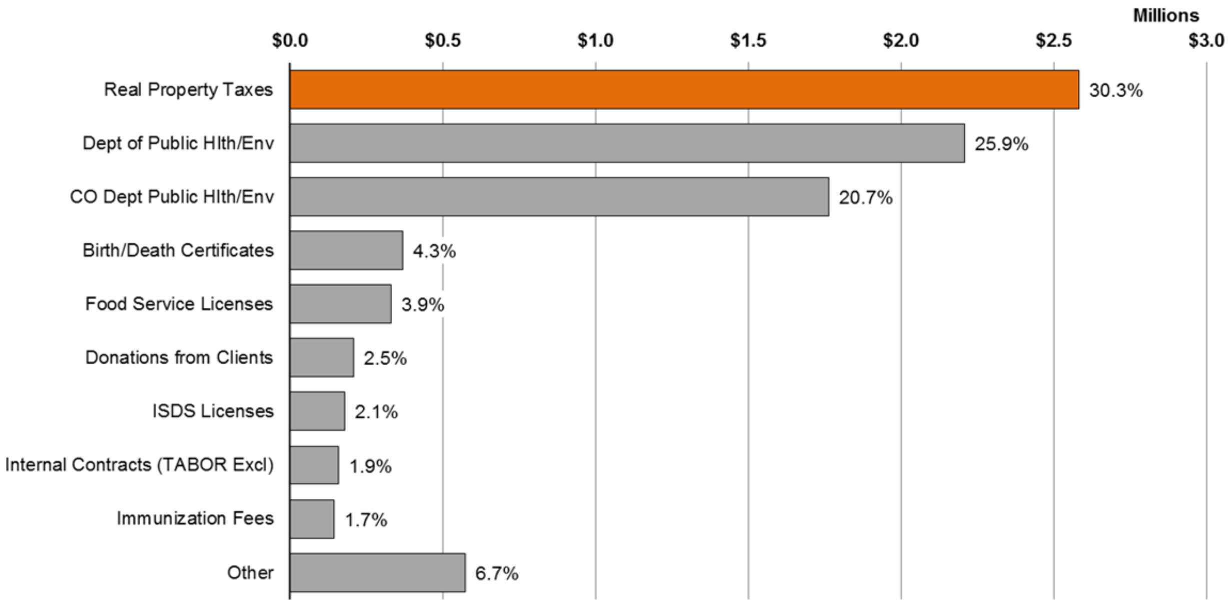
Personnel costs make up nearly 80 percent of the department budget as there are several direct outside services to Larimer County residents provided by the Health and Environment department. The Director's Office is one of the largest divisions with a $1.1 million annual budget for coordinating countywide health and disease prevention programs and administering the department (**Figure 16**). Maternal Health is also a major cost at just under $1.1 million to provide nurse home visits for low income pregnant women and infants. Other major functions include family planning services, disease prevention and containment, food safety inspections, mosquito and other pest control, and emergency preparedness and response.

Figure 16
Health and Environment Expenditures, 2013



The Health and Environment department receives the majority of its funding from state and federal governments. Approximately 46 percent of its revenue comes from the State of Colorado Department of Public Health and Environment (**Figure 17**). Property tax from the 0.658 mill levy generates $2.6 million per year, or 30 percent of the revenue. Other fees and charges for services make up the remaining 20 to 25 percent of the department's revenue.

Figure 17
Health and Environment Revenues, 2013

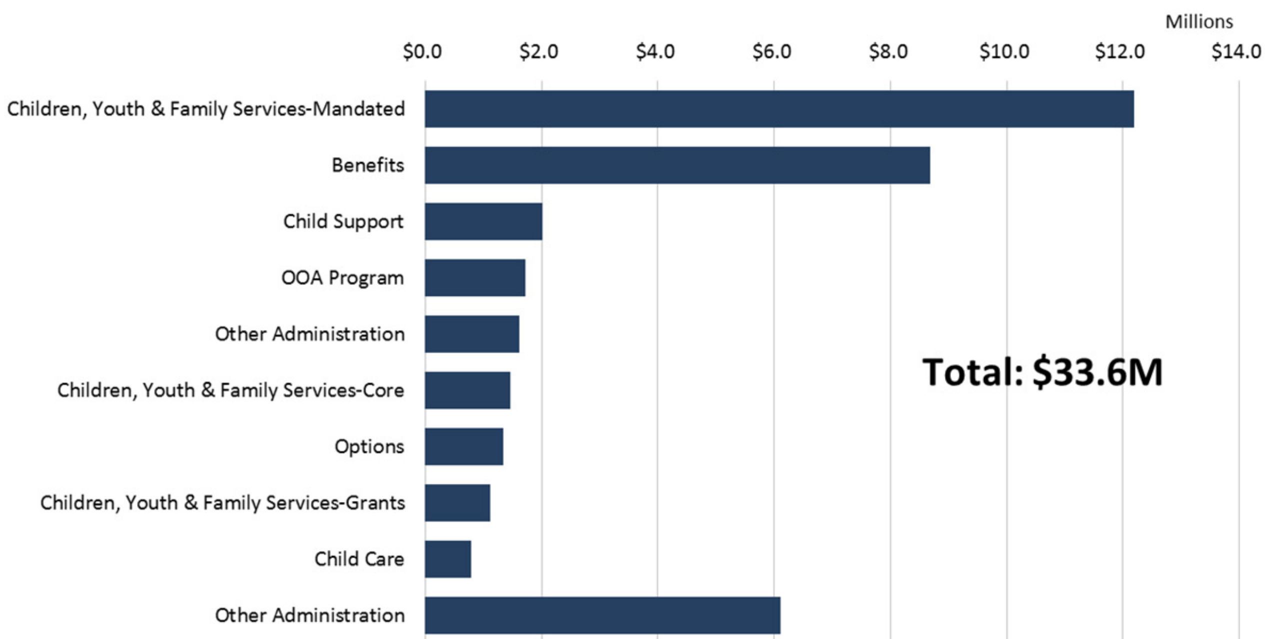


Human Services

The Human Services department fund provides access to help with food, shelter, medical care and other basic needs, protection for children and adults from abuse and neglect, and collection of child support. It also provides mediation for parent/child conflict, services for elderly and disabled citizens, and child care assistance. Programs such as welfare, Temporary Assistance for Needy Families (TANF), energy cost assistance for low income families (LEAP), and food stamps (SNAP) fall under this department.

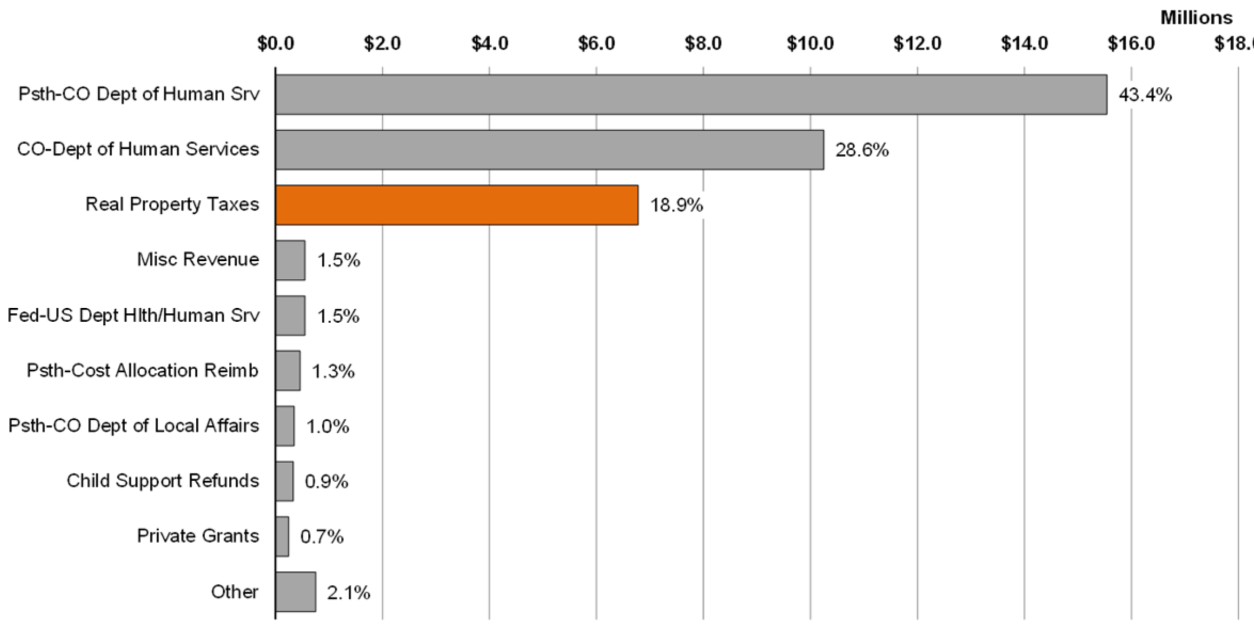
The major activities funded by the Human Services fund are shown in **Figure 18**. Children, Youth, and Family Services (child welfare and foster care) is the largest division accounting for 36 percent of the budget, or $12.2 million per year. The Benefits division is another large function; this division determines eligibility for and distributes Medicaid benefits, provides TANF job training, and other programs. Roughly 75 percent of the costs of the department are funded through state and federal grants and deducted in the fiscal impact model; the full 2013 budget amounts are shown here.

Figure 18
Human Services Expenses, 2013



Seventy two percent of this fund's revenue comes from the Colorado Department of Human Services, totaling $25.7 million per year (**Figure 19**). The state receives some of this funding from the federal government. The County distributions can vary from year to year due to changes in legislative priorities and other program changes. The County is required to match 20 percent of the state funding and does this through a 1.749 mill property tax.

Figure 19
Human Services Revenues, 2013



Other Taxing Districts

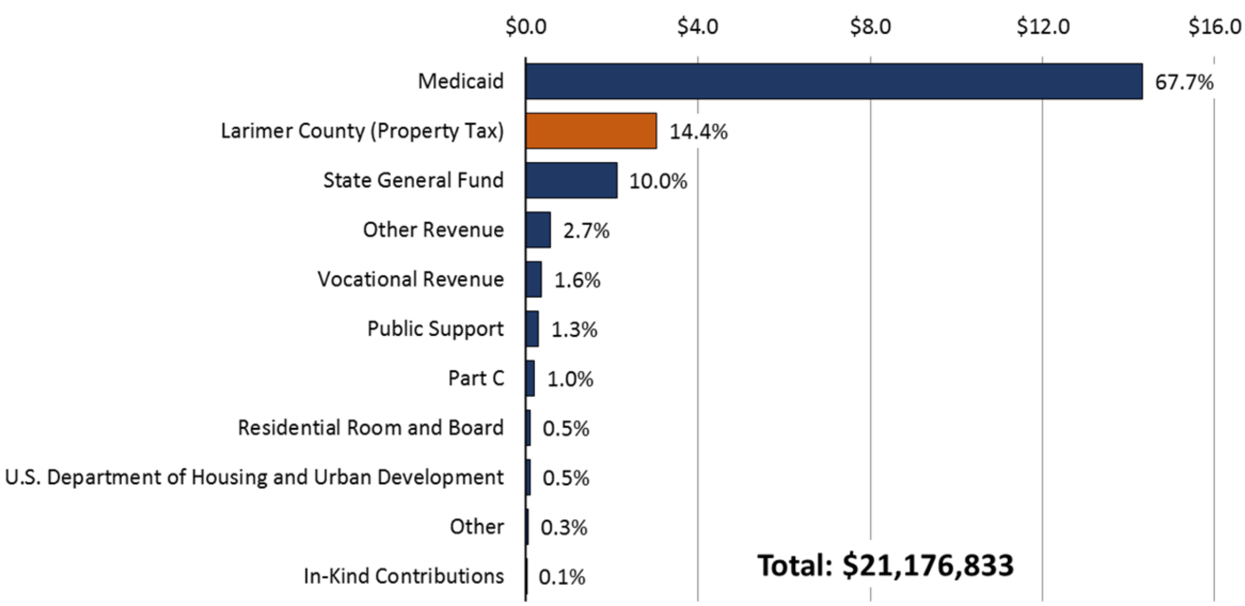
Three other taxing districts were included in this Study that have property tax mill levies that are affected by TIF: Foothills Gateway, the Health District of Northern Larimer County, and the Poudre River Public Library District.

