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Are We Getting Our Money's Worth?

Tax-Increment Financing and Urban Redevelopment In Denver

Part II:

Who Profits from TIF Subsidies ?:
National Chains, Local Businesses, and Our Private Developer Partners

new ideas
new priorities
new economy

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Executive Summary

Tax-increment financing (TIF) subsidies are one of the most powerful and important tools currently available to cities to promote the redevelopment of blighted properties. TIF is like a redevelopment credit card – we can buy new projects now and pay them off with future tax revenue.

But like a credit card, TIF subsidies pose risks and should be used carefully. TIF imposes real costs on taxpayers. Denver has already committed over $500 million in future tax revenue to pay off existing TIF subsidies to private developers. Denver is poised to increase that sum substantially with several large new TIF projects in the next few years. Diversions of tax revenue to pay for TIF subsidies now represent an annual cost of almost $30 million to Denver taxpayers, and are rising rapidly.

TIF is a public investment in private projects. Like any investment, it is meant to deliver a substantial increase in value to the investor – in this case, the public.

Are we getting our money's worth?

In this report – Part II of a three-part series[1] – we continue to explore this question by focusing on the types of businesses Denver attracts through TIF projects, and on the private developers with which Denver partners to bring these projects into existence. Are we attracting businesses that render the greatest possible positive impact on the Denver economy? Are our private developer partners earning more than a fair profit from our public investments in their projects?

Key Findings

- **Local Businesses Maximize Local Economic Benefits, but TIF Projects are Dominated by National Chains**

Based locally, and with more complete integration into the metro economy, local businesses deliver almost three times the local economic impact through their secondary spending as national chain stores. This also means they generate more local tax revenue, *particularly* in the context of TIF projects, where on-site taxes are diverted to pay TIF subsidies and only secondary off-site spending generates public tax revenue. Yet local tenants fill only 4.4% of the total occupied space at Denver's three largest TIF retail projects.

[1] Part I of the series, *What Do TIF Subsidies Cost Denver?*, available at www.fresc.org, explained the history and mechanics of TIF, and analyzed the total cost of TIF to Denver taxpayers, including "hidden" costs from increased public service burdens that TIF projects do not pay for. Part III of the series, *Are We Building a Better Denver?*, focuses on the downstream impact of TIF projects in the areas of job creation and housing affordability.

- **Evidence Suggests Denver's Private Developer Partners are Demanding Greater Than Average Returns on TIF Projects**

TIF subsidies reduce risk and lower costs for private developers. Yet evidence suggests Denver's private developer partners may be demanding higher than average returns to participate in TIF projects. Using TIF money to subsidize inflated profits not only imposes unnecessary costs on Denver taxpayers, it also creates unfair competitive advantages in the Denver development marketplace.

- **TIF Transactions Lack Transparency, Making Them Unaccountable to the Public**

TIF subsidies are meant to help realize private projects at blighted sites at minimum cost to the taxpayer. Yet the data and calculations used to establish the need for TIF subsidies, the amount of TIF necessary to realize a project, and likely developer profit rates, are all permanently hidden, not only from public view but also from the elected leaders responsible for approving such subsidies in the first place. Neither the public nor our representatives have any way of holding TIF projects accountable, either for maximizing public value or for minimizing public costs, even long after TIF deals are concluded

Recommendations

Our purpose is constructive, not critical. We support TIF as a powerful tool for stimulating urban redevelopment and building a better Denver for all of us. Its use and management, however, need significant reforms to ensure that these major tax-funded investments deliver the strongest possible returns to the public, and are understood by and accountable to the citizens they are meant to benefit.

Establish a Proactive Policy Promoting Local Business Recruitment to TIF Projects

Local businesses generate substantially more local economic activity, and hence more local sales tax revenue, than national chains. Yet local businesses occupy less than 5% of the space at Denver's three largest retail TIF projects. Raising that proportion to only 25% would likely produce, for every $10 million in sales, more than half a million dollars in additional local economic activity through economic multiplier effects. Denver needs to establish a proactive program to maximize local business participation in TIF projects.

Reorient the Focus of Denver's TIF Investment Strategy Toward Smaller-Scale Neighborhood Projects More Appropriate to Local Small Businesses

A bias toward well-known and reliable revenue-generating businesses may be dictating a TIF investment strategy that favors projects attractive to large-scale national chains. This bias reduces the potential public revenue and private economic benefits from utilizing local businesses. It also promotes potentially damaging competition to local businesses by proliferating national chains in the Denver economy. Denver's TIF investment strategy needs to be reoriented with a view toward supporting smaller-scale, neighborhood projects that are more appropriate and hospitable to local, small business tenants.

Make TIF Transactions More Transparent and Accountable

With no access to the financial data that establishes either the need for TIF or the amount of TIF necessary to win developer participation, neither the public nor our elected leaders has any way of reviewing or holding accountable the key "but for" calculations that justify the diversion of millions of dollars of tax revenue to private, for-profit projects. Denver should expand the transparency of TIF transactions, at least retrospectively. Some financial information may justifiably be kept confidential for "proprietary reasons" during the negotiation of a TIF deal, but the public should be able to review key data and the decision-making process after the deal is concluded and the project built. Further, Denver should consider the establishment of regular performance audits for our TIF system to ensure that its use of diverted tax revenue is as efficient and effective as possible.

Consider Establishing a Market-Based Ceiling on Private Returns Enabled by TIF, or Increasing the Public's Share of Revenue on Well-Performing Projects

Given fixed assumptions regarding project costs and commercial revenues, every percentage increase in the rate of return demanded by our private developer partners means a substantial increase in the size of the TIF. Private developers of TIF-subsidized projects are entitled to fair and prevailing market rates of return. It is unfair, however – to Denver taxpayers and to the rest of the Denver development community – if TIF subsidies are used not only to reduce developers' risks but also to elevate their returns above those prevailing in the development marketplace. Denver should consider either establishing a market-based ceiling on the private rates of return TIF can be used to finance, or increasing the public's share of the revenue from TIF projects that exceed such rates.

Introduction

Over the last decade, through the instrument of "tax-increment financing" (TIF), Denver taxpayers have committed over half a billion dollars in public subsidies to private developments all over Denver. These commitments have, in turn, leveraged ten times that amount – over $5 billion – in private investment and have resulted in revitalized uses for blighted properties around the city. In coming years, 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 complex at I-25 & Broadway, the realization of Denver's ambitious plans for the downtown Union Station area, and the redevelopment of the University Hospital campus in east Denver.

TIF-subsidized urban renewal is everywhere. Downtown, it includes the landmark resurrection of the Denver Dry Goods building, the refurbishment of the Adams Mark hotel, the conversion of parking lots into the Denver Pavilions retail center, and the transformation of a defunct powerhouse into the unique REI store. Demolition of the old Woolworth's building and construction of the Broadway Marketplace shopping area at Broadway & 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 Lowry Air Force Base is a TIF project, as is the redevelopment of the old Stapleton airport, the largest urban infill project in the nation.

TIF has played a huge role in transforming Denver's urban landscape, and Denver taxpayers can be proud of the impact their investments have made.

But TIF is not just about building new projects on blighted properties. It is about leveraging public financing and private development opportunities to build a better Denver. How much has the investment of hundreds of millions of taxpayer dollars in TIF-subsidized projects improved the lives of Denver residents or expanded the public treasury for other important uses and public services?

