Are We Getting Our Money’s Worth?

Tax-Increment Financing and Urban Redevelopment in Denver

Part I:
What Do TIF Subsidies Cost Denver?: The Increasing Scale of TIF and Its Budget Impacts

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with
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Executive Summary

Tax increment financing (TIF) subsidies are like a development credit card for the City – buy a project now and pay it off with future revenue. Denver has already mortgaged over $500 million in future revenue to pay off subsidies to large private development projects. And this sum is increasing dramatically.

Are we getting our money’s worth?

In this report – Part I of a three-part series – we begin to answer this question by analyzing how much money TIF subsidies are costing Denver tax payers, and what are the impacts of these TIF expenditures on the Denver budget.

Key Findings

- **TIF Now Costs Denver Taxpayers Almost $30 Million Annually in Foregone Revenue**

  TIF subsidies never show up on the Denver books, but the total sales and property tax revenues that were diverted from the General Fund in 2003 to pay for TIF commitments was $29.5 million.

- **TIF Subsidies Have Almost Tripled in the Last Six Years. They Consume Almost 7% of General Fund Revenues**

  In 1998, tax expenditures through TIF were $10.6 million and represented 2.8% of General Fund revenues. In 2003 TIF was $29.5 million and equaled 6.8% of the General Fund. For property taxes alone, TIF subsidies now consume over a quarter of total property tax receipts into the General Fund.
• **TIF-Project Revenue Performance Falls Short. Denver Receives No Additional Revenue for Decades**

TIF diverts tax revenue to pay subsidies to selected projects for as much as 25 years. Projects are often justified by optimistic revenue projections – that they will return additional net revenue above and beyond the TIF subsidy. Revenue performance numbers, however, are kept secret. Our data shows that only two of sixteen projects are exceeding revenue projections. On average, projects are performing at only 62% of original projections.

• **TIF-Projects Create Service Needs They Don’t Pay For. Denver’s Other Tax Payers Pick Up the Difference**

TIF projects create new business activity, but they also create new public service needs. The revenue from TIF projects does not contribute to paying for these services. Special mill levy purposes are especially hard hit. In 2003, $4.9 million was diverted by TIF from special funds to pay for urban drainage and flood control, aid to the developmentally disabled, police and fire fighter pensions, and other public service and debt obligation purposes. Denver’s other tax payers must either make up the difference or suffer cutbacks in these services. Only the Stapleton project has been structured to return an increasing share of revenue to the City in order to cover part of the cost of public services to the development.

### Recommendations

Our purpose is not critical, it is constructive. We support TIF as a powerful tool for stimulating urban redevelopment and building a better Denver for all. Its use and management, however, need to be substantially reformed to ensure that these major tax-funded investments deliver the strongest possible returns to the public, and that these investments can be understood and held accountable.

#### Account for TIF Expenditures in the Denver Budget

Currently, TIF expenditures never show up on the city’s books, are invisible to the public, and are unaccountable to the normal balance of costs vs. benefits that all other budget expenditures are subjected to. TIF needs to be accounted for in the annual budget in the same way as more conventional revenue and expenditure flows.

#### Consider a Ceiling on the Growth of TIF Commitments

TIF commitments have grown rapidly over the last several years, and this trend shows every sign of accelerating. There is little or no natural check or objective limit to new TIF commitments. Denver needs to consider establishing a ceiling on the growth of TIF commitments. This should be done before tax payers find themselves at a level of TIF subsidies that is too high, yet they are bound to fulfill for decades to come.
Hold Revenue Projections Accountable Against Actual Performance

Incentives to inflate revenue projections during the approval of TIF projects should be discouraged. Currently, the revenue performance of TIF projects is kept secret. Policy makers and the public have no way of assessing whether their substantial tax-funded investments in these projects are doing as well as they were promised. Revenue projections need to be held publicly accountable against actual performance.

Ensure TIF Projects Pay a Portion of Their “Fair Share” for City Services

TIF-subsidized projects create public service needs they do not pay for, leaving Denver’s other tax payers to make up the difference. Following the unique pattern established by the Stapleton project, TIF-subsidized developments need to return an increasing share of their revenue to help cover the costs of the public services that they consume, and to share in the collective burden borne by the rest of the City’s tax payers.
Introduction

Over the last decade, through the instrument of “tax-increment financing” or TIF, Denver tax payers have committed over half a billion dollars in public subsidies to more than twenty private development projects in Denver. These commitments have, in turn, leveraged ten times that amount – over $5 billion – in private investment. In coming years, many hundreds of millions more in tax-funded TIF subsidies are likely to be committed to new projects, including the redevelopment of the old Gates Rubber Factory complex at I-25 and Broadway, and the realization of Denver’s ambitious plans for the downtown Union Station area.

TIF-subsidized projects are everywhere: they occupy multiple blocks of downtown redevelopment, including the landmark resurrection of the Denver Dry Goods building. The Adams Mark hotel, the Denver Pavilions, and the REI flagship store are all TIF projects. The demolition of the old Woolworth’s building and construction of the sprawling Broadway Marketplace shopping area at Broadway and Alameda was heavily subsidized by TIF. So was the relocation and expansion of Elitch’s into the Six Flags Elitch Gardens Amusement park. The redevelopment of the Lowry Air Force Base is a TIF project, as is the monumental redevelopment of the old Stapleton airport – the largest urban infill project in the nation.

TIF has played an enormous role in the transformation of Denver’s urban landscape, and Denver tax payers have reason to be proud of the impact their investments have made on their City.

TIF subsidies are not costless, however. Although TIF never shows up on the City’s books, it is nonetheless a commitment of real tax revenue – a “tax expenditure.” TIF tax expenditures are incurred by the public not through direct budget appropriations but through forgone tax revenue. Denver’s annual tax-funded development subsidies through TIF now total nearly $30 million – almost 7% of Denver’s entire General Fund revenues – and this sum is rapidly increasing.¹

As with any expenditure of this magnitude, it is proper to ask: Are we getting our money’s worth? Has the investment of hundreds of millions of taxpayer dollars in TIF-subsidized projects improved the lives of Denver residents and expanded the public treasury? Especially in light of the City’s current era of budget woes and belt-tightening – a shortfall of $47 million in 2003; $60 million in budget cuts in 2004; and projected further cuts of $15 million for 2005 – it is important to reflect and assess: Are we getting enough back from TIF-invested projects to justify the annual diversion of almost $30 million in public revenue well into the foreseeable future? Given the steadily increasing scale of TIF subsidies to which Denver tax payers have been committed over the preceding decade or more, it is

¹ Denver’s General Fund is made up of two different revenue streams. The first and most important is revenue from general sales and property taxes. This is commonly understood as the “General Fund,” from which City officials have discretion to spend on the broad panoply of public purposes. The second is revenue from dedicated mill levies that can only by spent on their dedicated purposes (e.g. urban drainage and flood control, fire and police pensions). In 2002, DURA’s subsidies equaled 4.8% of the first kind of revenue stream (the discretionary General Fund).
only prudent to pause and consider: Are we wise to increase further our levels of public support to private for-profit development in our city?

Through a careful examination and analysis of data and records from the Denver Urban Renewal Authority (DURA), the principal agency charged with administering the TIF system in Denver; through a gleaning of public tax and property records; through the application of statistical data from the U.S. Census Bureau and other public sources; through the utilization of analysis from the Colorado Fiscal Policy Institute and other respected local and national research entities; and through the use of our own original survey and statistical research; we have attempted to answer the key question: Are we getting our money’s worth?

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While our research examines TIF-subsidized redevelopment across Denver, our research also focuses in particular on three signature TIF-subsidized projects:

- The Denver Pavilions, in downtown Denver
- Broadway Marketplace, in south Denver
- Quebec Square, in the Stapleton redevelopment area

These three projects represent, respectively, TIF-subsidized redevelopment efforts in three different Denver locales: downtown, a core Denver neighborhood, and an outer-Denver area. In each project, the TIF commitment was a very substantial component – over 15% – of the overall project financing. Finally, these three TIF sites are major employment centers; together, these three projects represent roughly three-quarters of the direct permanent jobs created at all private development projects in Denver subsidized with TIF financing.