Foothills Gateway

Foothills Gateway is a designated Community Centered Board (CCB) in the State of Colorado. CCBs were established by statute in Colorado in 1963. CCBs are private non-profit organizations designated in state statute as the single entry point into the long-term service and support system for persons with developmental disabilities. The state contracts with 20 Community Centered Boards to deliver community-based services. Each CCB has a non-overlapping geographic service region of 1 to 10 counties. CCBs are responsible for case management services including intake, eligibility determination, service plan development, arrangement for services, delivery of services (either directly and/or through purchase), monitoring, and many other functions. Foothills Gateway serves individuals with Intellectual and Developmental Disabilities (I/DD) in Larimer County.

Foothills Gateway has a voter approved 0.750 mill levy that generates approximately $3.0 million in property tax, comprising 14.4 percent of its annual budget (**Figure 20**). The property tax revenue is used to supplement state funding through Medicaid to expand the number of clients that can be served. State Medicaid funding makes up two-thirds of the budget, and another 10 percent comes from the state General Fund. The rest of Foothills Gateway's revenues come from minor miscellaneous grants, contributions, and charges for services (room and board at a residential facility they own).

Figure 20
Foothills Gateway Revenues, 2013

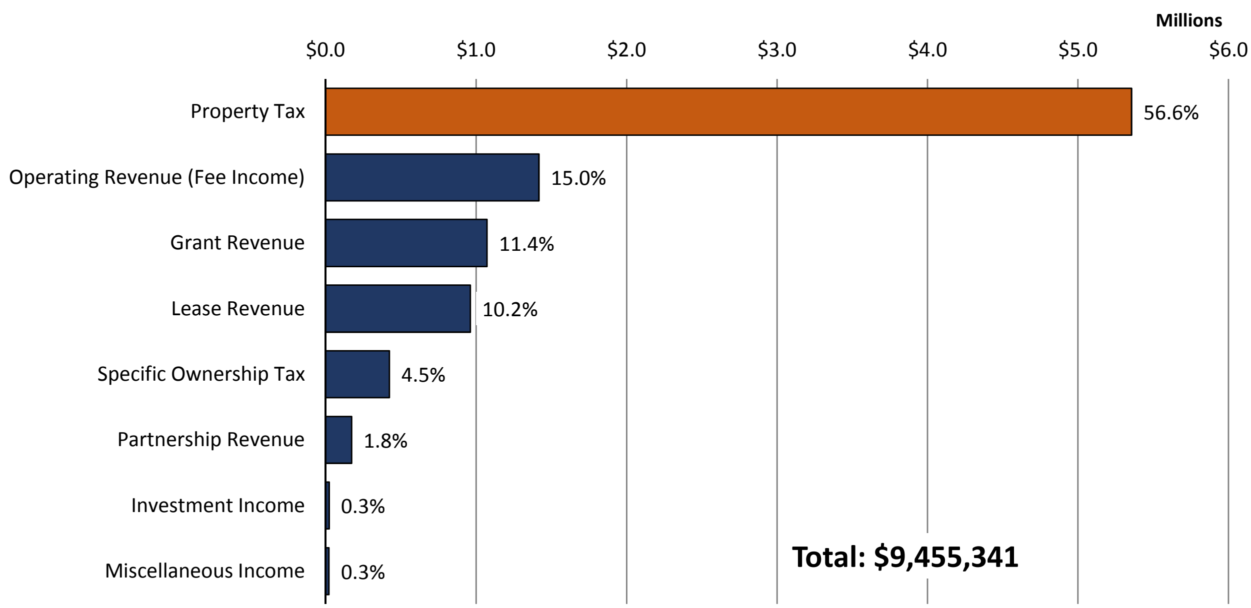


Health District

The Health District of Northern Larimer County was formed in 1960 and provides dental, mental health, prescription assistance and health promotion services to the residents of northern Larimer County. The boundaries of the district encompass the northern two-thirds of Larimer County and include the City of Fort Collins, the Towns of Timnath and Wellington, and the communities of Laporte, Livermore, and Red Feather Lakes.

The Health District's largest revenue source is property tax from a 2.167 mill levy that generated $5.4 million in 2013 (**Figure 21**). The Health District owns the real estate at the Poudre Valley Hospital and receives building lease revenues of approximately $960,000 per year from University of Colorado Health. Lease payments cover a majority of the Health District's administrative and overhead costs, allowing most of the tax dollars to go toward providing services to district residents.

Figure 21
Health District of Larimer County Revenues, 2013

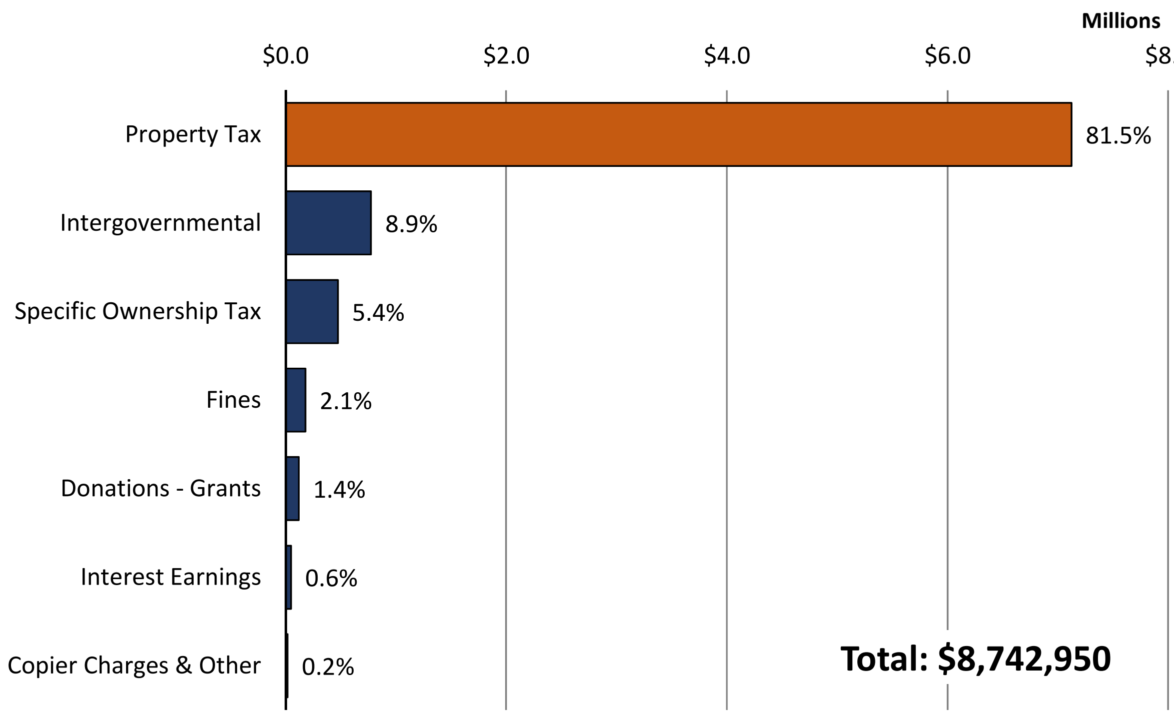


The Health District manages a dental clinic that operates on a sliding fee scale based on income. It also helps people find low cost or free medical care from area doctors. Its prescription services program purchases vouchers for prescription medicine that are available to eligible patients and it offers assistance to low income people in finding low cost or free prescription medicine. Among other services, it also provides low cost programs to help people quit smoking and tobacco use.

Poudre River Public Library District

The Poudre River Public Library District was established in 2006 by voter approval. It serves an 1,800 square-mile region in northern Larimer County, Colorado and operates three libraries in Fort Collins. The primary funding source is a voter-approved 3.013 mill levy which raised $5.1 million in 2013 (**Figure 22**). In addition to traditional book lending and research services, the library also has staff that provides computer training, job search assistance, and assistance to businesses. The library also maintains a growing electronic collection which adds costs in the information technology infrastructure needed to provide access to it, and in the collection purchasing and licensing fees. Prior to 2015, the Library District received sales tax from Fort Collins' Building on Basics (BOB) sales tax (shown as Intergovernmental). With the sunsetting of the BOB sales tax in 2015, property tax now represents 90 percent of total revenue.

Figure 22
Poudre River Library District Revenues, 2013



School Districts

While not a formal part of this Study, school districts are also affected by TIF. There are five school districts in Larimer County with property tax levies ranging from 25 to 53 mills. 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 be the case without URAs.

Peer Counties Revenue Structure

EPS researched the revenue structure for several other large counties for comparison to Larimer County. First, we looked for counties with general operating sales taxes. Next, we examined overall revenue levels per capita. Three other counties with substantial urban populations were identified that have general purpose sales taxes that also use a portion of sales tax to fund capital projects.

La Plata County collects two 1.0 percent sales taxes (**Table 5**). Within the first 1.0 percent, 56 percent is allocated to the County's General Fund and 44 percent is shared with municipalities. The second 1.0 percent is directed to capital projects that benefit the County and the City of Durango, with some additional distribution to smaller municipalities. Mesa County also collects a 2.0 percent sales tax with 1.0 percent allocated to the Capital Projects Fund, 0.45 percent dedicated to the General Fund, and 0.55 percent shared with municipalities. El Paso County's sales tax rate is 1.23 percent including 0.23 percent dedicated to the Sheriff's department. The remaining 1.0 percent is dedicated to road and bridge capital and maintenance projects, with a small amount dedicated to transit.

Larimer County collects four voter-approved dedicated sales taxes but no general purpose sales tax. There is a 0.15 percent sales tax dedicated to jail operations and maintenance. There is a 0.25 percent (1/4 cent) sales tax dedicated to open space and habitat restoration projects that is shared with municipalities. A 0.15 percent sales tax subsidizes operations at The Ranch, the County Fairgrounds; the tax sunsets in 2019 unless voters approve an extension. The County also collects a 0.10 percent sales tax on behalf of the Humane Society.