TIF subsidies are not costless. TIF never shows up on the City's books but it is a commitment of real revenue – a "tax expenditure." Such expenditures are incurred not through direct budget appropriations, but through foregone revenue, or the diversion of revenue before it reaches the budget. Denver's annual diversions of tax revenue to pay TIF subsidies total almost $30 million – equal to nearly 7% of Denver's General Fund revenues – and are rapidly increasing.[2]

As with any expenditure of this magnitude, it is proper to ask: Are we getting our money's worth? Especially in light of the City's current 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

[2] 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 2003, TIF subsidies equaled 6.8% of the *first* kind of revenue stream (the discretionary General Fund).

assess: Are the residents of Denver getting enough back from TIF-invested projects to justify annual diversions of $30 million and more into the future?

To answer these questions, we engaged in a careful examination and analysis of data and records from the Denver Urban Renewal Authority (DURA), the principal agency charged with administering TIF in Denver; gleaned public tax and property records; applied statistical data from the U.S. Census Bureau and other public sources; employed analysis from the Colorado Fiscal Policy Institute and other respected local and national research entities; and carried out our own original field, survey, and statistical research.

Our research examines TIF-subsidized redevelopment across Denver, but we also focus in particular on three signature TIF-subsidized projects:

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

These three projects represent 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 substantial component of the overall project financing – between 15% and 40%. Finally, these three TIF sites are major employment centers; together, they represent roughly three-quarters of the direct permanent jobs created at *all* TIF-subsidized development projects in Denver.

In this study, we tackle the question "Are we getting our money's worth?" by answering three subsidiary questions, each treated in a separate volume.

Part I: What Do TIF Subsidies Cost Denver?

Part I was released in January 2005. In Part I we provided a history of TIF and explained how TIF works. We demonstrated that TIF should not be considered "free money" and that TIF projects cannot be understood to "pay for themselves." We demonstrated that TIF represents the real expenditure of finite revenue resources and quantified the total Denver tax revenue being diverted to pay for TIF. We also described additional "hidden costs," such as the increased public service burdens of new TIF projects. Because TIF projects do not help pay for these services, the cost of their provision is shouldered by Denver's existing taxpayers and property owners.

In addition to our analysis, we offered four concrete recommendations to improve the effectiveness and public accountability of TIF:

- Account for TIF expenditures in the Denver budget.
- Consider a ceiling on the growth of TIF commitments.
- Hold revenue projections accountable against actual performance.
- Ensure TIF projects pay a portion of their "fair share" for city services.

Part II: Who Profits from TIF Subsidies?

This volume is Part II of the study, where we focus on the private developers with whom we partner to realize TIF projects, and the businesses we promote and attract to Denver by building them. TIF represents public spending to support private, for-profit development. What kind of companies and what kind of profits are Denver taxpayers subsidizing? What kind of businesses are we encouraging to expand in Denver through our TIF commitments? What type of industries are we promoting in the Denver economy through TIF subsidies?

Part III: Are We Building a Better Denver?

The final volume of this study will focus on the downstream impact of TIF on Denver's ordinary residents and working people. Central to the purpose of economic development is job creation. What kind of jobs are Denver taxpayers helping create through TIF subsidies? Denver is now a majority non-white city and has a sizable lower-income population. How is TIF-subsidized redevelopment impacting communities of color and lower-income neighborhoods? Housing is a substantial component of many TIF-subsidized projects. Are these tax-funded investments in new housing helping address Denver's housing affordability crisis?

While the public value of addressing urban blight is obvious, and the contribution of TIF-subsidized projects to Denver's economic development is clear and demonstrated, the answers to the specific questions about TIF raised in this report 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 taxpayers are realizing through TIF-subsidized projects.

This series of reports is not merely critical. Our purpose and goals are constructive. Our ambition is to ensure that Denver's tax-funded investments in urban renewal create the strongest possible economic opportunities for all of Denver's residents, 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.

Tax-increment financing is complex, complicated, and often obscure, but 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.

Who Profits from TIF-Subsidized Projects?

The explicit purpose of economic development is to promote increased private economic activity, and with it, private profits and job creation. At the same time, however, public investments in economic development – such as through TIF – effectively serve to pick winners and losers in the private economy. Public choices regarding the types of projects in which to invest tax money have substantial impacts on the kind of private businesses that populate the Denver economy. Public choices regarding how much tax money to invest in specific private projects have substantial impacts on the profits of specific developers, and thereby on the competitive balance in the development marketplace. Finally, these public choices have substantial impacts on public revenues.

The Hometown Advantage: Local Businesses vs. National Chains

Commercial activity engenders more commercial activity; money spent at a business re-circulates in the economy through that business's secondary expenditures on payroll, supplies, services, and overhead, and through tertiary expenditures by that business's workers, vendors, suppliers, and landlords. This is known as the "multiplier effect" – the factor by which every dollar spent at a business is multiplied into additional economic activity.

Different types of businesses have different multiplier effects. The type of businesses attracted to occupy TIF-subsidized projects, therefore, has important implications for the Denver economy, as well as for sales tax revenues. Retail is by far the largest category of commercial TIF projects in Denver, and in the retail industry, *local businesses* have a substantially higher multiplier than national chain stores.

The mechanism behind this "hometown advantage" is intuitively straightforward. A Denver-based local business, for example, is likely to keep its payroll and bank in Denver, to patronize local vendors for supplies and services, and to spend its profits in the Denver metro area. A national chain store, by contrast, will remit profits back to its headquarters city and is more likely to depend on a national supply, distribution, and services system determined by corporate headquarters. Even locally-owned franchises of national chains are likely to be substantially less integrated into the local economy, and have a lower local economic profile, than a business that is independently owned and operated in Denver.[3]

[3] Citing precisely this dynamic, former City Councilwoman Susan Barnes-Gelt criticized a recent TIF project proposal that would have displaced twenty local Asian businesses in favor of a new Wal-Mart at Denver's Alameda Square: "A final question for Denver: Are 400 low-paying jobs, cheap goods and a grocery store worth evicting 20 shop owners, undermining local businesses and absorbing the hidden costs of public health and social services? And, 12 or 15 years from now, what will we do with a big vacant box in the middle of a parking lot? The sales receipts from Wal-Mart go to Bentonville, Ark. The Siu family, owners of the best dim sum restaurant in Denver, banks up the street." Susan Barnes-Gelt, "Should Denver Subsidize Wal-Mart?" *Denver Post* (September 24, 2003).

Quantifying the "hometown advantage" is difficult, and a review of available research found no multiplier analysis of local businesses versus national chains that used metro Denver data. A number of recent studies have been conducted in other locales, however, allowing us to draw at least a rough inference of the additional economic value of local businesses versus national chain stores here in the Denver metro area.

In Santa Fe, New Mexico, it is estimated that the multiplier effect for locally-owned businesses is at least twice that of nationally-owned chains.[4] A study of mid-coast Maine found more than a three-fold difference: every $100 spent at big-box stores in the region generated $14 in additional local economic activity, whereas $100 spent at locally-owned retailers generated $45.[5] A study of Austin, Texas found similar results: spending in national chain stores generated a 13% multiplier of additional local spending, whereas spending in locally-owned businesses generated a multiplier of an additional 45%.[6]

Drawing a conservative inference from these studies we can make the rough assertion of a 40% vs. 15% "hometown advantage" multiplier in Denver. That is, $100 spent at a Denver-based local business generates an additional $40 in local spending whereas $100 spent at a national chain store in Denver generates only an additional $15 in local spending.