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In this study, we tackle the question of “Are we getting our money’s worth?” by answering three subsidiary questions. Each of these questions is treated in a separate volume of this study, which will be released sequentially. These are:

**Part I: What Do TIF Subsidies Cost Denver?**

TIF represents the expenditure of substantial sums in a finite resource environment. How much tax revenue is being diverted to pay for TIF subsidies to private projects? Do we adequately understand the costs TIF subsidies impose on Denver tax payers. Do TIF-subsidized projects adequately pay for the service burdens they impose on the City and its tax payers?

**Part II: Who Profits from TIF Subsidies?**

TIF represents public expenditures to support private for-profit development. What kinds of companies – and what kind of profits – are Denver taxpayers subsidizing? What kinds of businesses are we encouraging to expand in Denver through our TIF commitments? What types of industries are we promoting in the Denver economy through TIF subsidies?
Part III: Are We Building a Better Denver with TIF Subsidies?

Central to the purpose of economic development is job creation. What kinds of jobs are Denver tax payers helping create through TIF-subsidies? Denver is now a majority non-white city. How is TIF-subsidized redevelopment impacting communities of color? Housing is a substantial component of many TIF-subsidized projects. Are these tax-funded investments in new housing helping solve Denver’s housing affordability crisis?

While the public value of TIF-subsidies is clear and demonstrated, and the contribution of TIF-subsidized projects to Denver’s economic development is substantial, the answers to these specific questions about TIF in Denver are not always flattering. Our analysis points to problems with the practices and policies by which TIF is governed and applied in Denver, and to shortcomings in the outcomes Denver tax payers are realizing through TIF-subsidized projects.

This series of reports is not a critical exercise, however; our purpose and goals are constructive. It is our ambition to ensure that substantial tax-funded investments in Denver’s economic development deliver the strongest possible returns to the public, and that those investments can be understood, judged, and held accountable by the public in whose name and on whose behalf those investments are being made.

To this end, each section of this series of reports is punctuated with concrete recommendations for addressing the issues and problems raised by the analysis. These recommendations are also compiled in the conclusion of each report, and will be gathered together into a single document after the release of all three reports in this series.

Tax-increment financing is complex, complicated, and often obscure. And it is vitally important to the economic and social health of our City. Our hope with these three reports is to engage the City’s political and economic leaders, the Denver business and development community, and the rich diversity of neighborhood, faith-based, issue-advocacy, and public-interest organizations active in our community, and to ensure that, with tax-increment financing, we are, indeed, getting our money’s worth.
What Do TIF Subsidies Cost Denver?

TIF: What Is It & How Does It Work?

Urban renewal has been a major public policy focus for American cities since the Second World War. Central to the difficulties surrounding urban renewal has been the vexing puzzle of how to finance it. TIF has become a key piece in that puzzle.

A Brief History

In 1955, in response to the assessment that Denver’s “dry rotted core was beginning to fall in on itself,”² City officials created a special Urban Renewal Advisory Commission, housed in the Public Works department.³ This entity was meant to assist developers with subsidies and guidance in turning downtown Denver’s crumbling low-rise properties into the soaring towers of a modern metropolis. Funding this mission, however, was meant to come from a special City income tax, and in 1957 Denver voters rejected the proposal.

In 1958, the Colorado state legislature authorized localities to form quasi-independent urban renewal authorities. These were not only given their own powers of condemnation and eminent domain but were also empowered to be independent recipients of federal urban renewal funds.⁴ Denver’s urban renewal commission was soon transformed into the separate Denver Urban Renewal Authority (DURA), given $400,000 in Denver money to kick the agency off, and became the recipient of $800,000 in matching federal urban renewal grants.

Through the 1960s and 1970s, urban renewal was funded largely through ad hoc or one-time local appropriations, matched 2:1 with federal money. The vagaries of voter approval, however, made this system an unreliable vehicle for the financing of urban renewal or for the consistent application of a long-term redevelopment strategy. It also increased incentives to bundle projects and maximize one-time appropriations opportunities. For example, in 1964, DURA, together with a consortium of downtown business interests (these eventually became the Downtown Denver Partnership), proposed a massive 35-block demolition and reconstruction of downtown. This was the fabled Skyline Project, responsible for many of downtown Denver’s landmark towers. The original public subsidy price-tag for the project was already substantial – $8 million ($50 million in 2004 dollars) – but after the three years it took to finally win voter approval for the local funding component, the project had ballooned to include $11 million for the Currigan Hall Convention Center alone.


⁴ In a suit against DURA, these powers of eminent domain were challenged on the grounds that urban renewal authorities are not government entities and are hence ineligible to exercise such public powers. In 1961 the Colorado Supreme Court upheld the 1958 statute, including the powers of condemnation and eminent domain.
The 1980’s saw the cutbacks of the Reagan administration and the steady drying up of federal funds for urban redevelopment. A few years previously, however, in 1975, the Colorado legislature had authorized the use of a new funding instrument called “tax increment financing” or TIF. TIF was designed merely to give localities an additional tool for publicly financing redevelopment, but in the context of shrinking federal support for urban redevelopment and escalating voter resistance to the approval of new taxes, TIF became the primary public financing tool for facilitating private redevelopment in Denver.5

What Is TIF?

In a nutshell, TIF allows a local government to help pay for the redevelopment of a piece of property by mortgaging the future sales and/or property tax revenue from that property. But there are a number of important dimensions and restrictions of the TIF mechanism that need to be specified.

Site Specific

First of all, it is important to understand that TIF is an entirely site-specific public financing mechanism; only revenues from the redevelopment site itself can be applied to TIF, and TIF can only be spent on specific purposes (see following) within the boundaries of the redevelopment site.

Private Projects

In that sense, TIF is analogous to the revenue bonds often used to finance construction of revenue-generating public works projects. TIF is unlike the revenue bond financing mechanism, however, in that TIF is used to fund not public works but private projects.

Public Purpose

TIF is used to fund private projects, but it is important to understand that the explicit purpose of TIF is a public one: to remediate conditions of urban “blight.” That is, according to the state statute that authorizes and governs the use of TIF, a property that, “in its present condition and use, substantially impairs or arrests the sound growth of the municipality, retards the provision of housing accommodations, or constitutes an economic or social liability, and is a menace to the public health, safety, morals, or welfare.”6 For a property to be eligible for TIF requires a formal legislative finding by the municipality that the property is indeed “blighted,” and the statute delineates a menu of eleven specific factors that can define that condition.7

5 The constitutionality of the TIF mechanism has survived several court challenges. The original statute authorizing TIF in Colorado was upheld by the Colorado Supreme Court in 1977. TIF was challenged again under the TABOR amendment of 1992, which requires voter approval for all tax increases, but in 2002 the Colorado Supreme Court found that TIF does not constitute a new tax and hence does not require voter approval.
6 Colorado Revised Statutes 31-25-103.
7 As specific as it appears in the statute, meeting the blight definition is notoriously easy and subject to the willful interpretation of jurisdictions eager to use TIF. The town of Vail, for example, authorized the use of TIF to subsidize the redevelopment of an area it found “blighted” by virtue of “poor traffic circulation, deteriorating streets, and unscreened trash bins.” (Denver Post, November 6, 2003: “In Vail ‘blight’ lurks amid opulence”). Stemming partly from controversy over the lax the definition of “blight” and its role in the exercise of eminent domain, the 2004
The public purpose of TIF is further refined by limitations on the specific application of TIF money. While the project being subsidized by TIF is a private one, TIF can only be spent on activities deemed to render some kind of public benefit that is indispensable to the completion of the project itself, such as land acquisition, demolition, environmental remediation, or public infrastructure construction. TIF cannot be used, for example, to pay for the interior finish of a building.

In practice, of course, this distinction is difficult to sustain. Every dollar that a private developer does not have to spend on one part of the project is a dollar that can be spent on another part. Or alternatively, every dollar committed to a project through a public subsidy is a dollar saved for the private developer and their investors.