Funding levels per-capita in Larimer County are similar to other urban counties. This does not mean that the County – or the peer counties – are well funded overall, just that the funding levels are similar. Funding levels are a function of both revenue availability and the desired level of service determined by policy makers and voters. The highest revenues per capita are in Adams County at $1,013 per person, Douglas County at $992 per person, and in La Plata County at $985 per person (**Table 6**). Mesa and Larimer Counties have similar funding levels at $955 and $945 per person, respectively. Arapahoe and El Paso Counties fall well below the others at $537 and $414 per person, respectively.

Table 5
Peer County 2015 Sales Tax Rates and Purposes

County	Total Sales Tax Rate	Breakdown	Allocation
Larimer	**0.65%**	0.15%	Jail Expansion
		0.25%	Open Space
		0.15%	Fairgrounds
		0.10%	Humane Society
		0.65%	
La Plata	**2.00%**	First 1.0%	
		56%	La Plata County Gen'l Purpose
		36%	City of Durango
		4%	Bayfield
		4%	Ignacio
		100%	Total
		Second 1.0%	Voter approved joint sales tax fund (1982)
		22.00%	County and Durango projects
		70.90%	County
		4.00%	Bayfield
		3.10%	Ignacio
		100.00%	Total
Mesa	**2.00%**	1.00%	County Capital Fund
		0.45%	County General Fund
		0.55%	Shared with Municipalities
		2.00%	Total
El Paso	**1.23%**	First 1.0%	
		55.00%	Capital road and bridge projects
		35.00%	Road and bridge O&M
		10.00%	Transit
		100.00%	Total
		0.23%	Sheriff
		1.23%	**Total**

Source: County budgets, Economic & Planning Systems

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Table 6
Peer County Revenues per Capita, 2013 and 2014

Description	Larimer	Adams	Arapahoe	Douglas	El Paso	Jefferson	Mesa	La Plata [2]
Population								
Municipal	253,697	385,864	524,475	125,924	490,500	354,654	80,354	20,559
Unincorporated	68,740	90,092	89,593	177,415	176,000	191,999	70,950	33,430
Total	**322,437**	**475,956**	**614,068**	**303,339**	**666,500**	**546,653**	**151,304**	**53,989**
Revenues								
Property Tax	$92,856,000	$124,266,000	$140,520,000	$104,525,000	$44,060,000	$185,217,000	$22,278,000	$21,022,611
Sales Tax	27,036,000	38,899,000	18,976,000	47,710,000	99,769,000	41,729,000	29,055,000	14,080,460
Intergovernmental	51,607,000	223,541,000	100,964,000	36,197,000	81,935,000	86,507,000	57,426,000	12,524,014
Charges for Services	38,248,000	49,519,000	29,964,000	33,068,000	21,232,000	39,344,000	22,780,000	4,299,105
Other [1]	94,874,000	45,813,000	39,121,000	79,424,000	29,020,000	128,451,000	12,919,000	1,248,147
Total	**$304,621,000**	**$482,038,000**	**$329,545,000**	**$300,924,000**	**$276,016,000**	**$481,248,000**	**$144,458,000**	**$53,174,337**
Revenues Per Capita								
Property Tax	$288	$261	$229	$345	$66	$339	$147	$389
Sales Tax	$84	$82	$31	$157	$150	$76	$192	$261
Intergovernmental	$160	$470	$164	$119	$123	$158	$380	$232
Charges for Services	$119	$104	$49	$109	$32	$72	$151	$80
Other [1]	$294	$96	$64	$262	$44	$235	$85	$23
Total	**$945**	**$1,013**	**$537**	**$992**	**$414**	**$880**	**$955**	**$985**

[1] Other is comprised of specific ownership tax, other tax revenue, fines and forfeitures, interest/investment earnings, debt revenue, other/miscellaneous revenue, transfer revenues, fees and payments, fund balance use

[2] 2013 is the most recent available year.

Source: Colorado Counties Inc., Economic & Planning Systems

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4. TIF ECONOMIC AND POLICY RESEARCH

This chapter presents research on tax increment financing (TIF) from Colorado and nationally. The origins of TIF are described along with a chronology of how it has grown in scope and use over the last 60 years. Research on the economic and fiscal impacts of TIF districts are then reviewed with a specific focus on how other taxing districts are affected. A number of case studies are highlighted that show how these impacts have been addressed in specific settings. The chapter concludes with a review of policy studies on TIF impacts and their recommendations for reform.

TIF Economic Impacts

There has been a considerable amount of academic and policy group research on the economic effects of TIF. A number of research studies have sought to compare the growth in property values in various areas of geography with and without TIF investment.

A recent study in Wisconsin compared the growth in total property values in cities with TIF districts to cities with no TIF districts over the 1990 to 2003 time period.[2] The study found that that property values grew more rapidly in cities with TIF districts. It also found that the non-TIF areas of cities with TIF grew more rapidly than cities without TIF.

An Indiana study evaluated the economic effects of TIF districts within counties on a number of measures over the 2003 to 2012 time period.[3] The study compared the percent change in assessed value in TIF districts with non-TIF parts of the same county and found the TIF districts generated a small but positive rate of growth. The study also compared the percent growth in tax rates in counties with TIF districts with counties that did not have TIF districts and concluded that the counties with TIF districts had a slightly higher increase in overall tax rates, which we interpret to mean that the increase in tax rates implies a growth in service costs. There was a 0.01 percent difference on average which is of questionable statistical significance. An additional finding was the impact on tax rates was higher in counties that had larger TIF districts.

A study in the six county Chicago metro area over a 18-year time period found that in the four years before TIF adoption, property values grew faster in cities that later created TIF districts than in the cities that did not create TIF districts.[4]

The question as to whether the economic benefits of TIF investments justify the cost is not definitively answered by the available research. It is apparent that there is not a clear nexus between conditions of economic distress and the use of TIF. The opposite is often the case in that faster growing cities/counties appear to be utilizing TIF on a more frequent basis to help

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[2] *Do Wisconsin Tax Increment Districts stimulate growth in Real Estate Value?* David Merriman, Mark Skidmore and Russ Kashian, October 2007.

[3] *Some Economic Effects of Tax Increment Financing in Indiana*, Michael Hicks, PhD, Dagney Faulk, PhD, and Pam Quirin, Ball State University Center for Business and Economic Research, January 2015.

[4] *The Effect of Tax Increment Financing on Land Use*. Richard F. Dye and David Merriman, Lincoln Institute of Land Policy, 2003.

facilitate growth. It is acknowledged that this research has a number of challenges including: availability of data; defining areas of impact; isolating relevant factors; effects of externalities; and transferability of findings to other settings. Specifically it seems difficult to find a data set that removes other socioeconomic factors that influence the results. The TIF tax structures also vary state to state which limits the applicability of findings to other locations.

Overlapping Districts

There is concern that developments receiving TIF may impose new demands on governmental services without providing additional revenues to pay for them. This can be within the city itself, and also within other taxing entities whose tax base is also being captured as tax increment. These "overlapping districts" may have a difficult time responding to the needs generated by new growth and may be forced to raise taxes to pay for it. In Colorado, taxes cannot be raised without voter approval, making it difficult for local governments to respond to revenue shortfalls.

In theory, a TIF district should not have an impact on the tax base of overlapping jurisdictions whose tax base is being captured, at least under the depressed economic and market conditions that TIF was originally designed to improve. The enabling criteria for establishing most TIF districts were a finding of blight and a "but for" determination. Therefore a distressed area suffering from disinvestment would be expected to experience declining or flat property values into the future without an injection of TIF funded investments. Similarly, without the TIF investment, the other taxing jurisdictions would not anticipate tax revenue growth. In other words, without TIF funded catalyst projects, there would have been further decline in assessed values, tax revenues, and other economic activity.

As the applications of TIF have expanded, the potential for negative impacts on the city and/or on overlapping taxing entities have also increased. For example, mixed use TIF projects may include housing that generates new school children which create cost burdens on the school district. Also, as an Indiana study identified, the larger the TIF district, the greater the probability that it is capturing development that would otherwise occur elsewhere in the city or county which affects all other overlapping taxing districts.

In a number of states, there is a requirement for county or school district approval for city initiated TIF projects. The Kansas TIF statutes provide a county or school district with the opportunity to object to the creation of a TIF district if the proposed redevelopment district will have an adverse impact. The county has 30 days to deny the creation of a redevelopment authority. In 2008, Sedgwick County, Kansas (Wichita) adopted criteria for evaluating the impacts of a proposed TIF district including:

- Potential loss of revenue would hinder effective future delivery of public services.
- Proposed project is economically feasible without county funding support.
- Proposed private equity funding is insufficient to affect default risk.
- Costs to county government are greater than benefits to county government.
- Sufficient data or notification was not provided for county staff to adequately review the project.

Colorado Legislation

In 2005 Colorado modified its urban renewal statutes to require urban renewal authorities (URAs) to prepare a County Impact Report (CIR) if TIF was proposed to be used. The CIR is required to address the impacts on revenues and costs to the county needed to serve the urban renewal project and disclose how the city or URA proposes to finance any county infrastructure or services to serve development within the URA. The law also authorized intergovernmental agreements between the city/URA with the county for TIF revenue sharing to address the estimated impacts. Although the CIR does not give the county specific veto power, it has stimulated greater attention to estimating the impacts on county services.

In 2015, the State of Colorado enacted legislation giving counties and other districts additional review powers. The number of board seats on a URA Board has been expanded from 5 to 11 members to up to 13 to include one representative from the county, one from special districts, and one from the school district. The legislation requires a city forming a URA to "attempt to reach" an agreement with the county and overlapping districts on revenue sharing in a TIF. If no agreement is reached the proposal is referred to a mediator. The URA then has the option of 1) accepting the mediator's findings regarding TIF revenue interceptions, 2) foregoing TIF interceptions, or 3) reopening negotiations with the entities from which TIF revenues are requested. The legislation has a number of inconsistencies that have not been tested yet including inconsistent terminology around arbitration and mediation.

Revenue Sharing Agreements

The result of the Colorado and other state, county, and school district review provisions for TIF projects has been an increase in revenue sharing agreements. Examples of negotiated agreements to address these impacts are summarized below.

Stapleton Redevelopment Project – The City and County of Denver Urban Renewal Authority (DURA) formed the Stapleton Redevelopment Project to use TIF for the redevelopment of the former 4,700 acre airport site as a mixed use development with up to 12,000 housing units and 17 million square feet of commercial development. The City and County was concerned about the impacts on City and County services from the housing being proposed with no new tax base to pay for increased services. DURA, the City and County, and Forest City Stapleton negotiated a graduating tax increment scale.