With respect to the goal of "getting our money's worth" from TIF, the implications of even this rough assessment are clear: we substantially increase the positive *local* economic impact of our TIF investments when we increase the presence of local businesses in TIF-subsidized projects.

40% vs. 15% Multiplier Impact at a Retail Project with Different Tenant Compositions of Local Businesses vs. National Chains

% of Different Tenant Types (Local Business + National Chains)	Additional Economic Activity per $10 Million in Sales (Local Business + National Chain)	Total Multiplier Impact per $10 Million in Sales
0% Local Business + 100% National Chains	$0 + $1.5 million	$1.5 million
25% Local Business + 75% National Chains	$1 million + $1.1 million	$2.1 million
50% Local Business + 50% National Chains	$2 million + $0.75 million	$2.75 million
75% Local Business + 25% National Chains	$3 million + $0.38 million	$3.38 million
100% Local Business + 0% National Chains	$4 million + $0	$4 million

[4] Angelou Economics, *Santa Fe Independent Business Report* (Santa Fe Independent Business and Community Alliance: November 2003). The same study estimates that locally-owned retail stores keep 90% of their operating expenses within the local economy, compared with only 70% for national chain stores. The gap is similar for the service industry (88% for local, 70% for chains) and grocery stores (88% vs. 75%).

[5] Institute for Local Self-Reliance, *The Economic Impact of Locally Owned Businesses vs. Chains: A Case Study in Midcoast Maine* (September 2003).

[6] Don Houston, Civic Economics, *Economic Impact Analysis, A Case Study: Local Merchants vs. Chain Retailers* (LivableCity Austin: December 2002).

There are, of course, practical limits to increasing the presence of local businesses in TIF projects, or any retail projects. Particularly at large-scale signature retail centers, filling the project entirely with local businesses is likely impossible. The point here is not to assert an ideal level of local business content. The point is simply to establish the recognition that when we make economic development choices we must begin with the knowledge that local businesses outperform national chains in generating local economic activity.

The implications of this recognition are particularly stark with regard to tax revenue from TIF projects. After all, the public rarely sees any direct tax revenue from a TIF project for the duration of the TIF – as long as twenty-five years. (See the explanation of how TIF works in Part I of this study). Hence, if the public's TIF investments are to render any additional tax revenue in the short term, it can only come from taxes on secondary and tertiary spending in the local economy by the project's tenants.

In short, local businesses not only generate more private local economic activity than national chains, they also catalyze more tax revenue for the public.

Are We Promoting Local Businesses at TIF Projects?

Unfortunately, Denver's TIF-subsidized retail projects currently appear heavily biased toward national chains. Among the tenants in the three signature retail projects examined in this study – the Denver Pavilions, Broadway Marketplace, and Quebec Square – only 13 of 115 storefronts are occupied by local businesses, or just over 10%. In terms of the square footage occupied by local businesses vs. national chains, the dominance of national chains is even more overwhelming: only 4.4% of the occupied retail space in these three projects is filled by locally-based tenants.

Local Businesses vs. National Chains at Three Signature TIF Retail Projects (2005)[7]

Denver Pavilions	# of Stores	% of Stores	Square Footage	% Total Occupied Space
Local Businesses	7	16%	36,609	11%
National Chains	34	79%	304,438	89%

Broadway Marketplace	# of Stores	% of Stores	Square Footage	% Total Occupied Space
Local Businesses	1	4%	18,150	5%
National Chains	25	96%	376,246	95%

[7] For complete store and square footage lists for these projects, please see Appendix.

Quebec Square	# of Stores	% of Stores	Square Footage	% Total Occupied Space
Local Businesses	5	11%	5,834	1%
National Chains	41	89%	633,756	99%

Again, one cannot expect large-scale retail projects such as these to be completely filled with locally-owned businesses. Nonetheless, the low percentage of local businesses at these three projects strongly suggests more could be done to promote recruitment of local businesses to TIF-subsidized projects. Denver currently has a strong policy promoting use of small businesses in the design and construction of TIF-subsidized projects, but has no policy promoting the recruitment or attraction of local, small businesses as tenants.

The benefits to the Denver economy of such an effort could be substantial. Using our rough assertion of a 45% vs. 15% multiplier effect for local businesses vs. national chains, if the Denver Pavilions, Broadway Marketplace, and Quebec Square were to raise the proportion of their space occupied by local business tenants to just 25%, they would generate, for every $10 million in sales, an additional half million dollars in additional local economic activity. Given a conservative estimate of over $400 million in combined annual sales at these three sites,[8] this represents a total of over $20 million in additional annual economic activity, and almost three-quarters of a million dollars in additional sales tax revenue for the Denver metro area – all gained through a moderate increase in the local business content at these three projects alone.

RECOMMENDATION:
Establish a proactive policy promoting local business recruitment to TIF projects

Local businesses generate substantially more secondary and tertiary local economic activity – they have a higher "multiplier" – than national chains. In addition to obvious benefits to the local private economy, this also has public tax revenue implications, particularly at TIF projects. At most projects, the entire tax "increment" – the new taxes generated by the project – is diverted to pay TIF subsidies. Therefore, any additional tax revenue generated by a TIF project must come through off-site commercial activity generated by the project's tenants. To maximize both private and public economic benefits from TIF subsidies, therefore, Denver needs to maximize local business content at TIF projects. Denver should establish an explicit policy and active program for attracting and retaining local businesses at TIF projects. A strong small business utilization policy already exists to govern selection of construction contractors for TIF projects; a similar policy should be established to govern recruitment of tenants.

[8] Forest City, developer of Quebec Square and the Stapleton project, reports a per-square-foot sales figure of $350 for their regional malls such as Quebec Square. (Forest City Enterprises, Inc., *2002 Annual Report* downloaded from http://www.fcrc.com/FCEAnnual.pdf on May 1, 2005). This sales figure, multiplied across the square footage of the Denver Pavilions, Broadway Marketplace, and Quebec Square together (and counting only occupied square footage of tenant space, not common areas) would render a total sales figures of almost $500 million.

Are We Building the Right TIF Projects for Local Businesses?

Denver needs a proactive policy of local business recruitment to TIF projects. The problem of low levels of local business tenants in TIF projects, however, may be difficult to address given Denver's current pattern of focusing TIF investments on large-scale retail destinations, such as the ones featured here.

As economists and economic development officials know, the vast majority of employment and business activity in most local economies rests on the shoulders of small business. Most small businesses are also local businesses. Small businesses tend to thrive in smaller local shopping environments, rather than in major retail destinations. Yet it is precisely such destination retail projects, dominated by large-scale national chains, that Denver's TIF investments have generally been devoted to creating. Hence the low level of local business tenants in TIF projects may be the result not only of a failure to actively recruit *local* business, but also from a scale and structure of most retail TIF projects that is inhospitable to *small* business.