**Defining the “Increment”**

The “increment” in tax-increment financing is the future increase in sales and/or property tax revenue generated by the redevelopment of the property. When a project is approved for TIF subsidies, the jurisdiction does not surrender all revenue from the property. The current volume of taxes being derived from the property is established as a “base,” which the jurisdiction continues to collect over the life of the project. It is only the additional sales and/or property taxes on top of the “base” that is eligible to be applied to TIF.

This tax “increment” is commonly understood as revenue that would not otherwise exist had redevelopment not occurred. This understanding leads to the popular notion that TIF projects “pay for themselves.”

While intuitively appealing, this notion is difficult to sustain logically or demonstrate practically. In the case of retail TIF projects, it is unlikely that the retail spending that occurs at the redeveloped site – and hence the sales tax revenue that helps pay for the TIF – would not, at least partly, have occurred elsewhere had the project not been built. For example, it is implausible that all the shoppers, diners, and moviegoers at the Denver Pavilions would otherwise have simply spent a quiet evening at home had the Denver Pavilions never been built. In the case of property tax-subsidized TIF projects, it is equally implausible that the value of that piece of property, however blighted, would never have increased without the redevelopment that TIF helped pay for.8

Certainly TIF helps create value and produces real net revenue from underperforming properties. The tax “increment” that funds TIF, however, should never be confused as “free money.” It is real money, in the form of future tax revenues, committed by tax payers as an investment. And like any investment, TIF must be measured against opportunity costs and the value of its return.

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8 In a practice for which it is to be commended, DURA, unlike many urban renewal agencies, periodically makes a recalculation of the property tax “base” on its TIF-subsidized projects in order to account for the general increase in the value of property. Whether that recalculation captures the full value of rising property values, however, is an empirical question worthy of investigation.
The Duration of TIF

TIF is real money invested by taxpayers, and that investment can be a decades-long public commitment. Some TIF subsidies are small and have a duration of only a few years, but more commonly the duration of the TIF is for twenty, twenty-five, or even thirty years. After all, construction of a new project involves enormous up-front costs, but the revenue from a project — both public and private — is spread out over its entire life.

To be clear, TIF is not an open-ended sharing of tax revenue with a private developer; it is a fixed dollar commitment. The TIF duration is a function of the likely annual tax increment multiplied by the number of years such an increment must be accumulated in order to pay for the public subsidy commitment made to the project (see more following).

During the TIF period, all normal sales and property taxes levies are collected from the TIF site, just as they are from all other properties and businesses, but the increment (or some predetermined amount of it) is diverted from that revenue stream to pay for the TIF.

The Flow of Tax Revenue from a TIF District

- Before a TIF-subsidized project breaks ground, the current level of sales and/or property taxes generated by the site is fixed as “the base.” Throughout the life of the TIF, that base level of taxes is still collected by the City.

- Once the project is built, the tax revenue above the base generated by the redeveloped property — the “increment” — goes either to pay off the bonds used to finance the project, or to reimburse the developer for up-front costs.

- During the life of the TIF, any additional revenue above the pre-determined “increment” is collected by the City.

- Upon expiration of the TIF, all the tax revenue from the site — the base plus the increment — reverts back to the City. It only at this point that the City’s tax base has actually been increased.

Bonds vs. Reimbursement

TIF is a fixed dollar commitment of public subsidies to a project, but it is nonetheless a commitment based on an uncertain calculation of future tax revenue, and hence entails some risk. How much risk TIF entails — and how much is borne by the public or by the developer — depends on the form of TIF subsidy chosen: public bonding vs. developer reimbursement.

On the one hand, bonding imposes the greatest risk on the public, but it is the more reliable and economical mechanism for generating the TIF subsidy. Using the superior borrowing power and tax-free advantages of municipal financial instruments, public bonds are sold to help finance project construction. The subsequent tax increment from the completed project is then used to repay bondholders. Should the actual tax increment from the project fall short of the task, however, it is the public that is exposed.

Reimbursement, on the other hand, imposes the greatest risk on the developer, but also raises the barrier to finding the necessary funding to realize the project. Under a reimbursement TIF subsidy, the developer must finance the project entirely through private capital, just as they would in the absence of a TIF subsidy. The tax increment is then used to reimburse the developer for TIF-
eligible development costs. In this case, however, should the actual tax increment fall short of the task, it is the developer that is exposed, not the public.

**Gap Financing – “But For”**

The final dimension of the TIF subsidy mechanism concerns not the size of the increment that is possible from a proposed project, but the size of the increment that is necessary to make the project happen. TIF subsidies are not meant to allow a jurisdiction to engage willy-nilly in private development investment using maximum levels of tax-funded financing. TIF is meant only to bridge the gap between the private capital a developer is able to raise on their own and the total sum necessary to realize the project. Hence TIF is described as providing only “gap financing,” and the approval process requires an explicit “but for” justification for the subsidy; that is “but for” the proposed TIF subsidy the project could not be realized.

In practice, however, adhering to the “but for” rule involves a difficult and subjective calculation balanced between two competing goals – minimizing the public’s financial commitment on the one hand and realizing a project that maximizes public (and private) value on the other. A developer may be able to build something on the site without a subsidy, but a more desirable project may require the addition of a TIF subsidy to be realized. Or similarly, a developer may be able to realize a profit from the project without a subsidy, but a higher profit rate may be necessary to compensate the developer for the risks involved with a complex redevelopment project.

For any project, this calculation – establishing what kind of project is desired, what private profit rate is reasonable, and what TIF subsidy is necessary to realize these – is conducted through negotiation and compromise between the urban renewal authority and the private developer.
What Do TIF Subsidies Cost Denver?

Establishing what TIF is and how it works sets the stage for exploring the important question that is the subject of this first volume of our report: What do TIF subsidies cost Denver?

As discussed previously, although TIF subsidies never show up on the City’s books, they are nonetheless the commitment of real tax revenue – “tax expenditures.” The money that pays for TIF comes from the same revenue stream that pays for all the other services and activities we depend on our City to provide and engage in. The diversion of these revenues to TIF may be a worthy purpose and return strong dividends to the public that pays for them. But as with all spending choices, TIF subsidies represent an opportunity cost – money committed to TIF is money unavailable to fund other valued public purposes. It is critical to recognize this cost, especially given the often decades-long nature of TIF commitments.

Our purpose here is to facilitate a discussion of these trade-offs by offering the public and policy-makers the tools to assess and hold accountable the tax-funded economic development investments made through TIF in Denver.

The Expanding Scale of TIF-Subsidized Development in Denver

TIF-subsidized projects dot the Denver landscape and have proliferated rapidly, both in number and scale, since the early 1990s.9 The following table offers a quick survey of these developments, showing the number of TIF projects, the total investment they represent, the TIF subsidies invested, and the duration of the diversions of sales and/or property taxes to pay off these TIF commitments.

Further, this list is likely to grow:

- The upcoming 60-acre Cherokee redevelopment of the old Gates Rubber factory campus in the heart of south-central Denver has already been established as an Urban Redevelopment Area. Cherokee will be applying for TIF subsidies reported to be between $90 million and $160 million.
- With the passage of FasTracks, Denver’s ambitious plans for the redevelopment of the 20-acre Union Station area in Lower Downtown will be propelled forward. Basic public infrastructure costs alone of this project are estimated at $560 million; TIF subsidies are likely to play a substantial role in the private redevelopment components of this project.
- The divestment by the University of Colorado of its sprawling University Hospital campus is creating a 30-acre redevelopment opportunity in the heart of east-central Denver. Already contracted for sale to a single developer, the project is likely to apply for substantial TIF subsidies.