During the first five years of TIF revenues, 100 percent of the property tax increment is devoted to Stapleton redevelopment projects. Thereafter, an increasing percentage of the total tax increment (both sales and property) will be retained by the City and County. The retained percentage reaches 47 percent by year 20, which will largely go to pay the increased demands from new residents for City and County services, such as police, jail and law enforcement, fire, roadway and utility and human services. The TIF base assessed value was $28.2 million in 2001 and the assessed value increment was $17.0 million generating approximately $835,000 in TIF in year one. It is anticipated that over the 25 year construction period, the annual property tax increment will grow to $93.0 million.

Timnath Development Authority – The Timnath Development Authority, the Town's URA, created a broad urban renewal district encompassing much of the Town in 2004. In response to a lawsuit filed by Larimer County, the Town and the County signed an intergovernmental agreement (IGA) in 2006 whereby the Town agreed to rebate a percent of the TIF attributable to the County's tax rate on a sliding scale over the 25 year tax increment time period. The payment schedule is 0.0 percent in Years 1-5, 15.0 percent in Years 6-10, 30.0 percent in Years 10-15, 45.0 percent in Years 16-20, and 60.0 percent in Years 21-25.

Hilliard, Ohio – The City of Hilliard, Ohio negotiated a revenue sharing agreement with the Hilliard School Board on the Square at Latham Park, a 33-acre mixed use project that included 17 acres dedicated to multifamily apartments. The agreement was struck by a 3-2 vote of the School Board and a 6-1 vote of the City Council. The project is projected to generate $20 million in TIF over the 30 year period. During the first 12 years, the developer will receive 75 percent of the TIF and the School Board 25 percent. Starting in year 13, the Hilliard City Schools will receive 100 percent of the TIF plus an annual payment of $190,000 to compensate the district for lost revenues in the first 12 years. Over the 30-year time period, the developer will receive $5.9 million and the school district $12.6 million with $1.3 million projected to be leftover surplus.

Texas – Texas legislation makes the participation of overlapping districts totally voluntary. The Texas TIF statutes allow each taxing unit within the designated TIF zone to negotiate with the city the amount of tax increment they will contribute. All taxing entities including school districts may opt to contribute anywhere from zero to 100 percent of their tax increment revenue to a TIF fund. In the past, school districts could reduce the value of taxable property reported to the state to reflect any increase in appraised value that was captured by a tax increment financing fund in which the school district participated. In 1997 and 1999, the legislature changed school funding laws, eliminating the ability of school district to reduce their taxable property value due to TIF.

New Mexico TID Act – At least one state mandates a shared allocation of TIF based on fiscal impacts. The New Mexico Tax Increment for Development Act creates what is essentially a negotiated TIF percentage that is based on the affected taxing entity continuing to receive a portion of the property and gross receipts taxes (GRT) sufficient to cover its anticipated operating expenses and making the TIF diversion revenue neutral. As part of the application, the proposed tax increment development district (TIDD) is required to submit a fiscal impact analysis to the affected taxing district (city, county, and/or state) that estimates the property tax and GRT increment and an estimate of amount of TIF needed to cover the estimated capital and operating expenses needed to serve the proposed project. The maximum eligible TIF is the percent of projected revenues not needed to cover projected governmental expenses. The legislation also limits the GRT TIF allocation to a maximum of 75 percent.

The largest TIF approved to date was for Phase A of the 10,000 acre Mesa del Sol mixed use development being built in Albuquerque (a total of 3,500 acres). The City committed 100 percent of the property taxes and 67 percent of GRT TIF to the project; Bernalillo County committed 10 percent of property taxes and 22 percent of GRT TIF to the project; and the State of New Mexico committed 100 percent of property taxes and 75 percent of GRT TIF to the project.

Other Examples and Proposed Reforms

TIF has greatly expanded beyond its urban renewal roots and has become the preferred infrastructure and development financing tool in much of the country. In many settings, TIF districts are not limited to traditional urban renewal activities such as removing inner city blight, and no longer meet the historical "but for" definition. TIF projects have been increasingly used to achieve broader economic development goals, and in many cases provide a financial incentive for competitive development projects between cities. The proliferation and expansion of TIF applications has resulted in economic and fiscal impacts not originally anticipated in the urban renewal context in which TIF was established.

These fiscal impacts are experienced by the city at large and/or other governmental service providers such as counties and school districts that are required to provide services to the new development while having their tax revenues diverted to TIF. And as identified above, the greatest impacts are associated with larger TIF districts (as well as those that do not meet the traditional definition of blighted) whereby the development contained within the district is cannibalizing activity that would otherwise occur in other locations within the government's service area.

The impacts are also exacerbated by the growth and proliferation of TIF districts. The highest profile example was in California where the state's nearly 400 redevelopment districts were diverting over 10 percent of the state's assessed value to TIF. As a result, in 2012, Governor Brown signed a bill abolishing redevelopment districts which was estimated to return $1.7 billion to the state general fund in the first year and $400 million a year thereafter.

There has been and continues to be a considerable amount of policy discussion and debate around the merits of TIF and the need for reforms. Much of the published research is by tax policy lobbying groups with a specific point of view or bias. At the local level, there have been a series of bills in the Colorado legislature nearly every year that have generally pitted the Colorado Municipal League, representing city interests, against the Colorado Counties Inc., representing county interests.

A relatively balanced evaluation of TIF was published by U.S. PIRG in 2011.[5] The report acknowledges the importance of TIF to encourage development in economically challenged areas, and notes: "when used properly and sparingly, TIF can promote growth and stronger communities…." but also notes "when used improperly, TIF can waste taxpayer resources or channel money to special interests". In addition to honing in on what is described as the overuse of TIF, the study also notes many of the economic and fiscal impact issues previously described including that: "developments receiving TIF subsidies may impose new demands on municipal services without providing the means to pay for them…" and "overlapping districts may have a difficult time responding to these growing needs, forcing them to raise taxes on other taxpayers".

The study also makes a number of policy recommendations to be considered for implementation at the statewide level including:

- Placing a cap on the percent of the city's land area and assessed value that can be included in TIF districts.
- Requiring land targeted for TIF to meet the criteria for actual blight or economic stagnation, and that previously vacant land not be eligible for TIF.
- Giving overlapping jurisdictions some say in creating and ending TIF districts.
- Requiring greater accountability from developers regarding meeting the goals and proposed development TIF investments promised in the district formation application.

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[5] *Tax Increment Financing; The Need for Increased Transparency and Accountability in Local Economic Development Subsidies.* U.S. PIRG Education Fund, 2011

A more locally based study was conducted in 2012 by the specially appointed Indianapolis-Marion County TIF Study Commission which was charged with examining economic development policies and procedures related to TIF in Marion County.[6] The Commission had 24 member stakeholders with a balance of city, county, and business interests. The study identified many of the same issues discussed above including; the need for new methods to increase transparency, the need for new methods of accountability including performance standards, and the need for more rigorous standards in establishing new TIF districts.

There are a comprehensive set of recommendations, some of which are specific and unique to how TIF is applied under the Indiana statutes. The most relevant and transferable of the study's recommendations include:

- Use TIF in a limited capacity that is in concert with but does not displace the development and execution of a comprehensive countywide plan for Economic Development and public infrastructure maintenance.
- Identify targeted and narrowly defined geographic allocation areas that provide a funding source for Economic Development activity and preserve the property tax dollars that would otherwise flow to base taxing units.
- Minimize the duration of TIF districts to the amount of time reasonably required to accomplish the Economic Development goals and provide for the return of incremental assessed value to the base taxing units as soon as possible.
- Focus the use of TIF on redevelopment projects and in redevelopment areas of the county; this includes projects that address blight, abandoned and vacant properties, environmental remediation, and economic development projects that address market failures.
- Exercise a higher level of scrutiny for approval of economic development projects than for redevelopment projects.
- In addition to financial feasibility studies, implement the use of robust market and real estate feasibility studies to evaluate and choose TIF projects that catalyze redevelopment residential settlement within the county and do not contribute to sprawl and the movement of businesses and residents to surrounding counties.

[6] Indiana-Marion County Council Tax Increment Financing Commission Final Report, June, 2012.

5. *Fiscal Impact Analysis*

EPS worked with the Core Group and a Technical Group to develop the Fiscal Impact Model (FIM) to be applied during the consideration of future TIF projects. These groups are made up of representatives from the Cities of Fort Collins and Loveland, the County, and staff from two special districts' budget and finance departments. The purpose of the FIM is to provide an objective estimate of the costs and revenue impacts to each entity in the Study to inform future evaluations of and negotiations around TIF projects. The FIM addresses County impacts (including the four statutory funds: General, Road and Bridge, Health and Environment, and Human Services), as well as impact to the Library District, Health District, and Foothills Gateway District.

Purpose

The FIM provides an objective estimate of the revenues and annual service costs to the County and other taxing districts before (without) and after (with) TIF. It also estimates the net fiscal impact to each district and the County before and after TIF, and the percentage and amount of property tax that would need to be retained (excluded from the TIF) in order to recover the estimated direct costs of the project. The purpose of the model is to provide a starting point for negotiations on any revenue sharing that may be warranted according to the type of project subject to TIF and its potential impacts (positive or negative).

It should be noted that the model has some limitations. First, each project that will be considered for TIF will be unique. Therefore, the market inputs and assumptions for each project need to be critically examined to ensure they reflect realistic estimates of the project's revenue generation and cost potentials. While the model provides a number of default market and demographic assumptions, they may not be appropriate in all cases.

Second, the model only estimates the direct revenues and costs of a project – the property and sales tax, and other miscellaneous government revenues generated by development, and the service costs directly attributed to the project. The fiscal structure of local government imposed by the Gallagher Amendment results in the reliance on commercial development revenues to cover the cost of services to residents and corresponding residential development. It was determined in the Study process and in the development of the FIM that too many layers of assumptions would be needed to attempt to quantify these and other indirect impacts, and that the resulting model framework would not be defensible or easily explainable.

Third, the model estimates the incremental cost of providing services using an average of service delivery costs during the past five years. This average cost does not represent the annual cost of service over the future life of the TIF, typically 25 years. Increased service demands, "step costs" of addressing service capacity limits, cumulative impacts of multiple TIFs, and the growth of citizen expectations of local government cannot be accounted for by the model but should be discussed and considered.

The limitations of the FIM, and fiscal impact analysis in general, require consideration also be given to indirect impacts as presented in the evaluation framework in Chapter 6. The indirect impacts (positive or negative) are an equally important consideration in evaluating a TIF project. These may include benefits from the removal of blight, increases in surrounding property values, providing good quality jobs with living wages, and improving overall quality of life for all residents.

Methodology

The FIM compares the estimated revenues generated by new development to the estimated costs of public services required to determine the net fiscal impact. Revenues and costs are estimated based on the budgets for each agency and an assessment of potential effects of different types of development on each department or budget category. Certain revenue items are estimated using "case study" approaches based on subject specific data; for example, property tax is based on estimated assessed values multiplied by the applicable tax rates. Other items, such as public service costs related to residential development, are based on a "per capita" estimate.