Unfortunately, this pattern may have its own structural origin that also requires attention. TIF-subsidized projects need to generate a reliable stream of tax revenue to pay off the subsidies that helped build them. A bias therefore exists in the selection of TIF projects, as well as in the recruitment of tenants for such projects, that strongly favors well-known and reliable revenue generating businesses – that is, national chain stores.

Such a TIF investment strategy may be sacrificing the broader economic interests of the Denver community as a whole in order to maximize a narrow interest in reliable tax revenue generation. Such a strategy may also be imposing more than mere opportunity costs on the Denver economy. The proliferation of chain stores creates strong competition – often with substantial advantages of scale – against the very same local, small businesses it is in our best economic interest to promote.

In sum, large-scale retail projects featuring national chains may be the easiest to finance with TIF subsidies, but they are not the best long-term investment of tax dollars for economic development. Signature destination projects, such as the Denver Pavilions, were perhaps necessary to catalyze the redevelopment of Denver's crumbling and moribund downtown a decade ago. A "downtown agenda" was the priority of Denver's political leadership over the preceding decade, and Denver's focused application of TIF on downtown projects is a reflection of that agenda.

With a booming downtown now, however, Denver's economic development strategy may require a reorientation toward the kinds of smaller-scale, neighborhood-focused, and local business-friendly projects that generate the greatest overall economic bang for the TIF subsidy buck.[9]

[9] Denver would not be the first to make this change. The strategic plan of the District of Columbia, for example, now places a heavy emphasis on neighborhood-based economic development and explicitly prioritizes the application of TIF investments to neighborhood-serving projects. (Washington D.C., *Citywide Strategic Plan* downloaded

Such a reorientation is difficult, however, and will require strong support from Denver's leaders. The Denver Urban Renewal Authority must be given the support and backing it needs to resist the structural bias toward large-scale projects and the most reliable sales tax generation, and to embrace potentially more challenging neighborhood-scale projects that offer greater long term economic rewards to the Denver community.[10]

RECOMMENDATION:

Reorient the focus of Denver's TIF investment strategy toward smaller-scale neighborhood projects more appropriate to local small businesses

A bias toward well-known and reliable revenue-generating businesses may be dictating a TIF investment strategy that favors projects most attractive to large-scale national chains. This reduces potential public tax revenues and private economic benefits to be gained from TIF, by reducing the likelihood of local business participation. It also promotes potentially damaging competition to local businesses by facilitating the propagation of national chains in the Denver economy. Denver needs to reorient the focus and priority of TIF subsidies to address this bias, with a view toward increasing TIF investments in smaller-scale neighborhood projects more appropriate and hospitable to local, small business tenants.

The Profits of TIF-Subsidized Developers: A "Fair" Private Return on Publicly-Shared Risk ?

TIF is the investment of public tax revenue in private, for-profit development projects.[11] Are the profits earned by the public's private partners "fair"?

The importance of this question stems from two considerations. First, there is necessarily a high burden of proof of "necessity" when the public is foregoing revenue and absorbing risk in order to generate profits for a private company. Second, by subsidizing the profits of our private developer partners with TIF, taxpayers are potentially rewarding a few developers with a competitive advantage over the rest of the development community.

from http://neighborhoodaction.dc.gov/neighborhoodaction/frames.asp?doc=/neighborhoodaction/lib/neighborhoodaction/stratplan.pdf on May 1, 2005). For a comprehensive scholarly review of strategies being applied across America to support local business development, including targeted tax subsidies, see Michael Shuman, *Going Local: Creating Self-Reliant Communities in a Global Age* (New York: Routledge, 2000).

[10] One such project that may be emerging as this report goes to press: the redevelopment of the Lowenstein Theater on East Colfax into a local retail and cultural center. Modest TIF support is being sought for a $14 million project that would be anchored by three successful independent local retailers: the Tattered Cover bookstore, the Twist & Shout music emporium, and the Denver Film Society, which operates the Starz Film Center. As Twist & Shout owner Paul Epstein describes the vision: "I've always liked the idea of independent retailers bonding together and using their synergistic powers to become a force in their city." John Moore, "Independents Team Up for New Cultural Center," *Denver Post* (March 1, 2005).

[11] See Part I of this study for a detailed description of the dimensions and restrictions associated with TIF.

Who Are Denver Taxpayers Subsidizing with TIF?

Denver's private partners on TIF projects are often large profitable operations with a national or even global profile. In this study we have focused in particular on three projects – the Denver Pavilions, Broadway Marketplace, and Quebec Square. Quebec Square, however, is part of the much larger Stapleton redevelopment, which makes it difficult to calculate subsidies vs. profits on Quebec Square alone. For this section, therefore, we focus only on the Denver Pavilions and Broadway Marketplace.

The Denver Pavilions was a project of the California-based Entertainment Development Group (EDG), originally a subsidiary of AMC Entertainment but spun off into an independent company by William Denton, a leader in international shopping center developments. The development team assembled by Denton for the Pavilions included not only EDG but also the Yarmouth Group, based in New York, and the Lend Lease corporation, the world's largest real estate investment company, based in Australia. Other significant investors in the project were the international currency trader, George Soros, and local real estate powerhouse, Miller-Anschutz. Thirty million dollars in public bonds were floated to net a total of $24 million in direct TIF financing for EDG to embark on the Denver Pavilions project.[12]

Broadway Marketplace was a project of Antonoff Miller Properties, alternatively known as Miller Weingarten Realty, LLC. This company was formed as a joint venture between Colorado's own Miller Development and the enormous Weingarten Realty Investors, based in Houston, Texas, owner of some $2.3 billion in real estate assets and earning annual revenues in excess of $300 million. For Antonoff Miller to embark on the Broadway Marketplace project, $16.7 million in public bonds were floated to net a total of $12.5 million in direct TIF financing.

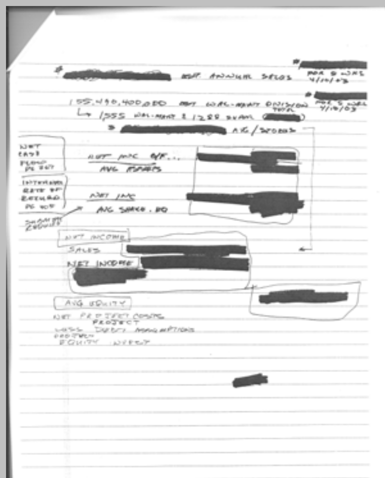
Lack of Transparency in TIF Transactions

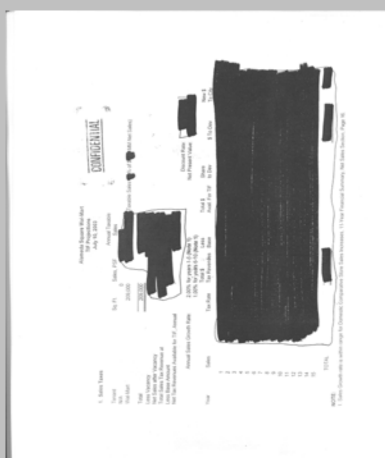
There is nothing inherently wrong with Denver partnering with such large and powerful corporations on TIF-subsidized projects. Indeed, there is much to be said for partners with deep assets and a strong record of success. When substantial sums of public money, however – nearly $50 million in these two cases alone – are used to subsidize the profits of already highly profitable corporations, the public should be confident that: a) such levels of subsidy are truly necessary to make the projects happen; and b) that already successful players in the redevelopment industry are not enjoying an unfair competitive advantage through their access to public subsidies.