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### TIF-Subsidized Projects in Denver

<table>
<thead>
<tr>
<th>Project</th>
<th>Total Development Investment</th>
<th>TIF Subsidy</th>
<th>TIF as % of Investment</th>
<th>Duration of TIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bear Valley Shopping Center</td>
<td>$18,500,000</td>
<td>$2,000,000</td>
<td>10.81%</td>
<td>1995</td>
</tr>
<tr>
<td>University Hills Mall</td>
<td>$35,400,000</td>
<td>$2,000,000</td>
<td>5.65%</td>
<td>2001</td>
</tr>
<tr>
<td>Holtze/Magnolia Hotel</td>
<td>$19,500,000</td>
<td>$1,950,000</td>
<td>10.00%</td>
<td>2014</td>
</tr>
<tr>
<td>REI Store</td>
<td>$32,000,000</td>
<td>$6,274,000</td>
<td>19.61%</td>
<td>2014</td>
</tr>
<tr>
<td>Larimer Square</td>
<td>$5,763,000</td>
<td>$1,430,000</td>
<td>24.81%</td>
<td>2015</td>
</tr>
<tr>
<td>Rio Grande</td>
<td>$6,400,000</td>
<td>$1,500,000</td>
<td>23.44%</td>
<td>2015</td>
</tr>
<tr>
<td>Denver Dry Goods Bldg.</td>
<td>$48,239,000</td>
<td>$8,595,000</td>
<td>17.82%</td>
<td>2017</td>
</tr>
<tr>
<td>Broadway Marketplace</td>
<td>$44,000,000</td>
<td>$16,740,000</td>
<td>38.05%</td>
<td>2017</td>
</tr>
<tr>
<td>Six Flags / Elitch’s</td>
<td>$95,000,000</td>
<td>$10,925,000</td>
<td>11.50%</td>
<td>2017</td>
</tr>
<tr>
<td>Adam's Mark Hotel</td>
<td>$135,000,000</td>
<td>$33,000,000</td>
<td>24.44%</td>
<td>2017</td>
</tr>
<tr>
<td>Mercantile Square</td>
<td>$20,450,000</td>
<td>$4,000,000</td>
<td>19.56%</td>
<td>2017</td>
</tr>
<tr>
<td>Denver Pavilions</td>
<td>$99,000,000</td>
<td>$31,460,000</td>
<td>31.78%</td>
<td>2017</td>
</tr>
<tr>
<td>Guarantee Bank Lofts</td>
<td>$10,900,000</td>
<td>$963,000</td>
<td>8.83%</td>
<td>2017</td>
</tr>
<tr>
<td>Boston Lofts</td>
<td>$23,400,000</td>
<td>$944,500</td>
<td>4.04%</td>
<td>2018</td>
</tr>
<tr>
<td>Lowry</td>
<td>$1,300,000,000</td>
<td>$35,000,000</td>
<td>2.69%</td>
<td>2020</td>
</tr>
<tr>
<td>St. Luke's</td>
<td>$138,000,000</td>
<td>$9,000,000</td>
<td>6.52%</td>
<td>2021</td>
</tr>
<tr>
<td>California St. Parking Garage</td>
<td>$5,800,000</td>
<td>$2,100,000</td>
<td>36.21%</td>
<td>2022</td>
</tr>
<tr>
<td>Clyburn Village</td>
<td>$7,000,000</td>
<td>$200,000</td>
<td>2.86%</td>
<td>2022</td>
</tr>
<tr>
<td>38th and York</td>
<td>$14,000,000</td>
<td>$3,600,000</td>
<td>25.71%</td>
<td>2022</td>
</tr>
<tr>
<td>Pepsi Center</td>
<td>$160,000,000</td>
<td>$36,000,000</td>
<td>22.50%</td>
<td>2022</td>
</tr>
<tr>
<td>Highlands Garden Village</td>
<td>$75,000,000</td>
<td>$4,700,000</td>
<td>6.27%</td>
<td>2023</td>
</tr>
<tr>
<td>The Point</td>
<td>$12,200,000</td>
<td>$737,000</td>
<td>6.04%</td>
<td>2025</td>
</tr>
<tr>
<td>Stapleton</td>
<td>$3,400,000,000</td>
<td>$294,000,000</td>
<td>8.65%</td>
<td>2025</td>
</tr>
<tr>
<td>City Park South</td>
<td>$200,000,000</td>
<td>$8,000,000</td>
<td>4.00%</td>
<td>2028</td>
</tr>
</tbody>
</table>

| TOTAL INVESTMENT:            | $5,905,552,000              | $515,118,500| AVERAGE TIF INVESTMENT SHARE: 15.53% |
| TOTAL TIF SUBSIDIES:         | $515,118,500                |             | TOTAL TIF INVESTMENT SHARE: 8.72%    |

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10 Figures used in this table are drawn from a variety of sources: DURA project summaries; the DURA 2000-2005 Business Plan; DURA Financial Statements from October 31, 2002; and assorted Urban Renewal Plans and Master Plans.
Taken from a different perspective, TIF-subsidized projects are also taking up an expanding geographical proportion of our city. The following maps indicate current and proposed TIF project areas in Denver. These areas represent the properties from which sales and/or property tax revenues are diverted to pay the City’s TIF commitments. In other words, this is the territory from which the City is deriving no additional revenue for many years to come.

TIF-Subsidized Sites in Denver

Downtown & Lower Platte Valley

TIF Subsidies vs. City Revenue

The foregoing offers a sense of the substantial hidden scale of TIF subsidies in the Denver development landscape. More to the point, however, is the opportunity costs these TIF commitments represent for Denver tax payers. Specifically, how much of Denver’s revenue and expenditure capacity is being swallowed up by TIF?

Because TIF never shows up in the Denver budget as a direct expenditure, it is easily overlooked. But revenue diversions to TIF subsidies not only represent a substantial single category of expense, it is a category that is growing while most other budget items are shrinking.

In the last few years, between 1998 and 2003, sales tax collections diverted to TIF subsidies grew by 87% while Denver’s overall sales tax revenues grew by only 13%. Over the same period, property tax collections diverted to TIF-subsidies grew by 390% while Denver’s overall property tax revenues grew by only 18%. The consequence of this phenomenon is that the share of Denver’s revenue being diverted to pay TIF subsidies has grown substantially.

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11 Note: while the entire roughly 50-block Downtown Urban Renewal Area is TIF-eligible, not every block is receiving TIF subsidies. Specific TIF sites are established in the Downtown Urban Redevelopment Area on a project-by-project basis.
What Do TIF Subsidies Cost Denver?

• **Sales Tax TIF Expenditures:** In 1998, TIF-dedicated sales tax revenue was $5.9 million, equal to 1.8% of Denver’s General Fund sales tax revenue. By 2003, $11.2 million in Denver sales tax revenue was diverted to fund TIF subsidies and had risen by almost three-quarters to 3.1% of General Fund sales tax revenue.

• **Property Tax TIF Expenditures:** In 1998, TIF-dedicated property tax revenue was $4.7 million, equal to 8.2% of Denver’s General Fund property tax revenue. By 2003, that number had almost quadrupled to $18.3 million and come to represent well over a quarter (27.8%) of Denver’s entire General Fund property tax revenue.

• **Total TIF Tax Expenditures:** Taken as a whole, Denver’s sales and property tax diversions to TIF subsidies over the short 1998-2002 period have nearly tripled, from $10.7 million to $29.5 million, and risen from 2.8% of Denver’s General Fund revenue to almost 7%.  

<table>
<thead>
<tr>
<th>Property &amp; Sales Tax Revenue</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Denver General Fund Revenue</td>
<td>$382,949,000</td>
<td>$405,669,000</td>
<td>$474,637,000</td>
<td>$451,404,000</td>
<td>$442,223,000</td>
<td>$434,889,000</td>
</tr>
<tr>
<td>Total TIF-Diverted Taxes</td>
<td>$10,695,000</td>
<td>$15,526,000</td>
<td>$19,442,000</td>
<td>$19,639,000</td>
<td>$22,693,000</td>
<td>$29,548,000</td>
</tr>
<tr>
<td>TIF-Diverted Taxes as % of General Fund Revenue</td>
<td>2.79%</td>
<td>3.83%</td>
<td>4.10%</td>
<td>4.35%</td>
<td>5.13%</td>
<td>6.79%</td>
</tr>
</tbody>
</table>

### Total TIF-Diverted Taxes in Denver

<table>
<thead>
<tr>
<th>Year</th>
<th>TIF-Diverted Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>1999</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>2000</td>
<td>$15,000,000</td>
</tr>
<tr>
<td>2001</td>
<td>$20,000,000</td>
</tr>
<tr>
<td>2002</td>
<td>$25,000,000</td>
</tr>
<tr>
<td>2003</td>
<td>$30,000,000</td>
</tr>
</tbody>
</table>

12 Sales and property tax data for total Denver General Fund sales and property tax revenue has been drawn from Denver’s Comprehensive Annual Financial Report, produced by the Office of the Auditor for the year ended December 31, 2003. Data for property tax revenues diverted to TIF has been drawn from the Denver County Assessor’s Office, Abstract of Assessment and Summary of Levies: 1998-2003. Data for sales tax revenues diverted to TIF has been drawn from data provided by staff of the Denver Department of Revenue, Treasury Division. All figures rounded to nearest thousand.