Locally Generated Revenues

Property tax is the primary locally generated revenue source for County and other districts. Property tax is estimated from the market value and assessed value for a proposed development multiplied by the total mill levy for each fund and district. There are several departments that receive state and federal grant and formula funds. These are deducted from both the revenue and expense side of the model to estimate the cost of services funded through local funds including property tax and charges for services and fees. The reason for this is that most state and federal funds are distributed according to funding availability at the state and federal levels, and complex formulas that often include growth in other jurisdictions. These revenues therefore do not always increase with growth in the subject jurisdiction, and cannot be accurately estimated through average cost/revenue methods.

Average vs. Incremental Estimates

The assumptions contained herein are based on a detailed review of the agency budgets, interviews with department and agency staff, and EPS' professional experience. Many of the cost estimates are based on average costs as there is insufficient data available to develop marginal cost estimates for each budget item within the scope of this study. Average costs are however adjusted using a "percent variable" factor that estimates the ratio between fixed and variable costs of each budget item estimated in the FIM.

Average Cost Nexus Factors

EPS developed nexus factors that relate the budget item being estimated to the service population or other metric that is best associated with the impact. These factors are discussed below in greater detail.

- **Per Capita** – Costs that are generated primarily by County residents are estimated using a "per resident" factor, based on average costs per resident. Many of the County's and other taxing districts' services are available to all County residents including those who live within municipalities.
- **Persons Served** – Some services, particularly law enforcement and public safety, are affected by growth in both residents and employees. Employees are assumed to have a less significant impact than residents when comparing the length of a work day to a full–resident day. The current analysis utilizes a 50 percent factor applied to employees who commute into Larimer County, which is then added to the number of residents to produce the total "persons served". The persons served metric does not include employees who live in Larimer County as they are already counted in the population.

- **Total Commercial Units –** Functions, such as food safety inspections that serve commercial development, are estimated on an estimated average commercial unit factor of 3,000 square feet of commercial space per unit.
- **Equivalent Residential Unit –** Items such as the Assessor's Office and some planning and inspection functions that serve both commercial and residential development are estimated on the basis of an equivalent residential units (ERUs) which are defined as the total housing units plus commercial units (estimated at one unit per 3,000 square feet) in all of the County.
- **County Maintained Road Miles –** Impacts to the County Road and Bridge department were estimated on the basis of "road miles". The County maintains 1,560 miles of roads. An adjustment factor of 50 percent variable was applied as many county roads are arterial corridors between municipalities that are used for commuting and other trips by both city and unincorporated county residents.

Fixed and Variable Cost Adjustments

Applying the factors described above directly to new growth would be equivalent to using the average cost for each item which can overstate cost impacts especially for small projects. For local governments whose services are at or near capacity, or over a long TIF period, the average cost method is a generally accepted technique for estimating fiscal impacts. However, many functions still need to be adjusted to account for higher levels of fixed costs and/or a less direct relation to growth. Fixed costs are costs such as rent, building and facility costs, and some administrative costs that do not have a strong correlation with growth; i.e., they do not increase as fast as population or employment growth. Variable costs are costs that increase with increased service demands such as human services case workers and many law enforcement functions. The following process and assumptions were used in developing the "percent variable" adjustments to average costs.

- **Administrative and General Government** – Departments such as the County Commissioners, budget, finance, accounting, purchasing, human resources, and other department management functions have a high level of fixed costs regardless of the size of a county. Costs in these types of departments and functions are estimated to be 25 percent variable.
- **Direct Services** – These include services such as marriage licenses, birth and death certificates, inspections, vaccinations, and disease control/prevention. These types of services are estimated to be much more closely related to growth and are modeled at 50 to 90 percent variable, i.e., 10 to 50 percent less than average cost to recognize that most functions have some level of fixed costs but recognizing that over the long timeframe of a TIF (25 to 30 years), government service demands tend to increase.
- **Sheriff, Corrections, and Jail** – The Sheriff's Department comprises about 35 percent of the General Fund budget, with operating costs of approximately $40 million per year. Headquarters and jail administrative functions are modeled at 25 to 50 percent variable depending on the specific line item based on discussions with County budget staff and Core Group (technical committee) members. Direct services such as patrol, jail operations and inmate care, and investigative services are modeled on a peak person served basis at 80 percent variable.

- **Functions with No Nexus or Relevance** – Some County functions were determined not to have any relationship to real estate development projects located in municipalities. An example of this is Code Enforcement, which the County performs only in unincorporated areas. These and other functions are excluded from the analysis on the cost and revenue side. There are also cost and revenue items that are fiscally neutral. These are fees and charges for services in which a fee collection triggers an approximately equal expense. These types of activities were also netted out in the analysis.

The statutory funds have a combined five year average budget of approximately $251.7 million (**Table 7**). After deducting for County functions that have no nexus TIF projects or development in municipalities, and for costs funded by state and federal grants, there is approximately $89.9 million in costs included in the FIM to which nexus factors and variable cost estimates are applied, or 35.7 percent of the budget. After applying variable cost estimates to each division within the General Fund, the General Fund is modeled at an average of 68.1 percent variable indicating that approximately 26.1 percent of the budget is estimated to be affected by TIF projects. Similarly, the Road and Bridge fund is modeled at an average of 50.0 percent variable with 19.0 percent of the budget affected. Health and Environment is modeled at an average of 62.7 percent variable affecting about 25.3 percent of the budget, while Human Services is modeled at an average of 75.0 percent variable, affecting an estimated 15.3 percent of the budget.

For the four statutory funds in total, 35.7 percent of the budget is included in the model after the deductions noted above at an average of 66.9 percent variable, meaning that 23.9 percent of the budget is affected by TIF projects.

Table 7
Variable Cost Estimates by Fund

Fund	Budget (5-yr. avg.)	Pct. of Budget w/ Nexus to New TIF Projects	Budget with Nexus to New TIF Projects	Average % Variable	Variable Expenditures	Pct. of Budget Affected by TIF Projects
General Fund						
General Fund Excl. Sheriff & Trnsfrs.	$109,700,000	15.8%	$17,370,000	65.6%	$11,395,472	10.4%
Transfers Out [1]	$34,214,775	48.0%	$16,440,000	89.1%	$14,642,552	42.8%
Sheriff and Jail	$40,906,834	90.4%	$36,960,000	60.0%	$22,184,638	54.2%
Total	**$184,821,609**	**38.3%**	**$70,770,000**	**68.1%**	**$48,222,661**	**26.1%**
Road and Bridge	$21,360,000	37.9%	$8,100,000	50.0%	$4,050,000	19.0%
Health and Environment	$8,560,000	40.4%	$3,460,000	62.7%	$2,169,461	25.3%
Human Services	$36,940,000	20.4%	$7,524,249	75.0%	$5,643,187	15.3%
Total	**$251,681,609**	**35.7%**	**$89,854,249**	**66.9%**	**$60,085,310**	**23.9%**

[1] 2013 amount

Source: Economic & Planning Systems

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The majority of the County's service costs are related to population rather than commercial development, highlighting the County's reliance on commercial property tax revenues to serve residents. By summarizing the budget expenditures by the nexus factors assigned to each division or function, it is estimated that 94.6 percent of the County's service costs are linked to population or residential land uses with only 5.4 percent related to commercial development (**Table 8**).

Table 8
Residential and Commercial Allocation of Service Costs

	Budget Analysis			Service Cost Allocation	
	Pct. of Stat. Funds by Nexus Factor	Pct. Residential	Pct. Commercial	Pct. Residential	Pct. Commercial
Per Capita	41.9%	100.0%	0.0%	41.9%	0.0%
Persons Served	35.0%	92.1%	7.9%	32.2%	2.8%
No Nexus [1]	5.1%	90.0%	10.0%	4.6%	0.5%
Not Estimated [1]	14.2%	90.0%	10.0%	12.8%	1.4%
Total Commercial Units	0.3%	0.0%	100.0%	0.0%	0.3%
Equivalent Residential Unit	3.5%	87.9%	12.1%	3.1%	0.4%
Total	**100.0%**			**94.6%**	**5.4%**

[1] Residential-Commercial Allocation estimated to be similar to Persons Served and Equivalent Residential Unit factors.
Source: Economic & Planning Systems analysis of Larimer County budget data.
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Model Overview

Prototype Scenarios

The FIM testing was organized around two land use prototypes: a 100 unit multifamily residential development and 300,000 square feet of commercial development. In water and utility planning, the concept of an equivalent residential unit (ERU) is often used and is commonly 3,000 square feet of commercial space per residential unit. Therefore 100 ERUs would be 300,000 square feet of commercial space. This is assumed to be generic retail space with a market value of $100 per square foot, $300 per square foot in average annual sales, with 50 percent of sales net new to the County. These sales levels are characteristic of a large format national retailer. The estimate of 50 percent net new sales at the County level would assume that the store or stores are new to the Larimer County market and are differentiated from existing stores and brands in Larimer County. The project would also have to be able to draw new customers from outside the County as well as retain "leakage" spending by Larimer County residents currently made outside the County (e.g. Denver). Multifamily units are valued at $145,000 per unit and an average household size of 1.8 persons is applied. This would be characteristic of a new, well located, Class A multifamily development.

Direct Cost Model

The FIM is a direct cost model; it estimates the service costs directly attributed to a project or land use change. It does not estimate indirect, induced, or other types of "spinoff" impacts. Examples of the types of impacts that are addressed are provided below.

- **Residential Project Impacts –** The FIM estimates the annual revenues and service costs to the County and districts resulting from the new population that occupies the development. New housing is assumed to generate new population as most new housing is built in response to market demand (growth). Revenues and services tied to per capita average cost factors therefore increase with residential and associated population growth.
- **Commercial Project Impacts –** Commercial development impacts are modeled using the persons served factor, comprised of population plus half of commuting employees. Resident employees (non-commuters) are not included in the direct impact of a commercial project. If new employees move to Larimer County, generating new housing demand, new homes would be constructed and the revenue and cost impacts of the new population would be accounted for in the new homes. An analysis could be designed to estimate these impacts, but would require many layers of additional assumptions such as household size, home value, commuting and non-commuting portions, and household income with multiple wage earners. After extensive discussion with the Core Group it was determined that a direct cost model was more defensible.

Timing and Phasing

The FIM provides an annual snapshot of a project's performance at buildout and stabilization. It does provide flexibility to analyze different development phases, and changing levels of a project's economic performance. There is also a worksheet that calculates the 25 year total net fiscal impact, and also calculates the net present value (NPV) of the future income stream to estimate current value.

Jobs and Wages

The FIM also contains a module that estimates the number of direct jobs (annual operations or on-site jobs) created by a commercial project and the indirect and induced job impacts and job multipliers. These job impacts are estimated from multipliers taken from the IMPLAN (Impact Analysis for Planning). Wages by industry are compared to the average wage in Larimer County as an indicator of job quality.

Other Indirect Impacts

The FIM does not estimate indirect impacts such as effects on surrounding properties (positive or negative), appreciation of the base AV, or development cannibalization or catalyzation. It was determined that these impacts are too site and project specific and too subjective to be built into a fiscal impact model. A qualitative evaluation matrix for indirect impacts is presented in the next chapter.