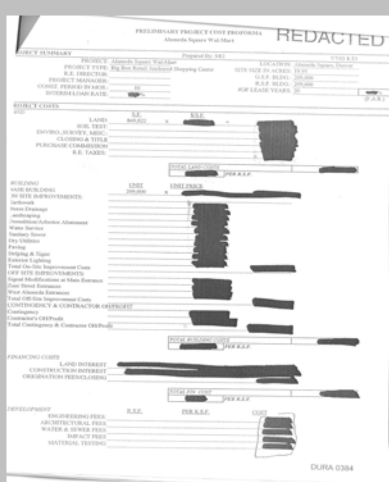
Unfortunately, the public has no way of satisfying itself on either of these concerns.

[12] Company financial data was compiled from public records available from InfoTrac's electronic "Business and Company Resource Center" database. TIF data on these projects was compiled from DURA documents, including the DURA 2002 Business Plan.

Typical Redacted Documents Received by FRESC







Negotiations between DURA and the public's would-be for-profit partners over the appropriate level of TIF necessary to realize a project are considered private business discussions. Key data (anticipated gross revenue, rates of return on investment, net income, total projected incremental tax revenue) are considered proprietary and closed to public examination. The *pro formas* and development proposals made to DURA by prospective developers are the primary documents that demonstrate the need for a specific level of TIF subsidy for a project to succeed. These documents are unavailable for examination, however, even long after the deals have been closed, the TIF funds dispersed, and the projects built.

In the course of our research, requests were made under the Colorado Open Records Act to examine project proposals and final development contracts for most of Denver's current TIF-subsidized projects. We were allowed to examine these documents, but almost all relevant financial data had been redacted from them. Our work may be the most thorough and comprehensive independent analysis of TIF ever attempted in Denver, yet we generally found it impossible to determine even the most basic and central calculation to any TIF deal – that is, the likely impact of different levels of TIF subsidy on the private returns to the developers, and hence the level of TIF necessary to secure the developers' participation in the project.

This is not a universal condition of TIF. A number of states already have substantial disclosure requirements for recipients of TIF and other public subsidies. These disclosures include annual financial reports and specific data on wages and benefits for job creation at subsidized projects and businesses.[13] Colorado's urban renewal law currently lacks any such disclosure requirements. Consequently, the public is without any means for independently evaluating the financial necessity of the hundreds of millions of dollars they are asked to forego in tax revenue in order to secure adequate returns to their private developer partners on TIF projects.

It is not only the public that lacks access to the financial details at the heart of these multi-million dollar transactions. So too are the public's own elected leaders, who are responsible for authorizing these transactions in

[13] For more detail on specific subsidy disclosure requirements in different jurisdictions across the country, see the "best practices" compiled by Good Jobs First at http://www.goodjobsfirst.org. See also Greg LeRoy & Sara Hinkley, *No More Secret Candy Store* (Washington DC: Institute on Taxation & Economic Policy, 2002).

the first place. At the time they are asked to approve a TIF deal, Denver's City Council members are not privy to the calculations that have determined the amount of TIF they are approving. Not even retrospectively are Denver's City Council members entitled to gather and analyze the data necessary to assess the wisdom of their TIF approval choices, or the necessity of the sums they approved.

Again, this is not a universal condition of TIF. In Kansas City, for example, the City Auditor has been authorized to carry out not merely financial audits of the city's TIF system, but also a performance audit. This performance audit examined such details as the calculation of TIF subsidies, rates of private profit at subsidized projects, and the "public purpose" legitimacy of reimbursable expenses.[14] Currently in Denver, few of these details are subject to any scrutiny beyond the Denver Urban Renewal Authority itself.

RECOMMENDATION:
Make TIF transactions more transparent and accountable

With no access to the financial data that establishes either the need for TIF or the amount of TIF necessary to win developer participation, neither the public, nor our elected leaders, has any way of reviewing or holding accountable the key "but for" calculations that justify the diversion of millions of dollars of tax revenue to private, for-profit projects. Denver should expand the transparency of TIF deals. While some financial and business plan information may justifiably be kept confidential for "proprietary reasons" during the negotiation of the TIF deal, the public and elected leaders should at least be able to review key data and the decision-making process after the deal is concluded and the project built. Denver should also consider the establishment of regular performance audits of our TIF system to ensure that its use of diverted tax revenue is as efficient as possible – that is, providing the greatest value at the least public expense.

What is a "Fair" Return to Developers on TIF-Subsidized Projects?

Currently, neither the public nor our elected representatives have any ability to verify that our TIF investments in private projects are made at minimum cost to taxpayers and are delivering no more than a fair return to our private developer partners. But what is a "fair" return on TIF-subsidized projects?

The central financial calculation for private developers embarking on a project – and the calculation on which TIF subsidies have their primary impact – is their "return on equity" or "cash-on-cash" return.

[14] Among the Kansas City Auditor's recommendations were that "City Council … provide direction to the Commission on issues such as … whether redirected tax dollars should guarantee a rate of return, or profit, to developers; how to differentiate between developer expenses and public costs; and the extent of the Commission's authority to reimburse developers for costs in excess of those approved by the City Council … The Commission and its staff need to establish effective oversight and control of public revenues." (City Auditor, *Performance Audit Controls Over TIF Expenditures* (Kansas City, Missouri: September 2003) downloaded from http://www.kcmo.org/auditor/03-04audits/tifexpenditures.pdf on May 1, 2005).

Cash-on-cash return is a calculation of the annual before-tax cash flow from a project, divided by the total initial equity investment in the project, expressed as a percentage. For example, if developers are investing $10 million in a project, and the projected annual cash flow from the project is $1 million, then the calculated cash-on-cash return is 10% – that is, the developers can expect a 10% annual "return on equity" for their investment.

What are "reasonable" cash-on-cash returns on development projects? There is no commonly accepted standard or consensus. Every project is unique and involves unique calculations of risks vs. returns, and the actual performance of individual projects varies widely. A broad review of data and opinion from the real estate industry, however, offers a spectrum of "reasonable" returns for the purposes of comparison:

- Standard & Poor's industry average for real estate cash-on-cash returns in 2003 was 5.3%.
- The AFL-CIO Building Investment Trust manages some $1.4 billion in assets. In 2002, its cash-on-cash return was 9.3%. In 2003, it was 8.7%.[15]
- In 2000, advisors for Lend Lease, the world's largest real estate investment company (and incidentally, an investor in Denver Pavilions), with $50 billion in property assets, reported that a 9-10% cash-on-cash return is a good goal and high enough to attract investors.[16]
- Baceline Investments, a large real estate management company with a Denver focus, seeks cash-on-cash returns of at least 8%. In September of 2003, its Denver portfolio was reported as earning a cash-on-cash return of 9.5%.[17]
- A January, 2004, Colliers review of investment opportunities in new shopping center developments cited cash-on-cash returns of 9.5-10% as "helping keep the real estate market hot."[18]
- In Colorado, the state Department of Local Affairs estimates a "standard" cash-on-cash rate of return at 10-15%.[19]

Data with more direct relevance to the issue of appropriate cash-on-cash returns on tax-subsidized projects:

- A study in Yakima, Washington of the cash-on-cash returns necessary to attract investment to a proposed blight redevelopment near a local landfill found three prominent local lenders citing as acceptable figures, 6-7%, 8-10%, and 9-12%.[20]

[15] AFL-CIO's Building Investment Trust, *2002 Annual Report* downloaded from http://www.aflcio-bit.com/performance/annualreports.html on May 1, 2005.