13 For a separate annualized breakdown of sales and property tax data, please see Appendix.
To provide a sense of scale for these expenditure figures:\footnote{Data drawn from the City & County of Denver 2004 Budget.}

- Denver’s 2003 tax expenditures on TIF subsidies equaled roughly three-quarters of the General Fund expenditures to run the entire Mayor’s general administration, and was half again as large as the General Fund expenditures for the operation of every non-mayoral independent agency in the City’s budget, from City Council and the Auditor to the Election Commission, Career Service Authority, and the Board of Adjustment.
- The entire 2003 General Fund budget for the Community Planning & Development agency was only two-thirds the amount spent on TIF subsidies that year.
- In 2003, Denver spent only 20% more from the General Fund on all the City’s cultural facilities combined than was spent on TIF commitments.
- Denver’s 2003 General Fund expenditures on street maintenance for the entire city were only two-thirds the City’s tax expenditures on TIF.

Viewed from a revenue perspective:

- In 2003, the entire revenue gained from Denver’s occupational privilege tax, or “head tax,” was only two-thirds of the revenue from TIF sites that was diverted from the General Fund.
- The revenue Denver gained from all licenses and permits in 2003 was only slightly more than half the revenue diverted to pay for TIF commitments.
- The revenue from the lodgers’ tax in 2003 made up less than half of what was lost in revenue to TIF subsidies.

The point of this comparison is not to question the value of these expenditures, but to subject them to the same level of scrutiny and consideration as any other expenditure. All public spending represents opportunity costs. A choice to increase project review staff at the Community Planning & Development agency helps accelerate important development projects, but it may also mean fewer staff at Denver Human Services and reduced care for the City’s most needy. These choices are difficult and have to be made, but to make them requires putting all interests and priorities on the table for comparison.

In sum, tax-funded subsidies to private development projects through TIF are diverting an ever-growing revenue stream away from the City’s General Fund, but such diversions are largely unseen to the public and unaccounted for by policy makers.

**RECOMMENDATION:**

**Account for TIF Expenditures in the Denver Budget**

Currently, TIF expenditures never show up on the City’s books, and are hence invisible to the public and unaccountable to the normal consideration of cost/benefit trade-offs to which all other public spending choices are subject. In drawing up its annual budget, the mayor’s administration need never account for TIF subsidies when estimating available revenue or
making difficult choices over spending priorities. Denver City Council approves TIF, but is never given the information necessary to weigh the opportunity costs of its choices over time or in the context of overall City financing. In the course of budget debate, City agencies never have the opportunity to pose the public value of their activities against the costs of TIF, only against the costs of other agencies. TIF (as well as other tax expenditures) should be accounted for in the City’s annual budget in the same way as other more conventional revenue and expenditure flows.

RECOMMENDATION:
Consider a Ceiling on the Growth of TIF Commitments

From relatively small sums only a few years ago, TIF now represents almost 7% of Denver’s General Fund expenditures; over a quarter of Denver’s property tax revenue is now being diverted to pay for TIF commitments. The growth of these commitments to TIF subsidies has been substantial and shows every sign of accelerating, yet the site-specific nature and project-by-project approval of TIF means that the overall growth of TIF faces no natural check or obvious limit. The City, perhaps working with the State of Colorado, should explore the possibility of establishing a ceiling on the growth of TIF commitments. Establishing where this ceiling should be and how it should be calculated poses a complex policy puzzle, but it is a puzzle that must be grappled with before we find ourselves willy-nilly at a level of TIF commitment that is clearly too high, but to which we are bound for decades to come.15

Do TIF-Subsidized Projects Return Immediate Revenue Gains to the City?

Once approved, TIF subsidies are effectively invisible to the public and their impacts on the City’s annual revenue and spending choices go largely unaccounted for. At the point of approval of TIF subsidies for a project, however, the prospect of forgoing all additional revenue from a property for the next quarter-century is a daunting one, and City Council members naturally do not embark upon it lightly.

Several arguments are often put forward to help ease this natural reluctance. The first has been discussed earlier in this report, in the explanation of what TIF is and how it works: The tax increment from the project is often described as revenue that would not otherwise exist if the redevelopment didn’t take place, and hence does not represent any real forgone revenue at all. It is this argument that leads to the popular notion that TIF projects “pay for themselves.”

While intuitively appealing, this argument is, at most, only partly true. The proponents of a retail TIF project, for example, would be hard pressed to argue that the retail activity that will occur on the redeveloped site – and hence the sales tax revenue the City is forgoing in order to pay for the TIF – would not, at least partly, have occurred elsewhere had the project not been built. To use a more concrete example, it is implausible that all the shoppers, diners, and

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15 Other states have already grappled with this issue. Wisconsin, for example, limits TIF districts to 12% of the total equalized value of the jurisdiction in which they are located. See Wisconsin State Statutes 66.1105.
moviegoers at the Denver Pavilions would otherwise have simply spent a quiet evening at home had the Denver Pavilions never been built.

Retail outlets compete with each other, and any TIF-subsidized retail project can be expected to attract some of its business from existing retail proprietors in Denver. Sales taxes once generated at those existing retail locations (and deposited into the General Fund) are now generated at the TIF-subsidized project, but those taxes are now diverted from the General Fund to pay for the TIF commitments. The “free money” has real costs.

Certainly TIF helps create value and produces real net revenue from underperforming properties. But the “free money” argument used to overcome skepticism of forgoing twenty-five years of public revenue to finance a private project is specious and should be subjected to close scrutiny.

A second argument often made to help pave the public way to TIF approval is that the redevelopment project in question is such a good investment of public funds that it is likely to deliver revenue back to the City – revenue above and beyond the increment dedicated to the TIF – long before the duration of the TIF commitment. Since the TIF is only meant to fund “gap financing,” it is argued, a well-performing project will generate more than enough revenue to meet the obligations to repay that sum while delivering positive net revenue into the City’s coffers.

See, for example, assertions made by the developers of two of the signature TIF-subsidized projects highlighted in this study:

**Broadway Marketplace:**
“*The project will add substantial incremental revenue above the costs associated with servicing the requested public financial assistance.*”

**Denver Pavilions:**
“*During the bond amortization period, the City would have additional annual net revenue from the Project of over $1,160,000 based upon incremental sales and property taxes of $3,110,000, and debt service of $1,443,000.*”

As it happens, the Broadway Marketplace project is indeed over-performing, although not by much. Actual revenue from the Denver Pavilions, on the other hand, is falling well below projections, although not so much as to jeopardize bond repayments. More to the point, however, the experience at Broadway Marketplace appears to be the exception, while that of the Denver Pavilions is the rule.
Of sixteen recent projects for which we could gain data, only two met or exceeded revenue projections for the 1998-2002 period. On the average, the actual sales and property tax collections from these projects are only 62% – less than two-thirds – of projections. While the ongoing recession is certainly depressing revenue performance at Denver TIF projects currently, as it is for the City’s revenue performance generally, the data examined here is from 1998 to 2002 – the tail end of the biggest economic boom in recent memory.