County Fiscal Analysis Findings

This section summarizes the results of testing a prototypical 100 unit multifamily development and a 300,000 square foot retail project, which is 100 equivalent residential units (ERUs) at 3,000 square feet per ERU. The fiscal impact model estimates that a multifamily residential has a negative fiscal impact on the County (when property tax is included), and that retail, office, and industrial developments are fiscally positive. Single family residential development (although not tested within this model) is presumed to be fiscally negative.

When property tax revenue is captured in TIF, multifamily residential development is negative, and commercial development (retail, office, industrial) is marginally positive. This is largely due to the County's revenue structure that relies heavily on property tax (given that it has no sales tax for General Fund benefit). The only other revenues the County receives are relatively minor charges for services to cover the cost of those services, and intergovernmental revenues that are largely earmarked for specific purposes.

A summary of the fiscal impacts to all County funds is shown below in **Table 9**. With property tax, a 100 unit apartment project valued at $145,000 per unit has a fiscal impact of approximately negative $4,490 per year for 100 units ($44.90 per unit). Under a TIF (i.e., without property tax), this prototypical residential project has a greater negative fiscal impact at -$29,057 or -$290.57 per unit. In contrast, 300,000 square feet of retail space (100 equivalent residential units at 3,000 sq. ft. per unit) is fiscally positive at $213,050 per year with property tax ($710 per 1,000 sq. ft.) with property tax. Without property tax, 300,000 square feet of retail space is positive, but much less so, at $27,870 ($92.90 per 1,000 sq. ft.).

Table 9
Summary of Fiscal Impacts, Larimer County Statutory Funds
100 Dwelling Units and 300,000 square feet of Commercial (100 EQRs)

Development #: Name:		**Net New: 1** Residential		**Net New: 2** Commercial
IMPACT WITHOUT TIF				
Revenue				
Real Property Taxes	$	24,567	$	185,180
Other Sources	$	5,823	$	70,024
Charges for Services	$	861	$	1,054
Miscellaneous Revenue	$	64	$	-
Intergovernmental Revenue	$	-	$	-
Interest Earnings	$	-	$	-
Other Financing Sources (TABOR Excl)	$	-	$	-
Licenses and Permits	$	23	$	1,470
Specific Ownership Taxes	$	3,456	$	-
Tfr from Sales Tax	$	1,419	$	67,500
Total	**$**	**30,390**	**$**	**255,204**
Expenditures	**$**	**(34,880)**	**$**	**(42,154)**
Net Impact without TIF	**$**	**(4,490)**	**$**	**213,050**
IMPACT WITH TIF				
Revenue				
Real Property Taxes	$	-	$	-
Other Sources	$	5,823	$	70,024
Total	**$**	**5,823**	**$**	**70,024**
Expenditures	**$**	**(34,880)**	**$**	**(42,154)**
Net Impact with TIF	**$**	**(29,057)**	**$**	**27,870**
Neutral Impact (% of Prop. Tax)		**118%**		**N/A**

Source: Economic & Planning Systems

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The model estimates the amount (percent) of property tax that the County and other districts would need to retain to recover the estimated direct costs of a project. These figures can provide an important input basis, but not the sole basis, for negotiations between the County and municipalities on future TIF projects.

Fiscal impact analysis provides planning level estimates of the annual and one-time costs and revenues of land use development projects on the governmental entities providing services. The results are most meaningful in comparing the relative impacts between alternative land use programs. These estimates, as well as previous estimates in the model with different techniques and assumptions, show the same pattern. Commercial development generates far more revenue than residential development, while residential development creates the majority of the County and other taxing district service costs.

Other Taxing District Fiscal Analysis Findings

The FIM results for other taxing districts for the same prototypical residential and commercial projects are summarized in this section.

Foothills Gateway

Foothills Gateway is a Community Centered Board that provides services to Larimer County residents with developmental disabilities. About 85 percent of its revenue is state and federal grant funding that are earmarked for specific programs and services. After these revenues are netted from their corresponding costs, the analysis isolates the services funded locally through the 0.750 mill property tax and miscellaneous charges for services. The prototypical 100 unit multifamily is estimated to generate $1,226 in revenue including $866 in property tax (71 percent) (**Table 10**). The cost of services are estimated at nearly $1,600 for a net fiscal impact of -$373, or -$3.73 per unit. Under a TIF, the net fiscal impact drops to -$12.39 per unit. Since Foothills Gateway only provides services to residents, commercial development has no direct cost impact, but provides substantially more revenue than residential development. Foothills Gateway therefore relies on property tax from commercial development to help pay for the cost of services to residents. Revenues are estimated at $6,525 per year from the 300,000 square foot retail prototype ($21.75 per 1,000 sq. ft.).

Table 10
Net Fiscal Impact – Foothills Gateway
100 Dwelling Units and 300,000 square feet of Commercial (100 EQRs)

Development #:	**New: 1**	**New: 2**
Name:	Residential	Commercial
Amount:	1	1
IMPACT WITHOUT TIF		
Revenue		
Real Property Taxes	**$ 866**	**$ 6,525**
State General Fund	$ -	$ -
Part C	$ -	$ -
Medicaid Waiver	$ -	$ -
Other Client Related Revenue	$ 98	$ -
Other Gov't Fees & Grants	$ -	$ -
Vocational Income	$ 171	$ -
Public Support	$ 91	$ -
Other Income	$ -	$ -
Total	**$ 1,226**	**$ 6,525**
Expenditures	**$ (1,599)**	**$ -**
Net Impact without TIF	**$ (373)**	**$ 6,525**
IMPACT WITH TIF (No Property Tax)		
Revenue		
Real Property Taxes	**$ -**	**$ -**
State General Fund	$ -	$ -
Part C	$ -	$ -
Medicaid Waiver	$ -	$ -
Other Client Related Revenue	$ 98	$ -
Other Gov't Fees & Grants	$ -	$ -
Vocational Income	$ 171	$ -
Public Support	$ 91	$ -
Other Income	$ -	$ -
Total	**$ 360**	**$ -**
Expenditures	**$ (1,599)**	**$ -**
Net Impact with TIF	**$ (1,239)**	**$ -**
Neutral Impact (% of Prop. Tax)	**143%**	**0%**

Source: Economic & Planning Systems

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Health District

Like Foothills Gateway, the Health District's costs are essentially all related to population and residential development. Nearly 57 percent of its funding comes from a voter approved 2.167 mill levy. The residential project generates $2,501 in property tax and $327 in specific ownership tax. Client fees (Operating Revenue) also generate an estimated $435 for a total of $3,263 in annual revenue (**Table 11**). Service costs for the residential project are estimated at $4,179 for a net fiscal impact of -$916 before TIF (-$9.16 per unit) and -$3,417 after TIF (-$34.17 per unit).

Since commercial development does not generate any direct service costs, it has a positive fiscal impact of $18,853 per year ($62.85 per $1,000 square feet) before TIF, indicating the reliance on commercial development property tax to fund services to residents.

Table 11
Net Fiscal Impact – Health District
100 Dwelling Units and 300,000 square feet of Commercial (100 EQRs)

Development #:	**New: 1**	**New: 2**
Name:	Residential	Commercial
Amount:	1	1
IMPACT WITHOUT TIF		
Revenue		
Property Taxes	**$ 2,501**	**$ 18,853**
Specific Ownership Tax	$ 327	$ -
Lease Revenue	$ -	$ -
Investment Income	$ -	$ -
Operating Revenue (fee income)	$ 435	$ -
Partnership Revenue	$ -	$ -
Grant Revenue	$ -	$ -
Miscellaneous Income	$ -	$ -
Total	**$ 3,263**	**$ 18,853**
Expenditures	**$ (4,179)**	**$ -**
Net Impact without TIF	**$ (916)**	**$ 18,853**
IMPACT WITH TIF (No Property Tax)		
Revenue		
Property Taxes	**$ -**	**$ -**
Specific Ownership Tax	$ 327	$ -
Lease Revenue	$ -	$ -
Investment Income	$ -	$ -
Operating Revenue (fee income)	$ 435	$ -
Partnership Revenue	$ -	$ -
Grant Revenue	$ -	$ -
Miscellaneous Income	$ -	$ -
Total	**$ 762**	**$ -**
Expenditures	**$ (4,179)**	**$ -**
Net Impact with TIF	**$ (3,417)**	**$ -**
Neutral Impact (% of Prop. Tax)	**137%**	**0%**

Source: Economic & Planning Systems

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Poudre River Public Library District

The primary source of revenue for the Library District is its voter-approved 3.013 mill levy which accounts for over 80 percent of its revenue (90 percent after 2015). As discussed in Chapter 3, most of the Library District's services are for residents, but it does provide some services to businesses as indicated by the $783 in estimated annual costs. The 100 unit multifamily project generates $4,157 in annual revenue including $3,490 from property tax (**Table 12**). Expenditures are estimated at $4,742 per year ($47.42 per unit) for a net fiscal impact of -$584 before TIF (-$5.84 per unit). Without property tax the net fiscal impact on the residential prototype is -$4,075 per year (-$40.75 per unit). The commercial prototype generates $26,309 in annual property tax and just $783 in annual service costs to businesses for a net fiscal impact of $25,526 per year ($85 per 1,000 square feet). Under TIF, the net fiscal impact for the commercial prototype is -$783 per year (-$2.61 per 1,000 square feet).

Table 12
Net Fiscal Impact – Library District
100 Dwelling Units and 300,000 square feet of Commercial (100 EQRs)

Development #:	**New: 1**	**New: 2**
Name:	Residential	Commercial
Amount:	1	1
IMPACT WITHOUT TIF		
Revenue		
Property Tax	**$ 3,490**	**$ 26,309**
Specific Ownership Tax	$ 436	$ -
Copier Charges	$ 17	$ -
Fines	$ 150	$ -
Donations	$ 65	$ -
Interest earnings	$ -	$ -
Intergovernmental	$ -	$ -
Total	**$ 4,157**	**$ 26,309**
Expenditures	**$ (4,742)**	**$ (783)**
Net Impact without TIF	**$ (584)**	**$ 25,526**
IMPACT WITH TIF (No Property Tax)		
Revenue		
Real Property Tax	**$ -**	**$ -**
Specific Ownership Tax	$ 436	$ -
Copier Charges	$ 17	$ -
Fines	$ 150	$ -
Donations	$ 65	$ -
Interest earnings	$ -	$ -
Intergovernmental	$ -	$ -
Total	**$ 667**	**$ -**
Expenditures	**$ (4,742)**	**$ (783)**
Net Impact with TIF	**$ (4,075)**	**$ (783)**
Neutral Impact (% of Prop. Tax)	**117%**	**3%**

Source: Economic & Planning Systems

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6. INDIRECT IMPACT EVALUATION FRAMEWORK

This chapter of the report outlines a recommended evaluation framework for measuring the indirect impacts associated with an individual TIF project and provides direction on how these impacts should be considered in the County's review of a potential TIF application.

TIF Project Evaluation Framework

An outcome of this Study process is recognition that the direct revenues and costs of a TIF project are not the only considerations if public funds are to be invested in a project. A successful project that uses TIF could have a number of indirect benefits (positive impacts). Some projects may also have negative impacts that need to be considered and potentially mitigated. These indirect factors and considerations are as important as the fiscal impact analysis but harder to measure.