[16] The Institutional Real Estate Letter, *Sponsor Interview, 2000: Lend Lease Real Estate Investments* downloaded from http://www.irei.com/sponsor/interview/lendlease/lendlse01.pdf on September 1, 2004.

[17] Baceline Investments, LLC website downloaded from http://www.bacelineinvestments.com on October 1, 2004.

[18] Donna Mitchell, "Low Cap Rates? Who Cares? Say Buyers," *Shopping Centers Today*, *Colliers International News* (January 1, 2004) download from http://www.icsc.org/srch/sct/sct0104/page48_bottom_line.php?region May 1, 2005.

[19] Colorado Division of Housing, "Application Procedures," *Advances: The Source for Current the Housing Trends, Colorado Division of Housing* downloaded from http://www.dola.state.co.us/doh/Documents/Advances/application.htm on May 1, 2005.

[20] Results of these interviews were downloaded from Real Property Analytics, Inc., http://www.real-analytics.com/FINC_689/Env%20CS%20Interviews.pdf on October 1, 2004.

- DeKalb County, Georgia offers a federally subsidized HOME loan program to for-profit developers for construction of affordable housing, but sets a maximum cash-on-cash return rate of 12%.[21]
- California's Department of Housing & Community Development asserts 12% as a "standard" cash-on-cash return for real estate development, but also asserts that state development subsidies should not support a higher rate.[22]
- A 2003 Kansas City performance audit of TIF projects reported an estimated cash-on-cash return of "7.7% in year 1 and 9.8% in year 2" for leading TIF projects in that city.[23]

Is Denver Rewarding TIF Developers With More Than a Fair Return?

With respect to TIF projects, it is important to remember that although tax-funded subsidies help finance the project, taxpayers generally do not hold the position of an equity partner. Regardless of how large the public investment in the project through TIF, and regardless of how successful the project may be, the public takes no share of the profits. Before-tax cash flow accrues solely to the developers and the "return on equity" to the taxpayers is effectively zero.[24]

As a consequence, the cash-on-cash return to the developers of a TIF project is substantially impacted by the size of the TIF. The larger the TIF subsidy, the smaller the private investment necessary to realize the project, and hence the larger the cash-on-cash return to the developers.

Further, TIF serves not only to increase the cash-on-cash return to the project's private developers, it also serves to ameliorate the private financial risks these developers face. The higher the TIF subsidy, the lower their private investment, and hence the lower their own financial exposure. In the marketplace, it is *increased* risk that is meant to be rewarded with higher returns – an important consideration to bear in mind when grappling with the question of "fair" private returns on publicly subsidized TIF projects.

How do the cash-on-cash returns sought by Denver's private partners on TIF-subsidized projects compare across the range of returns surveyed above? As a general rule – and to reinforce the point made above – we do not know. Through a careful examination of otherwise heavily redacted documents, however, we

[21] City of DeKalb, Georgia, *Housing Application* downloaded from http://www.co.dekalb.ga.us/commdev/housingapp.pdf on October 1, 2004.

[22] California Department of Housing and Community Development, "Chapter 5, Capital Constraints," *Housing Policy Development* downloaded from http://www.hcd.ca.gov/hpd/hrc/rtr/chp5r.htm on May 1, 2005.

[23] City Auditor's Office, *Performance Audit Controls Over TIF Expenditures*, (Kansas City Missouri: September 2003) downloaded from http://www.kcmo.org/auditor/03-04audits/tifexpenditures.pdf on May 1, 2005.

[24] An important caveat should be mentioned here, of which more will be made later: a component of many TIF transactions in Denver involves a "participating interest" provision whereby DURA effectively *does* become an equity partner in profitable projects. Specifically, in the event that net private revenues from the project exceed a specified amount, or if the project is refinanced or sold for more than a specified sum, a share of these private profits – a "participating interest" – accrues to DURA. Currently, however, these participating interests are not large, and the threshold for invoking them is set high. Few projects have triggered these provisions, and the sums DURA has earned are negligible proportions of the organization's operating expenses.

were able to find some limited information on the cash-on-cash returns sought by the developers of the Denver Pavilions and Broadway Marketplace.

In footnotes in the narrative section of EDG's proposal for the Denver Pavilions, a private cash-on-cash return of 12% is asserted as necessary to realize the project, whereas without the requested TIF subsidy, a cash-on-cash return of only 8.9% is achievable – not enough to win the developer's participation.[25] In the Antonoff Miller proposal for the Broadway Marketplace project, un-redacted text referenced the necessary cash-on-cash return as 14%.[26]

Survey of Cash-on-Cash Return Figures	
Return Sought at Broadway Marketplace	**14%**
Colorado Dept. of Local Affairs, Standard	10-15%
DeKalb County, Georgia, Maximum	12%
Return Sought at Denver Pavilions	**12%**
California Dept. of Housing, Standard	12%
Yakima Washington, Lender #3	9 - 12%
Colliers, Shopping Center Performance	9.5 -10%
Lend Lease, Company Goal (2000)	9-10%
Baceline Investments, Performance (2003)	9.5%
AFL-CIO, Performance (2002)	9.3%
Yakima Washington, Lender #2	8 - 10%
Kansas City Auditor Estimates (2003)	7.7- 9.8%
AFL-CIO, Performance (2003)	8.7%
Baceline Investments, Company Goal (2003)	8%
Yakima Washington, Lender #1	6 - 7%
Standard & Poor's, Industry Average (2003)	5.3%

This is hardly a scientific sample. Moreover, without access to the numbers in the final development agreements between DURA and these developers, we cannot know if the cash-on-cash returns sought by EDG and Antonoff Miller were those actually agreed to. In the absence of data to the contrary, however, we can only assume that these two projects are not unique outliers in Denver's TIF portfolio, and that the 12-14% cash-on-cash return represents what developers can reasonably seek from TIF-subsidized retail projects in Denver.

If accurate, this number would be at the top of the range established by our survey of real estate data and opinion. It is worth noting that Lend Lease, cited here as viewing a 9-10% return as sufficiently high to attract their investment, was among those seeking a 12% return on the Denver Pavilions. Indeed, during the assemblage of the financing for the project, the Denver Pavilions investors were described in the media as having "big appetites for high returns" and that while most institutional investors "are happy with 10 percent on their money, these guys want a lot more."[27]

Is Denver rewarding its private developer partners on TIF projects with more than a "fair" return, and hence allowing already large and profitable development

[25] EDG/Entertainment Development Group, Inc., The Yarmouth Group, Inc., and Lend Lease U.S., Inc., *Denver Entertainment & Fashion Pavilions on the 16th Street Mall: A Project to Reshape Denver for the Future* (September 1994), p. 16.

[26] Antonoff Miller Properties, Inc., *Proposal: South Broadway Redevelopment Project* (September 27, 1991), p. 30.