### Projected vs. Actual Sales & Property Tax Collections from Denver TIF-Subsidized Projects, 1998-2002

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Projected Collections</th>
<th>Actual Collections</th>
<th>% of Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adam's Mark Hotel</td>
<td>$20,612,000</td>
<td>$17,996,354</td>
<td>87%</td>
</tr>
<tr>
<td>Guarantee Bank Lofts</td>
<td>$699,160</td>
<td>$548,514</td>
<td>79%</td>
</tr>
<tr>
<td>Boston Lofts</td>
<td>$710,940</td>
<td>$9,129</td>
<td>1.3%</td>
</tr>
<tr>
<td>California St. Parking Garage</td>
<td>$1,511,757</td>
<td>$1,652,370</td>
<td>109%</td>
</tr>
<tr>
<td>Clyburn Village</td>
<td>$403,985</td>
<td>$221,617</td>
<td>55%</td>
</tr>
<tr>
<td>Denver Dry</td>
<td>$6,755,093</td>
<td>$3,806,154</td>
<td>56%</td>
</tr>
<tr>
<td>Holtze—The Magnolia Hotel</td>
<td>$1,220,950</td>
<td>$675,203</td>
<td>55%</td>
</tr>
<tr>
<td>Larimer Square</td>
<td>$2,255,520</td>
<td>$1,468,124</td>
<td>65%</td>
</tr>
<tr>
<td>Mercantile Square</td>
<td>$3,041,595</td>
<td>$1,671,065</td>
<td>55%</td>
</tr>
<tr>
<td>Denver Pavilions</td>
<td>$20,243,763</td>
<td>$14,170,292</td>
<td>70%</td>
</tr>
<tr>
<td>REI Store</td>
<td>$1,810,044</td>
<td>$1,341,998</td>
<td>74%</td>
</tr>
<tr>
<td>Rice Yards/Elitches</td>
<td>$8,437,398</td>
<td>$8,210,341</td>
<td>97%</td>
</tr>
<tr>
<td>Rio Grande</td>
<td>$1,110,165</td>
<td>$191,081</td>
<td>17%</td>
</tr>
<tr>
<td>38th and York</td>
<td>$1,434,500</td>
<td>$328,372</td>
<td>23%</td>
</tr>
<tr>
<td>Broadway Marketplace</td>
<td>$15,050,550</td>
<td>$15,566,023</td>
<td>103%</td>
</tr>
<tr>
<td>St. Luke's</td>
<td>$1,510,196</td>
<td>$771,010</td>
<td>51%</td>
</tr>
</tbody>
</table>

**OVERALL ACTUAL VS. PROJECTED COLLECTIONS:** 80%

**AVERAGE ACTUAL VS. PROJECTED COLLECTIONS:** 62%

In short, the recent history of TIF-subsidized projects in Denver suggests that revenue projections – and hence claims regarding immediate revenue gains to the City – are routinely overstated. Put plainly, none of these projects is delivering any significant additional public revenue above and beyond the increment necessary to pay for the TIF.

This is not to say that the TIF-subsidies for these projects are failing to deliver other strong returns to the public that is paying for them. The almost $115 million in tax-funded investments in these projects may be entirely justifiable in terms of additional jobs, new housing, or the catalyzing of additional nearby private investment and commercial activity. These tax-funded investments are clearly not justifiable, however, in terms of delivering immediate direct revenue gains to the City. Future TIF approvals justified on that basis should be viewed with skepticism and subjected to strict future verification.

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10 Information drawn from the DURA 2003 Business Plan.
A final important note on this point: The data used in this section is not publicly available. Indeed, it is explicitly asserted as proprietary to DURA and not subject to public examination. But for the serendipity of this data being passed to us from a number of informal sources, neither we, nor the public, nor even the City Council members who originally approved these TIF subsidies, would have any way of verifying the revenue claims made to justify these projects or the performance of the tax-funded investments made in them on the public’s behalf.

**RECOMMENDATION:**

**Hold Revenue Projections Accountable Against Actual Performance**

Projections of future revenue gains from proposed TIF projects are not only used to calculate the tax increment available, they also often become part of the public justification for the project and the TIF subsidy. The incentive for optimistic or inflated revenue projections is natural but should be eliminated, and any systematic bias towards inflated revenue projections should be corrected. Initial revenue projections made during the approval process for TIF-subsidized projects should be held accountable against actual revenue performance. Policy-makers and the public alike should be able to make clear assessments of the performance of their investments in these projects; promises made on behalf of TIF-subsidized projects should be verifiable, and any systematic over-promising of returns should be held accountable.

**Do TIF-Subsidized Projects Pay for the Service Needs They Create?**

TIF-subsidized projects in Denver generally do not return any additional direct revenue to the City over the duration of the TIF. Moreover, TIF subsidies represent the commitment of real revenue – tax expenditures – and hence impose budget opportunity costs on the City; money spent on TIF subsidies is money that cannot be spent on other budget items. But TIF-subsidized projects represent an additional and more direct budget burden: they create new public service needs that they do not pay for.

Certainly the new homes and businesses brought into existence through TIF subsidies add social and economic vitality to our City. But new homes and businesses also create ongoing new service needs. Public services are paid for through sales and property tax levies, but in the case of TIF-subsidized projects, the additional sales and property tax revenue created by the projects goes only to pay off construction bonds or to reimburse the developer; they do not pay for the additional public services that the project requires. The cost burden of these services is shifted onto the shoulders of the rest of the city’s businesses and property owners.

This is particularly well illustrated in the case of dedicated mill levies. While many public services are financed through Denver's General Fund, and can therefore be weighted and balanced against one another during the annual budgeting process, certain others are funded through specific “dedicated"
What Do TIF Subsidies Cost Denver?

property tax mill levies. These include certain social services, services for the developmentally disabled, payments into the pensions of police and fire fighters, urban drainage and flood control, as well as payments on the City’s general obligation bonds.

TIF-subsidized projects, and the residents and businesses located within them, certainly generate their own needs for police and fire protection, urban drainage and flood control, social services to the developmentally disabled and others. They also share in the benefits and amenities created through the City’s bonds. Yet as part of a TIF-subsidized project, the special mill levies collected from them do not contribute to their original intended purposes – they are diverted to fund the creation of the project itself through TIF.

In 2002 TIF commitments diverted over $3 million in mill levies dedicated to pay for specific services and obligations. In 2003, almost $5 million in dedicated mill levies was diverted through TIF subsidies away from the services and obligations these levies were created to fund.

| Bond Principal  | 4.65 | | | |
| Bond Interest  | 1.75 | | | |
| Social Services  | 3.88 | | | |
| Developmentally Disabled  | 0.14 | 218,789,413 | | |
| Fire Pension  | 1.44 | | | |
| Police Pension  | 1.71 | | | |
| Urban Drainage/Flood Control  | 0.60 | | | |

To be clear, this is not to say that, for example, residents of the new houses at Lowry are exempt from paying these mill levies on their property. Property owners in TIF projects are still paying these taxes; their taxes simply aren’t being used for the dedicated purposes for which they were created. Instead, these dedicated purposes – and the additional burdens imposed by the new homes and businesses in the project – are being paid for by the rest of the City’s existing tax payers.

The loss of revenue to pay for existing public services, both with respect to dedicated mill levies as well as General Fund revenue, can be fairly easily

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17 One “mill” (from the French word mille for 1000) is equal to 1/1000 of every dollar of assessed value on a piece of property. A mill levy of 1, for example, is a $1.00 property tax on every $1000 of assessed value.
18 Information from Denver Assessor’s Office.
calculated. The increase in service burdens imposed by new development, however, and the shifting and concentration of the obligation to pay for those services is more difficult to quantify. A simplified hypothetical example may serve to illustrate this dynamic:

An existing set of commercial and residential properties creates $1000 in revenue to pay for 100 units of various city services. Hence these property owners are paying $10 per unit of services. A TIF-subsidized project creates an additional 10 units of need for city services, but does not pay for them. Existing property owners must therefore now pay $11 per unit of services, or suffer a service cut of 10 units. If the TIF project draws commercial activity away from the existing properties, revenue from those properties declines. Even if the sum total of commercial activity is very much increased by the addition of the TIF project, it is still only the revenue from the existing properties that is available to pay for services. If revenue drops from $1000 to $800, then those existing property owners must now pay $13.75 per unit of services, or suffer an additional cut of 20 service units. In sum, for these existing tax payers, the result of the TIF project has been either to impose a substantial increase in the cost of city services or a substantial cut in the services they receive.