The Evaluation Framework in this report was developed by EPS with the Core Group. The purpose is to define a process and criteria to facilitate the objective evaluation and discussion of a project by the affected taxing entities and jurisdictions, and to gauge the project's ability to satisfy the evaluation criteria. The ranking is intentionally not quantitative, as there is not intended to be a minimum score or threshold that must be met.

1. Project would not occur but for the use of TIF

This criteria highlights the importance of satisfying the "but for" test. The but for test needs to evaluate more than just a project's pro forma and financing gap. A financing gap could be the result of a narrow set of conditions specific to the project site, such as lack of infrastructure, but that do not exist on other competing sites. A more in depth and critical evaluation of the project, the site, and the need for TIF should be conducted. The types of questions that should be answered include:

- Are there other sites that could accommodate this project without the same development challenges and added costs? If the project could be developed elsewhere without incentive, the TIF would result in cannibalization of development and unnecessary diversion of public tax revenue.
- Does this site have the potential to create benefits to surrounding properties outside the TIF area? Compared to other sites?
- How sensitive is the estimated financing gap to the assumptions used in the pro forma analysis?
- What costs, particularly land costs, are included in the project costs that contribute to the financing gap?
- Have other financing measures besides TIF been considered? Are TIF dollars the "last dollars in"?

2. Addresses Blight, Obsolescence, and/or Inefficient Land Utilization

The use of TIF should be limited to situations in which there is economic distress – a form of blight – or in areas where there are unusual physical barriers to development. Factors for consideration include the following:

- Many of the traditional blight criteria defined in Colorado urban renewal law.
- Prolonged vacancy of a commercial building that is judged to be functionally obsolete.
- Unusual or extraordinary development costs such as:
  - Environmental remediation;
  - Barriers to circulation or connectivity due to natural or manmade conditions;
  - Deficiencies to existing infrastructure, as differentiated from the cost to extend new infrastructure to undeveloped land;
- Facilitating the development of vacant parcels within an already developed setting (infill development) for more efficient land utilization.

3. Equitable Deal Structure

The risks and rewards of investing public revenue should be shared by the affected taxing entities and by the project developer. Factors for consideration include the following:

- A developer equity contribution that is judged to be reasonable in the lending environment at the time. An initial rule of thumb would be that at least 20 percent of the project is funded through developer equity. There is no absolute right number and the equity contribution will vary by project.
- The municipality applying the TIF should be contributing (and risking) its revenues proportionally to the benefit the municipality will receive from the TIF project compared to the other taxing entities, rather than using TIF to leverage other entities revenues without risking one's own revenues.
- The length of the TIF should be tied to the length of debt service obligations – or until a certain cap is reached tied to the eligible costs – to be funded with TIF. Once the debt is retired or other costs are paid for, the TIF should 'shut off' and the tax increment revenues be returned to the taxing entities on a proportional basis.
- Before a URA and TIF are used, there should be a rigorous evaluation of other financing tools (e.g. special districts) that would not affect the County and other taxing districts' property tax revenues.

4. Level of effort and risk by municipality in the project

This criterion recognizes the risks that municipalities take in putting together an economic development project. These risks include political risk, staff time, funding spent on outside experts and services, and the work and time commitment that can occur over a period of years for large and complex projects. This is considered against the other criteria so as not to promote projects with unacceptable impacts despite a large funding, political, and time risk by the municipality.

5. Creates Net New Economic Base Jobs

TIF has been used to incentivize retail development. Retail development is in many cases an indirect impact of the growth of Larimer County's economic base in technology, manufacturing, professional services, education, and tourism and outdoor recreation. Because of their higher wages and larger amount of economic output per worker, economic base jobs will have broader economic impacts or "multiplier effects" throughout the County than retail development. A shift in the use of TIF targeted more at economic base jobs in Larimer County's targeted industries could benefit a broader cross section of residents and taxing districts. Factors for consideration include the following:

- Basic jobs in sectors such as professional and technical services, manufacturing, and information technology.
- The number of net new jobs created countywide. A relocation within Larimer County creates no net increase in jobs countywide unless coupled with a major expansion.
- The amount of TIF subsidy per job.

A separate economic impact analysis could be prepared to estimate the job impacts if warranted. Technical staff from the County, municipalities, and project representatives need to make an informed judgement of the degree to which jobs are net new at the County level.

6. Generates other Net New Economic Activity

Recognizing that Larimer County is a regional shopping destination for northern and northeastern Colorado and parts of Wyoming, retail, tourism, and hospitality development can contribute to the countywide economy if it brings in net new spending. While the County does not have a general sales tax, all municipalities are highly dependent on sales tax, and in aggregate, these industry sectors provide a large number of jobs. Factors for consideration include the following:

- Degree to which the project is unique within the County or the degree to which it competes with existing developments or businesses. If a project introduces new competition, it may result in a redistribution of sales tax rather than a net increase.
- A recognition that the County and other taxing districts do not currently benefit as much as the municipalities from sales tax growth, as they do not have general operating sales taxes. The County collects sales tax largely as a pass through to the municipalities for open space funding, and to operate and maintain the jail.

7. Provides Living Wage Jobs

Higher wages reduce the dependence on County and some other taxing district social services. The FIM provides a tool for estimating the wages in a commercial project and compares them to countywide average wage.

8. Potential to Increase Surrounding Property Values

Urban renewal and Downtown Development Authority projects can, and often do, have a positive economic benefit to surrounding properties. However, estimating surrounding property values requires site specific analysis, has many uncertainties, and requires many assumptions. The national research and case studies reviewed in Chapter 4 and analysis of Larimer County tax increment data suggests that TIFs in areas with strong real estate markets that are surrounded by urban density development, rather than vacant greenfield areas, may experience greater appreciation in the base assessed value and in surrounding property values.

The research presented earlier also indicates that large TIF areas or TIFs in undeveloped or greenfield areas are more likely to attract development from other areas because of the availability of incentives, or discounted land and infrastructure costs. In contrast, a TIF in a redevelopment or infill setting is more likely to address a financing gap or infrastructure constraint associated with the higher costs of redevelopment.

In approving a TIF, the parties should consider the potential synergies between the proposed project and surrounding land uses. Factors for consideration include:

- The density of surrounding development. A TIF in an undeveloped land setting is far less likely to benefit surrounding properties or neighborhoods.
- Size of the TIF area. Large TIF areas are more likely to cannibalize development that could have occurred elsewhere without TIF and redirect it to within the TIF area. This reduces the assessed value growth countywide and affects municipalities as well as the County.
- The potential for a project to draw new employees or shoppers to an area that lacks vitality, and in which the increase in activity could spill over to adjacent or nearby businesses.

9. Cumulative Impacts

The continued growth of TIF will affect the ability of the County and other taxing entities to maintain the level of service expected by their constituents and needed to maintain quality of life in Larimer County, which is part of the foundation of broad economic vitality. Total assessed value (AV) in Larimer County allocated to TIF has grown from $57.0 million in 2000 to $292.3 million in 2014 which is a 12.4 percent annual growth rate. At the end of calendar year 2014, this equated to 4.2 percent of the total AV in the County of $4.2 billion.

To minimize future cumulative impacts, the growth in the total amount of assessed value in TIF countywide should be limited. This study does not propose a defined cap on the amount or percentage of assessed value that should be allowed in TIF. This process does however recommend that the stakeholders recognize and consider the amount by which a project will increase the total amount of assessed value captured in TIF, and the impact of each individual project.

Table 13
TIF Project Evaluation Criteria

Criteria	Comments and Guidelines	Evaluation Measures	Ranking
1. Project would not occur but for the use of TIF	• A goal in using TIF and other incentives is to catalyze development that would not occur without the incentive. Indirect benefits are more likely when this criterion is met. • Projects that do not meet this criterion are more likely to cannibalize development from other parts of the County that could have occurred without TIF.	• Financial pro forma indicates the need for the incentive. • Are there extraordinary or unusual development or redevelopment costs (e.g., contamination, infrastructure barriers or constraints)? • Are costs different/higher than more typical vacant sites that only lack infrastructure? • Have other financing or incentive tools been considered before TIF?	**No/None___** **Low____** **Medium____** **High____**
2. Addresses blight, obsolescence, inefficient utilization of land	• Limit TIF to areas or properties that are truly economically distressed or have unusual physical barriers that are preventing development.	• Does the project address blight or obsolescence? • Is it an infill or other underutilized site? • Has it been vacant for more than 5 years?	**No/None___** **Low____** **Medium____** **High____**
3. Equitable deal structure	• The risks and rewards of the commitment of TIF should be shared by all affected taxing entities. • County and special district's ability to share in the "upside" is limited due to the lack of sales tax.	• Is there a reasonable developer equity contribution compared to the level of TIF? • Are municipal sales and property taxes used and committed in the TIF? • Does the TIF "shut off" and are new revenues returned to other taxing districts when debt obligations are paid?	**No/None___** **Low____** **Medium____** **High____**
4. Level of effort and risk by municipality in the project	• Municipalities spend considerable time and funds in preparing urban renewal plans and in negotiating incentive and TIF agreements.	• How much time, staff resources, and funding has the municipality spent on putting together the project?	**No/None___** **Low____** **Medium____** **High____**
5. Creates net new economic base jobs in Larimer County	• New basic jobs have broader impacts than non basic (service and retail sector) jobs, relocated jobs, or jobs that could have occurred elsewhere in the County without subsidy. • Fiscal model estimates jobs and wages if not provided by project sponsor or separate economic impact analysis.	• Number of net new economic base jobs (non-retail, personal services, hospitality) created in Larimer County. • Ratio of 25-year payroll to 25-year TIF (wages leveraged).	**No/None___** **Low____** **Medium____** **High____**

Criteria	Comments and Guidelines	Evaluation Measures	Ranking
6. Generates other net new economic activity	• Retail, hospitality, or tourism developments may bring in spending and sales that are net new to Larimer County if they are unique within or new to the County. • Differentiate between net new development at the County level vs. the municipal level. • While the County and other districts do not receive direct sales tax benefits, projects that bring people to Larimer County who would not otherwise have come can have indirect benefits to other businesses, quality of life benefits, as well as direct sales tax benefits to municipalities.	• Is the project unique in Larimer County; does it bring in new sales or economic activity at the County level? • Will the project compete with other development in Larimer County?	**No/None__** **Low____** **Medium____** **High____**
7. Provides living wage jobs	• Higher wages reduce dependence on County social services.	• Compare project wages to average wage ($45,650/yr, $22/hr) for Larimer County.	**No/None (below) ____** **Medium (equal to) ____** **High (above) ____**
8. Potential to increase surrounding property values	• Project areas surrounded by higher densities and more adjacent development may experience greater positive impacts than undeveloped or sparsely developed areas. • ¼-mile radius has higher probability of benefit. • Projects may also have a negative impact on surrounding property values, particularly if they are cannibalizing development that could occur elsewhere without TIF, or if the project creates nuisance impacts.	• Will adjacent land uses outside the TIF boundary experience benefits or negative impacts from the project? • Qualitative evaluation.	**No/None___** **Low____** **Medium____** **High____**

9. Cumulative impacts	• To minimize future cumulative impacts, the growth in the total amount of assessed value in TIF should be limited countywide and in affect taxing entities.	• By how much would the proposed project increase the amount of assessed value in TIF;
		  ○ Countywide
		  ○ In the proposing municipality
		  ○ In other affected taxing entities?
		• How does the remaining life of existing TIFs affect the proposed TIF?
		• A large increase in total assessed value in TIF indicates a low score.
			No/None___
			Low____
			Medium____
			High____

Overall Score			**# No/None ___** **# Low ____** **# Medium ____** **# High ____**

Economic and Job Impacts

The FIM provides estimates of the direct cost and revenue impacts to the County and other taxing districts from a development program. There are other factors that should be considered that have an indirect impact on revenues and costs including: the number and type of new jobs, impacts to surrounding property values, and catalyzing unique economic development opportunities or addressing a market failure that is preventing development. These considerations and criteria are in addition to addressing blight and obsolescence established as required in a URA plan.