[27] Paula Moore, "Denver Pavilions Lands New Backers," *Denver Business Journal* (February 9, 1996).

companies to leverage public subsidies for a competitive advantage over other developers in Denver?

Given the wall of secrecy surrounding TIF in Denver, we cannot reliably test this proposition. Given the data we do have, however, we cannot rule it out. Again, because of the lack of transparency of Denver's TIF transactions, neither the public nor our elected representatives has any way of determining the level of private returns being made possible for our developer partners on TIF projects.

Public Revenue Impacts of Differing Cash-on-Cash Goals

This question of a "fair" private return on TIF projects concerns not only the issue of unfair competitive advantage and the use of public subsidies to pick winners and losers in the private economy. A central "fairness" issue is also the direct cost of TIF to the public.

In Part I of this study we quantified the total cost to Denver taxpayers of TIF subsidies as a whole. Here we calculate the marginal cost to Denver taxpayers of different cash-on-cash return goals for individual projects. Depending on the size of the project, the difference of only small percentages in cash-on-cash return goals can represent millions of extra dollars in tax money diverted to TIF and away from other public uses.

This dynamic can be usefully illustrated by taking the example of the Denver Pavilions. The table on the following page shows the relationship between different cash-on-cash return goals on that project and the size of the TIF subsidy necessary to achieve them.

Rounding slightly for convenience, the total development cost of the Denver Pavilions was roughly $100 million. According to data gleaned from proposal documents, the developers of the Pavilions asserted that *without a TIF subsidy*, a cash-on-cash return of only 8.9% was likely from the project. Rounding slightly to a 9% rate of return, this means that the developers anticipated earning $9 million annually from the Pavilions.

Given this estimate of annual, private cash-flow from the project, how much of the total project cost would have to be absorbed by TIF subsidies in order to win only a 1% increase in the projected cash-on-cash return to the developers? To move the developers' projected cash-on-cash returns from 9% – requiring zero TIF – to 10% would require the public taking on a TIF liability of $10 million.

The developers of the Denver Pavilions were seeking a 12% cash-on-cash return. According to the calculations in the table below, this would have required a TIF investment of $25 million from Denver taxpayers. What the developers got was $24 million, suggesting that the return finally agreed upon was very close to the 12% they were seeking. If their cash-on-cash return goal had been dropped just one percent, to only 11%, the public would have been spared the diversion of roughly $5 million in tax revenue to pay for the TIF subsidy.

TIF Subsidy vs. Developer Investment for Different Cash-on-Cash Return Projections at Denver Pavilions

Total Projected Development Cost (Rounded)	Estimated Annual Cash-Flow to Developer	Cash-on-Cash Return	TIF Subsidy Necessary to Realize Developer Return	Developer Investment
$100 Million	$9 Million	**9%**	**$0**	$100 Million
		10%	**$10 Million**	$90 Million
		11%	**$18 Million**	$82 Million
		12%	**$25 Million**	$75 Million

Balancing Between Publicly Shared Risks and Private Returns

Is Denver rewarding its private developer partners on TIF projects with more than a "fair" return? Are our public subsidies to eliminate blight also creating unfair competitive advantages in the Denver development marketplace? Are taxpayers paying more than necessary to realize these projects – or more accurately, giving up more in tax revenue than they should?

Private developers of TIF-subsidized projects are entitled to fair and prevailing market rates of return. It is unfair, however – both to Denver taxpayers and to the rest of the Denver development community – if TIF subsidies are used not only to reduce developers' risks, but also to elevate their returns above those prevailing in the development marketplace.

Denver can address the issue of fairness by:

a) establishing a market-based ceiling on the cash-on-cash returns prospective developers of TIF projects can seek; and/or
b) asserting Denver's right to a fair share of the private returns earned by TIF projects that succeed beyond prevailing market expectations.

TIF is a public investment in a private project. The public, through DURA, shares in the financial risks of redeveloping a blighted property, but takes no equity share in the profits of a successful project, and often gains little or no additional tax revenue for the duration of the TIF.

Denver has already established a mechanism for the public to share in the private revenues of successful TIF projects. A "participating interest" provision is a component of many TIF transactions in Denver. Under this provision, if net private cash flow from the project exceeds a specified amount, or if the project is refinanced or sold for more than a specified sum, a share of these private profits – a "participating interest" – returns to the public, through DURA.

Currently, these participating interests are small and the threshold for invoking them is set very high. Few projects have triggered these provisions and the sums earned by DURA are negligible. Nonetheless, this mechanism is already in place and should be applied more aggressively to establish the public's "fair share" in the private profits they have helped realize.

Public investments of TIF attract private investment to blighted properties by ameliorating risk and raising projected private returns. Our private developer partners are entitled to a fair return on their investment, but so is the public. When public money helps catalyze a project that proves exceptionally profitable, there is no reason why the public too should not share in the success.

RECOMMENDATION:

Consider establishing a market-based ceiling on private returns enabled by TIF, or increasing the public's share of revenue on well-performing projects

Given fixed assumptions regarding project costs and commercial revenues, every percentage increase in the rate of return demanded by our private developer partners means a substantial increase in the size of the TIF. Private developers of TIF-subsidized projects are entitled to fair and prevailing market rates of return. It is unfair, however – both to Denver taxpayers and to the rest of the Denver development community – if TIF subsidies are used not only to reduce developers' risks but also to elevate their returns above those prevailing in the development marketplace. Denver should consider establishing a market-based ceiling on the private rates of return TIF can be used to finance, and/or increasing the public's share of the revenue from TIF projects that exceed such rates.

Getting Our Money's Worth: Summary Recommendations

The Hometown Advantage: Local Businesses vs. National Chains

RECOMMENDATION:
Establish a proactive policy promoting local business recruitment to TIF projects

Local businesses generate substantially more secondary and tertiary local economic activity – they have a higher "multiplier" – than national chains. In addition to obvious benefits to the local private economy, this also has public tax revenue implications, particularly at TIF projects. At most projects, the entire tax "increment" – the new taxes generated by the project – is diverted to pay TIF subsidies. Therefore, any additional tax revenue generated by a TIF project must come through off-site commercial activity generated by the project's tenants. To maximize both private and public economic benefits from TIF subsidies, therefore, Denver needs to maximize local business content at TIF projects. Denver should establish an explicit policy and active program for attracting and retaining local businesses at TIF projects. A strong small business utilization policy already exists to govern selection of construction contractors for TIF projects; a similar policy should be established to govern recruitment of tenants.

RECOMMENDATION:
Reorient the focus of Denver's TIF investment strategy toward smaller-scale neighborhood projects more appropriate to local small businesses

A bias toward well-known and reliable revenue-generating businesses may be dictating a TIF investment strategy that favors projects most attractive to large-scale national chains. This reduces potential public tax revenues and private economic benefits to be gained from TIF, by reducing the likelihood of local business participation. It also promotes potentially damaging competition to local businesses by facilitating the propagation of national chains in the Denver economy. Denver needs to reorient the focus and priority of TIF subsidies to address this bias, with a view toward increasing TIF investments in smaller-scale, neighborhood projects more appropriate and hospitable to local, small business tenants.

The Profits of TIF-Subsidized Developers: A Fair Private Return on Publicly-Shared Risk ?