This is only a hypothetical illustrative example. The magnitude of the sums involved is not drawn from any empirical calculation; they are meant only to provide an easy illustration of the dynamic involved. The dynamic, however, is real. TIF-subsidized projects generate increased service needs but don’t pay for them, thereby imposing escalating fiscal obligations on existing tax payers and/or stretching existing service resources thinner across the City.

There is, however, one notable exception to this dynamic: the TIF-subsidized Stapleton redevelopment. In a unique arrangement that recognized the substantial increase in service burdens this enormous development would impose, DURA and the City established in their Cooperation Agreement that a progressively larger share of the incremental taxes from the project would revert back to the City. Over the twenty-five year duration of the Stapleton TIF, the City will receive the following share of the incremental revenue:

<table>
<thead>
<tr>
<th>Period</th>
<th>Revenue Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2004</td>
<td>0%</td>
</tr>
<tr>
<td>2005-2009</td>
<td>13%</td>
</tr>
<tr>
<td>2010-2014</td>
<td>22%</td>
</tr>
<tr>
<td>2015-2019</td>
<td>30%</td>
</tr>
<tr>
<td>2020-2024</td>
<td>47%</td>
</tr>
</tbody>
</table>

Even under this unique arrangement, however, it is well understood that the revenue the City will take in over the TIF duration will still be insufficient to pay for the total burden of increased city services required by the Stapleton redevelopment. Nonetheless, this arrangement represents a vast improvement

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19 In May of 2004, however, Denver City Council approved an amendment to the Cooperation Agreement that allowed DURA to subordinate the City’s share of the incremental revenue from Stapleton to the obligations to bond holders. If Stapleton revenues meet or exceed projections, the City’s share of revenue will be unchanged. If revenues fall short of projections, however, to the point where bond repayments are in jeopardy, DURA is authorized to dip into the City’s share of revenue.

20 As expressed in Denver City Council Resolution 54-00: “Current estimates are that the property tax increment [at Stapleton] will be first generated in 2001 in the amount of $835,000. Over the twenty-five year period of the tax
over all other TIF deals to which Denver’s tax payers have been committed. The properties, businesses, and residents at Stapleton are at least shouldering a portion of their “fair share” of the costs of the services the City provides to all of us.

RECOMMENDATION:
Ensure TIF Projects Pay a Portion of Their “Fair Share” for City Services

Under current practices, TIF-subsidized projects do not contribute to the special mill levy purposes or other publicly funded services that they nonetheless consume and which the City as a whole has an obligation to provide. Consequently, Denver’s property owners and taxpayers in non-TIF areas of the city are forced to shoulder the entire burden for these services and obligations. Following the model established by the unique arrangements of TIF for the Stapleton project, TIF projects should be expected to make some progressively greater contribution to the public service burdens they create with the tax increment they generate. In this way, Denver tax payers can be assured that TIF-subsidized development in Denver, at least partially, does indeed “pay its own way.”

increment finance, as private development occurs, the annual property tax increment could grow to as much as $93,000,000. During the first five years, 100% of the property tax increment will be devoted to the Urban Redevelopment Projects; thereafter an increasing percentage of the total tax increment (both sales and property) will be retained by the City. This percentage to be retained by the City reaches 47% of the total tax increment by year twenty; and (c) the new residents, workers and visitors to the Stapleton Urban Redevelopment Area will result in increased demands for fire and police services, roadway maintenance and utility services. A significant portion of the facilities related to these services will be financed from sales and property tax increment. It is anticipated that the retention of a portion of the tax increment revenues by the City and other site generated City revenues will pay for nearly 90% of the total cost of City services over the twenty-five year period of tax increment financing.
Getting Our Money’s Worth: Summary Recommendations

RECOMMENDATION:
Account for TIF Expenditures in the Denver Budget
Currently, TIF expenditures never show up on the City’s books, and are hence invisible to the public and unaccountable to the normal consideration of cost/benefit trade-offs to which all other public spending choices are subject. In drawing up its annual budget, the mayor’s administration need never account for TIF subsidies when estimating available revenue or making difficult choices over spending priorities. Denver City Council approves TIF, but is never given the information necessary to weigh the opportunity costs of its choices over time or in the context of overall City financing. In the course of budget debate, City agencies never have the opportunity to pose the public value of their activities against the costs of TIF, only against the costs of other agencies. TIF (as well as other tax expenditures) should be accounted for in the City’s annual budget in the same way as other more conventional revenue and expenditure flows.

RECOMMENDATION:
Consider a Ceiling on the Growth of TIF Commitments
From relatively small sums only a few years ago, TIF now represents almost 7% of Denver’s General Fund expenditures; over a quarter of Denver’s property tax revenue is now being diverted to pay for TIF commitments. The growth of these commitments to TIF subsidies has been substantial and shows every sign of accelerating, yet the site-specific nature and project-by-project approval of TIF means that the overall growth of TIF faces no natural check or obvious limit. The City, perhaps working with the State of Colorado, should explore the possibility of establishing a ceiling on the growth of TIF commitments. Establishing where this ceiling should be and how it should be calculated poses a complex policy puzzle, but it is a puzzle that must be grappled with before we find ourselves willy-nilly at a level of TIF commitment that is clearly too high, but to which we are bound for decades to come.
Do TIF-Subsidized Projects
Return Immediate Revenue Gains to the City?

RECOMMENDATION:
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Projections of future revenue gains from proposed TIF projects are not only used to calculate the tax increment available, they also often become part of the public justification for the project and the TIF subsidy. The incentive for optimistic or inflated revenue projections is natural but should be eliminated, and any systematic bias towards inflated revenue projections should be corrected. Initial revenue projections made during the approval process for TIF-subsidized projects should be held accountable against actual revenue performance. Policy-makers and the public alike should be able to make clear assessments of the performance of their investments in these projects; promises made on behalf of TIF-subsidized projects should be verifiable, and any systematic over-promising of returns should be held accountable.

Do TIF-Subsidized Projects
Pay for the Service Needs They Create?

RECOMMENDATION:
Ensure TIF Projects Pay a Portion of Their “Fair Share” for City Services
Under current practices, TIF-subsidized projects do not contribute to the special mill levy purposes or other publicly funded services that they nonetheless consume and which the City as a whole has an obligation to provide. Consequently, Denver’s property owners and taxpayers in non-TIF areas of the city are forced to shoulder the entire burden for these services and obligations. Following the model established by the unique arrangements of TIF for the Stapleton project, TIF projects should be expected to make some progressively greater contribution to the public service burdens they create with the tax increment they generate. In this way, Denver tax payers can be assured that TIF-subsidized development in Denver, at least partially, does indeed “pay its own way.”
Appendix A:  
Stages & Sequence of TIF Approval in Denver

Moving a property from a redevelopment concept to a TIF-subsidized project is a multi-stage process punctuated by several key public approvals and agreements. Some elements of this sequence can happen simultaneously, but the overall set of steps necessary to establish a TIF project is fixed.

**The Project Concept**

The redevelopment concept for a piece of property can originate either with City officials and/or the staff of DURA, or independently with a private developer. In the former case, DURA may issue a formal RFP (request for proposals) to attract prospective developers to the project. In the latter case, it is the developer that approaches the City and DURA with a project concept and a proposal for a public subsidy through TIF.

In either case, DURA serves as the formal gatekeeper to the rest of the TIF process. DURA is an independent “authority,” a quasi-public/quasi-private entity that it is neither funded nor operated as part of the formal structure of Denver City government, but is created through City ordinance and governed by a Board that is appointed by the Denver mayor, confirmed by Denver City Council, and serves fixed and staggered five-year terms. Each stage and component of the TIF process requires the approval of the DURA Board.