Job Impacts

Job impacts are the easiest to quantify objectively, as there are established economic impact techniques that are applicable. The FIM contains a module that estimates the direct jobs from a development program, the job multipliers (from IMPLAN), and the resulting indirect and induced jobs (**Table 14**). Job multipliers provide estimates of the indirect and induced jobs that are supported by the direct project jobs. Indirect jobs consist of jobs supported from transactions between the direct impact jobs and suppliers/service providers. Induced jobs are the jobs supported by the spending of wages earned by the direct and indirect jobs. The indirect and induced job impacts are sometimes referred to as the "ripple effect" in an economic impact context.

Only jobs that are net new to the County should be considered in the model. The user needs to determine the types of jobs most likely to be in the project; this module is built around NAICS data at the three digit level to provide a sufficient level of detail for evaluating different business types. It also reports average annual and hourly wages for the expected industry, and compares it to the average wage in Larimer County.

In the example shown, a hypothetical retail project of 300,000 square feet generates 933 jobs at an average wage of $10.50 per hour which is approximately half of the average wage in Larimer County. The hypothetical office project generates 600 jobs at much higher wages, as shown.

Table 14
Jobs Evaluation, Larimer County TIF Fiscal Impact Model

Development #:		**Development 1**	**Development 2**	**Development 3**	**Development 4**
Name:		Residential	Retail Development	Employment Center	Lodging
Amount:		1	1	1	1
Commercial Sq. Ft.		0	300,000	300,000	300,000
General Land Use Type		Residential	Retail	Office	Hotel
Industry			452 General merch stores	541 Professional-scientific & tech svcs	721 Accomodations
Direct Jobs		**0**	**933**	**600**	**300**
Job Multiplier					
Direct		0.00	1.00	1.00	1.00
Indirect		0.00	0.25	0.35	0.52
Induced		0.00	0.48	0.63	0.47
Total Multiplier		**0.00**	**1.74**	**1.98**	**1.99**
Indirect Jobs		0	237	212	157
Induced Jobs		0	451	379	140
Total Direct, Indirect, and Induced Jobs		**0**	**1,621**	**1,191**	**596**
Wages					
Average Annual Wage		0	$21,838	$127,663	$21,268
Average Hourly Wage		**0**	**$10.50**	**$61.38**	**$10.22**
Larimer County Average Wage (Above/Below)	**$20.87**	**N/A**	**-$10.37**	**$40.51**	**-$10.64**

Source: Economic & Planning Systems

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7. TIF PROJECT EVALUATION PROCESS

This chapter of the Report defines EPS' recommendations for reviewing and evaluating future TIF proposals in Larimer County. The recommended process and procedures are intended to enable the County and other affected taxing entities and service providers to review the estimated economic and fiscal impacts of a proposed project and to have input on TIF funding prior to a decision by the URA or DDA Board.

Purpose and Goals

In 2015, at the same time that the TIF Study Group was meeting, the State of Colorado adopted HB-15-1348 amending the Urban Renewal Authority Statute (CRS 31-25-104) to broaden the requirements of an urban renewal authority to include representation by other affected taxing entities including the county, school district, and other special districts levying a property tax. This recommended TIF review process is therefore proposed to be a staff-level County advisory committee that would provide its findings and recommendations to the urban renewal authority.

The amended URA statute requires the urban renewal authority to negotiate an agreement with the affected taxing entities on the amount of property tax to be redirected as tax increment to the proposed project. If the URA and taxing entities cannot reach agreement, the proposed TIF is subject to arbitration which if not successful, effectively gives each taxing entities the authority to deny the redirection of its property tax for TIF.

The key goals of this proposed TIF evaluation process are therefore to:

- Provide transparency and buy-in among the affected parties in order to avoid the risk of an arbitration proceeding by providing objective information on the estimated economic and fiscal impacts of the proposed TIF project.
- Create a structure to allow the affected taxing entities to meet with the applicant prior to a formal submittal to the URA Board to allow for changes in the project and/or the financing plan to address identified impacts.
- Develop an intergovernmental agreement between the URA and taxing entities on the amount and terms of TIF to be committed to the project.

The TIF Direct Cost Model (DCM) and TIF Project Evaluation Criteria address the first objective. The DCM is constructed to estimate the direct fiscal impacts of TIF proposals on Larimer County and special districts. It does not however measure the indirect impacts of TIF projects such as impacts to surrounding property values and property tax revenues; potential for broader economic development benefits; job and wage quality; and potential to cannibalize development that could occur elsewhere without a TIF incentive or subsidy. These indirect impacts are at best difficult to quantify with any statistical accuracy and therefore not practical to include in the DCM. The TIF Evaluation Criteria were therefore developed to structure an evaluation of indirect impacts (positive or negative) that cannot be quantified using a standardized method. The Evaluation Criteria also address the risks and/or benefits to the County, other taxing entities, and municipalities, as well as fairness or equity concerns.

The proposed TIF Project Review Process outlines the process and procedures under which the impacts of future TIF projects would be reviewed and evaluated. The process provides opportunities for mitigating impacts deemed to be unacceptable, through project specific agreements. The expectation is that a process and procedures would be addressed in one or more intergovernmental agreements (IGAs) between the participating Larimer County entities. Project specific agreements would be structured separately as an outcome of the Project Review Process.

An intergovernmental agreement (IGA) is an agreement made between two or more governments to solve problems of mutual concern. IGAs are created for many purposes, including development review, land use planning, and resource sharing. These IGAs set forth the purpose, power, rights, obligations, and responsibilities, financial and otherwise, of each party to the agreement. IGAs can include a multitude of collaborative efforts and negotiations. Revenue sharing is one form which several communities in Colorado have utilized to solve development disputes. IGA's can also define processes and procedures for resolving issues.

TIF Evaluation Components

The proposed evaluation process is comprised of three components:

- **Principles –** Broad conditions and criteria on how TIF should be used in the future, and on the types of projects and settings in which TIF is appropriate.
- **Process –** A process that includes discussions with participating entities early in the project conception process, and thorough, inclusive, and transparent review of the project and its potential impacts.
- **Procedures –** More specific steps to be undertaken to fulfill the review, impact evaluation, resolution of any disagreements or impact mitigation, and project implementation process.

Principles

Cities using TIF and the affected taxing entities should agree on a set of principles guiding where and how TIF will be used in the future. The principles outlined below, as proposed by EPS, were developed through the study process to promote the use of TIF for its most important redevelopment and economic development purposes and also to minimize the impacts of individual TIF projects and the cumulative impact of all existing TIF projects on County and other taxing entity property tax revenues.

1. TIF should be used for projects that are truly blighted; that is properties that are distressed, outmoded, and non-performing or have infrastructure or physical barriers preventing development.
2. TIF projects should clearly demonstrate that "but for" the requested TIF investment the project could not be feasibly developed in an acceptable timeframe.
3. TIF projects should create new economic base jobs and/or other net new economic development activity for the County.
4. TIF projects should create above average wage jobs and that do not create unintended impacts on the need for affordable housing and social services.

5. TIF projects should have an equitable revenue and financing structure whereby the city's financial investment in the project is equal or greater than the requested TIF.

6. The cumulative impact of the proposed TIF project should not create a disproportional percentage of the city's assessed value to be in TIF compared to other municipalities or increase the total percentage of assessed value in TIF, countywide, to an unacceptable level.

Process

The Parties in the TIF evaluation process should include the proposing URA or DDA, the host city, Larimer County, the school district, and affected special districts levying property taxes on the subject property. It is recommended that the Parties create a project review committee to oversee the evaluation of proposed TIF projects and to provide a recommendation on TIF funding to the URA Board.

The recommended Project Review Committee (PRC) would carry out the process and procedures defined in the IGA. The PRC would be comprised of key senior staff from the city/URA and the affected taxing entities as illustrated below (**Table 15**). Many of the members of the Full and Core Groups formed for this Study would be the logical members for this committee. The membership could change slightly based on the location of the project but the number of total representatives would ideally remain an odd number to allow for majority decisions. For example, the Health District of Northern Colorado does not include the municipalities of Loveland, Berthoud, or Estes Park. The Poudre Valley Library District has a similar boundary. The PRC would therefore provide a more technical level review and would make a recommendation to the deciding authority in much the same way city boards and commissions advise the city council. After carrying out the project review process, this PRC would forward a report or other form of recommendation to the URA Board.

Table 15
Proposed Project Review Committee Structure

Entity Levying a Mill Levy	Eligible Persons	Representatives/ Votes
County	• Finance Director • County Manager or designee • Budget Director • Economic Development Director	2
Special Districts and Other Taxing Entities	• Water District(s) • Library District(s) • Health District • Foothills Gateway • Others as applicable	1
School District	• Superintendent or designee	1
Project Sponsor Municipality	• Local jurisdiction proposing TIF project	1
Total Representatives		**5**

In contrast, the URA Board is made up of elected officials or executive staff from the affected entities. Prior to the modifications to Colorado Urban Renewal Law passed under HB 15-1348 and SB 16-177 the representation on a URA Board was comprised of any odd number of commissioners from 5 to not more than 11. Each commissioner was to be appointed by the mayor of the municipality, as municipalities are the only governing bodies that can create URAs. Now, the required URA Board representation has been expanded to include representatives from other affected taxing entities. The total number of commissioners is now required to be 13, as shown in **Table 16**.

Table 16
2016 Statutory Required URA Board Composition

Entity Levying a Mill Levy	Representatives/ Votes
Municipality	10
County	1
Special Districts	1
School District	1
Total	**13**

Procedures

The recommended procedures are the detailed steps to review, approve, and implement a proposed TIF project. These specific implementation steps (**Figure 23**) will require additional discussion in order to reach agreement on how the determined impacts of the proposed TIF project are to be weighed against the benefits, and the degree to which mitigation measures are warranted. The direct cost model provides a quantitative estimate of the net cost of service impacts. The TIF Evaluation Criteria presented in Chapter 6 guides the qualitative but equally important assessment of project impacts.

Figure 23
Summary of Proposed Project Evaluation Procedures