RECOMMENDATION:
Make TIF transactions more transparent and accountable

With no access to the financial data that establishes either the need for TIF or the amount of TIF necessary to win developer participation, neither the public, nor our elected leaders, has any way of reviewing or holding accountable the key "but for" calculations that justify the diversion of millions of dollars of tax revenue to private, for-profit projects. Denver should expand the transparency of TIF deals. While some financial and business plan information may justifiably be kept confidential for "proprietary reasons" during the negotiation of the TIF deal, the public and our elected leaders should at least be able to review key data and the decision-making process after the deal is concluded and the project built. Denver should also consider the establishment of regular performance audits of our TIF system to ensure that its use of diverted tax revenue is as efficient as possible – that is, providing the greatest value at the least public expense.

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Given fixed assumptions regarding project costs and commercial revenues, every percentage increase in the rate of return demanded by our private developer partners means a substantial increase in the size of the TIF. Private developers of TIF-subsidized projects are entitled to fair and prevailing market rates of return. It is unfair, however – both to Denver taxpayers and to the rest of the Denver development community – if TIF subsidies are used not only to reduce developers' risks but also to elevate their returns above those prevailing in the development marketplace. Denver should consider establishing a market-based ceiling on the private rates of return TIF can be used to finance, and/or increasing the public's share of the revenue from TIF projects that exceed such rates.

Appendix: Local Businesses vs. National Chains in Three Signature TIF Retail Projects

Above, we present aggregate data regarding local businesses vs. national chains at the three projects examined in this study. The following tables give individual breakdowns of tenants and square footages at each of these projects. This data was compiled at the beginning of 2005 from leasing documents, project descriptions, and field observations. Determination of a store's status as local or national was made by reference to records from the Colorado Secretary of State and Hoover's online business information.[28]

Denver Pavilions – Tenants

Store	Square Feet	Local	National
234	1,849	VACANT	
254	2,108	VACANT	
320	4,146	VACANT	
322	7,529	VACANT	
16th Street Deli	826	X	
Ann Taylor	4,269		X
Banana Republic	6,732		X
Bare Escentuals	812		X
Barnes & Noble	27,442		X
Bath & Body Works	3,182		X
Best of Denver	703	X	
Beyond	13,203	X	
Breaking the Mold	726		X
Brighton Collectibles	1,200		X
CIRA	2,398		X
Claire's	1,019		X
Corner Bakery Café	3,914		X
Coyote Ugly	18,000		X
DAPY	2,108		X
Del Sol	895		X
Express	7,607		X
Forever 21	7,682		X
Franklin Covey	2,147		X
Fresh Bunch & Gifts	363	X	
GAP/GAP Kids	6,386		X
GNC	1,583		X
Hard Rock Café	11,824		X
Havana's Fine Cigars	128	X	
Hot Topic	1,790		X
Lefty's Cabo Cantina	20,549	X	
Journeys	1,501		X
Just Sports	1,935		X

28 As this study has gone to press, several minor inaccuracies in these tables have been discovered. Fortunately, a quick recalculation of the retail space occupied by local businesses vs. national chains in these three projects shows little change from the figures reported here.

Denver Pavilions – Tenants (continued)

Store	Square Feet	Local	National
Maggiano's Little Italy	15,893		X
Making History – Colorado	2,800		X
Niketown	29,846		X
Pacsun	3,414		X
Stephany's Chocolates	837	X	
Spring Communications	561		X
Sunglass Hut	765		X
Surya Gallery	563		X
Talbot's	3,914		X
Tall Girl	2,267		X
United Artists	79,351		X
Victoria's Secret	4,996		X
Virgin Megastore	25,000		X
Watch Station	992		X
Wolfgang Puck Café	10,107		X

Denver Pavilions – Summary Totals

	# of Stores	% of Stores	Square Footage	% Total Occupied Space
Local Businesses	7	16%	36,609	11%
National Chains	34	79%	304,438	89%

Broadway Marketplace – Tenants

Store	Square Feet	Local	National
545 B2	3,737	VACANT	
Albertsons	50,645		X
Ann Sacks	4,002		X
Appleone Employment	3,000		X
Beauty Smart	4,400		X
Cost Cutters	1,000		X
Doctor's Vision World	4,956		X
Executive Tans	1,365		X
Fashion Bug	9,000		X
Furniture Galleries	18,150	X	
K-Mart	107,806		X
Mailboxes, Etc.	1,300		X
Mattress Discounters	3,263		X
Office Max	23,500		X
GNC	1,500		X

Broadway Marketplace – Tenants (continued)

Store	Square Feet	Local	National
Payless Shoesource	3,200		X
Peel's Salon Services	1,525		X
Pep Boys	22,356		X
Radio Shack	2,400		X
Rainbow	3,000		X
Sally Beauty	2,000		X
Sam's Club	114,057		X
Subway	1,296		X
Taco Bell	1,900		X
Wendy's	4,275		X
Curve's	2,000		X
Papa Murphy's	2,500		X

Broadway Marketplace – Summary Totals

	# of Stores	% of Stores	Square Footage	% Total Occupied Space
Local Businesses	1	4%	18,150	5%
National Chains	25	96%	376,246	95%

Quebec Square – Tenants

Store	Square Feet	Local	National
270	2,875	VACANT	
330	1,848	VACANT	
340	2,500	VACANT	
390	4,508	VACANT	
450	2,509	VACANT	
480	3,246	VACANT	
650	6,496	VACANT	
701	7,816	VACANT	
3-Day Blinds	2,000		X
A Day Spa	1,000	X	
Arby's	1,500		X
Check Into Cash	1,100		X
Country Buffet	5,000		X
Countrywide Mortage	2,875		X
Doctor's Vision Works	4,036		X
EB Games	1,368		X
AT&T Wireless	2,000		X
Bocaza's Grill/Bubba's BBQ	1,743		X

Quebec Square – Tenants (continued)

Store	Square Feet	Local	National
Executive Tans	1,551		X
Famous Footwear	11,169		X
GNC	1,500		X
Great Clips	1,434		X
Home Depot	100,000		X
International House of Pancakes	1,500		X
Just for Feet	14,109		X
Ladies Workout Express	1,799		X
Lane Bryant	4,032		X
Linens N' Things	35,024		X
McDonald's	1,500		X
Money Tree	5,000		X
Nail Gazebo	1,111	X	
Nails of the World	1,500		X
Office Depot	19,951		X
OK Liquors	4,172		X
One Hour Quality Cleaners	1,388	X	
Panda Express	1,500		X
Panera Bread	1,500		X
Papa John's Pizza	1,400		X
Party America	10,010		X
Payless ShoeSource	3,000		X
Petsmart	25,000		X
Quebec Square Family Dentistry	1,000	X	
Radio Shack	2,701		X
Nails of the World	1,500		X
Ross Dress for Less	31,668		X
Sam's Club	100,000		X
Sport Clips	1,000		X
Sprint Phone Store	2,913		X
Subway	1,501		X
TCF Bank	9,500		X
Tires Plus	1,500		X
Vectra Bank	9,500		X
Wal-Mart Supercenter	204,000		X
Wingz Etc.	1,335	X	

Quebec Square – Summary Totals

	# of Stores	% of Stores	Square Footage	% Total Occupied Space
Local Businesses	5	11%	5,834	1%
National Chains	41	89%	633,756	99%

Acknowledgements & Dedication

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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.