**The Urban Redevelopment Plan**

As discussed previously, TIF is a strictly site-specific funding mechanism. The dimensions of the property and project must therefore be precisely delineated as an “Urban Redevelopment Area.”

Also recall that TIF is designed exclusively to address conditions of “blight.” Therefore, the proposed Urban Redevelopment Area must be the subject of an official “blight study” and formally designated as “blighted” under the definitions in the state statute.

Further, recall that TIF can only be applied to specific eligible redevelopment activities that serve a public purpose and are integral to the project. This requires DURA to articulate a specific “Urban Redevelopment Plan” that describes the activities which DURA proposes to subsidize through TIF.

Finally, as with all development in Denver, the project must be found to be consistent with the broad vision and goals established by Denver’s “Comprehensive Plan,” which serves as the City’s umbrella planning document, as well as with any City-adopted neighborhood plans, or transportation and land-use plans, such as “Blueprint Denver.”
These diverse elements are generally folded together as a single document into the Urban Redevelopment Plan:

- a formal “blight study” that establishes the necessary conditions of blight.
- the formal description of the Urban Redevelopment Area.
- the formal plan of activities DURA intends to subsidize with TIF.
- a formal demonstration of the consistency of the project with the Denver Comprehensive Plan and any other applicable City planning documents.

The Urban Redevelopment Plan is then subjected to two stages of approval:

1. Planning Board. The Denver Planning Board is a citizen body, appointed by the Denver Mayor, that oversees the activities of the Community Planning & Development agency, Denver’s building, planning, and zoning department. The Planning Board holds a public hearing to discuss DURA’s Urban Redevelopment Plan for the project and can recommend changes to the plan. Its formal role, however, is simply to recommend to Denver City Council either approval or rejection of the Plan.

2. City Council. The Denver City Council is the final arbiter for public commitment to a TIF project. It is the formal legislative adoption of the Urban Redevelopment Plan by City Council, after a formal public hearing, that makes the project eligible for TIF.

Other Planning and Zoning Processes and Approvals

While not integral to the TIF approval process, and hence not the subject of this description, TIF projects must also go through the gauntlet of other planning and zoning approvals and processes to which all development projects are subject. These may include the rezoning of the property (which requires City Council approval); submission of a general development plan and specific site planning and design review (which require approval from the Planning Board and/or Community Planning and Development staff); and consultation with other City departments regarding impacts of the project on City services and infrastructure.

Establishing the TIF

The TIF itself is a formal component of the Urban Redevelopment Plan and is often approved as part of the Plan. It can also be established and approved as a subsequent amendment to the Plan. The TIF involves three separate but integrated processes – each with their own documents, agreements, and approval systems.

First is DURA’s own internal process which, as discussed previously, involves determinations of the tax increment the project is likely to generate, the financing gap necessary for TIF subsidies to fill, the duration of the TIF mechanism necessary to fill that gap, and the instrument – bonds vs. reimbursements – to be used to finance it. The results of these determinations become part of the public record and require formal adoption by City Council. Most of the material for reaching these determinations, however (e.g. studies, revenue calculation spreadsheets, developer negotiation positions) are considered proprietary and are not subject to public scrutiny or review, not only during the TIF negotiation.
process but in perpetuity. This is an important issue we raise elsewhere in this report.

DURA’s determination of the TIF amount, TIF duration, and redevelopment activities to be funded by TIF are adopted by City Council as part of the Urban Redevelopment Plan, or as an amendment to the Plan. Additionally, they are codified in a separate “Development Agreement.” This is the contract between DURA and the developer to carry out the Urban Redevelopment Plan.

Finally, DURA and City Council jointly approve a “Cooperation Agreement” regarding the collection and disbursement of the sales and/or property taxes from the TIF project. Taxes are collected by the City, not by DURA. The Cooperation Agreement is the contract between the two that establishes that the City will transfer to DURA the agreed upon sum from the increment for the agreed upon length of time.

Appendix B:
TIF-Diverted Sales and Property Taxes

The table on page 16 displays the annual total diversions of General Fund tax revenue by TIF-subsidized projects for 1998–2003. The tables below break out this data separately for sales and property tax diversions. Overall figures show TIF diversions tripling over the this six year period, and growing from less than 3% to almost 7% of the General Fund. Disaggregated, the impact of TIF diversions on General Fund property tax revenues is considerably more dramatic. TIF diversions of property taxes have gone from less that 10% to well over a quarter of the entire General Fund property tax revenues.

### TIF-Diverted Sales Taxes and the Denver General Fund

<table>
<thead>
<tr>
<th>Sales Tax Revenue</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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</thead>
<tbody>
<tr>
<td>Total Denver General Fund Sales Tax Revenues</td>
<td>$325,37,000</td>
<td>$347,811,000</td>
<td>$413,550,000</td>
<td>$388,171,000</td>
<td>$375,334,000</td>
<td>$366,627,000</td>
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<td>TIF-Diverted Sales Taxes</td>
<td>$5,990,000</td>
<td>$8,267,000</td>
<td>$9,233,000</td>
<td>$8,168,000</td>
<td>$8,937,000</td>
<td>$11,228,000</td>
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<tr>
<td>TIF-Diverted Sales Taxes as % of General Fund Sales Taxes</td>
<td>1.84%</td>
<td>2.38%</td>
<td>2.23%</td>
<td>2.10%</td>
<td>2.38%</td>
<td>3.06%</td>
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### TIF-Diverted Property Taxes and the Denver General Fund

<table>
<thead>
<tr>
<th>Property Tax Revenue</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Denver General Fund Property Tax Revenues</td>
<td>$57,592,000</td>
<td>$57,858,000</td>
<td>$61,087,000</td>
<td>$63,233,000</td>
<td>$66,889,000</td>
<td>$68,262,000</td>
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<td>TIF-Diverted Property Taxes</td>
<td>$4,705,000</td>
<td>$7,259,000</td>
<td>$10,209,000</td>
<td>$11,471,000</td>
<td>$13,756,000</td>
<td>$18,320,000</td>
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<tr>
<td>TIF-Diverted Property Taxes as % of General Fund Property Taxes</td>
<td>8.17%</td>
<td>12.55%</td>
<td>16.71%</td>
<td>18.14%</td>
<td>20.57%</td>
<td>26.84%</td>
</tr>
</tbody>
</table>
Acknowledgements & Dedication

This report owes its existence to the help and support of many people and organizations.

For their financial support, we thank: the Arca Foundation, Discount Foundation, Nathan Cummings Foundation, New World Foundation, Ottinger Foundation, Tides Foundation, and the Unitarian Universalist Veatch Program. We also thank many local and international unions for their strong financial support, as well as the many individuals throughout the Denver area who have supported our work.

At FRESC and the Denver Area Labor Federation, we thank all of the excellent staff for their long hard work on this project and uncomplaining contributions to multiple rounds of revisions and reformulations.

Among our local allies, we especially wish to thank the good people at the Colorado Fiscal Policy Institute and The Bell policy center, for their feedback, support, and guidance throughout the project.

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Staff at the Denver Assessor’s Office and the Denver Treasury Division of the Department of Revenue were especially helpful in compiling and making available property and sales tax information.

In addition to recognizing the help and guidance of individuals and organizations, we also want to acknowledge that this work is only part of, and would not be possible without, the growing nationwide accountable development movement. Focusing on the concept of “community benefits,” this movement is animated by the simple proposition that the purpose of economic development is to bring permanent measurable improvements to the lives of the residents who host and help pay for development projects, particularly those in low-income neighborhoods.

This work is dedicated to our sisters and brothers who have led the way in Los Angeles, San Diego, San Jose, Oakland, Milwaukee, Minnesota, Atlanta, Boston, Seattle, New York, Illinois, and Washington D.C.

About the Front Range Economic Strategy Center

The Front Range Economic Strategy Center (FRESC) is a research, policy-development, and public-interest organizing entity devoted to building, fueling, and sustaining a long-term strategic partnership between Colorado labor unions and the region’s progressive community. Our goals are to promote responsible, community-centered development that creates strong economic opportunities and broad ramps to training and advancement for all working people on the Front Range, union and non-union alike.