



Tax Increment Financing

Colorado Department of Local Affairs
Division of Property Taxation

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What is Tax Increment Financing?



Tax increment financing (TIF) is a method of using **property** or **sales tax revenue** to pay debt service on bonds issued to fund development.



TIF Procedures

- TIF procedures for assessors are published by the Division of Property Taxation in Chapter 12 of the Assessor's Reference Library Volume 2.
- http://www.dola.state.co.us/dpt/publications/arl_index.htm



Tax Increment Financing

Property Tax

- The property tax revenue is generated from the mill levies of the taxing entities that overlap the tax increment financing area.



Two Authority Types Can Use TIF

- Urban Renewal Authorities (URAs)
 - 39-25-101 to 115, C.R.S.
- Downtown Development Authorities (DDAs)
 - 39-25-801 to 822, C.R.S.
- Both are created and controlled under the direction of a municipality.



Increment and Base Values

- Each year, the county assessor must calculate the BASE and INCREMENT values.

Simple definitions:

- BASE – The assessed value of the property that existed prior to the development
- INCREMENT – The assessed value of the property added after the TIF area was formed



Revenue from Increment and Base

- Revenue generated from the increment value goes to the development project.
- Revenue generated from the base value goes to the taxing entities in proportion to their mill levies.



Assessor Calculates New Base/Increment Split Each Year

- Each year the assessor calculates a new base/increment split and provides it to the treasurer.
- The treasurer uses the split to apportion the tax revenue between the funds of the taxing entities and the special fund of the authority.

Franklin County

School District #1

Sun Shine D.D.A.

School District #2

Fire District

Sun Shine City

<u>Entity</u>	<u>Mill Levy</u>
Franklin County	20.000
S.D. #2	50.000
Fire District	5.000
Sun Shine City	<u>15.000</u>
Total	90.000

2010 taxable assessed value:	\$14,255,540	100.0000%
2010 Base Value:	\$ 9,822,030	68.8997%
2010 Increment Value:	\$ 4,433,510	31.1003%



Distribution of Revenue

- Total Tax collected for area:

- Total $\$14,255,540 \times .090000 =$ **\$1,282,998.60**

- Distribution to taxing entities:

- County $\$9,822,030 \times .020000 =$ \$196,440.70

- SD #2 $\$9,822,030 \times .050000 =$ \$491,101.50

- Fire $\$9,822,030 \times .005000 =$ \$ 49,110.15

- City $\$9,822,030 \times .015000 =$ \$147,330.45

- Total $\$9,822,030 \times .090000 =$ **\$883,982.70**

- Tax paid into special fund of URA or DDA:

- TIF Rev. $\$4,433,510 \times .090000 =$ **\$399,015.90**

County Tax Entity Code _____

DOLA LGID/SID _____ / _____

CERTIFICATION OF VALUATION BY COUNTY ASSESSOR

New Tax Entity YES NO

Date _____, 200__

NAME OF TAX ENTITY: _____

USE FOR STATUTORY PROPERTY TAX REVENUE LIMIT CALCULATION ("5.5%" LIMIT) ONLY

IN ACCORDANCE WITH 39-5-121(2)(a) and 39-5-128(1), C.R.S., AND NO LATER THAN AUGUST 25, THE ASSESSOR CERTIFIES THE TOTAL VALUATION FOR ASSESSMENT FOR THE TAXABLE YEAR 200__:

- 1. PREVIOUS YEAR'S NET TOTAL TAXABLE ASSESSED VALUATION: 1. \$ _____
- 2. CURRENT YEAR'S GROSS TOTAL TAXABLE ASSESSED VALUATION: ‡ 2. \$ _____
- 3. LESS TIF DISTRICT INCREMENT, IF ANY: 3. \$ _____
- 4. CURRENT YEAR'S NET TOTAL TAXABLE ASSESSED VALUATION: 4. \$ _____
- 5. NEW CONSTRUCTION: * 5. \$ _____
- 6. INCREASED PRODUCTION OF PRODUCING MINE: ≈ 6. \$ _____
- 7. ANNEXATIONS/INCLUSIONS: 7. \$ _____
- 8. PREVIOUSLY EXEMPT FEDERAL PROPERTY: ≈ 8. \$ _____
- 9. NEW PRIMARY OIL OR GAS PRODUCTION FROM ANY PRODUCING OIL AND GAS LEASEHOLD OR LAND (29-1-301(1)(b), C.R.S.): † 9. \$ _____
- 10. OMITTED TAXES AND TAXES COLLECTED LAST YEAR ON OMITTED PROPERTY AS OF AUG. 1 (29-1-301(1)(a), C.R.S.): 10. \$ _____
- 11. TAXES ABATED AND REFUNDED AS OF AUG. 1 (29-1-301(1)(a), C.R.S.) and (39-10-114(1)(a)(D)(B), C.R.S.): 11. \$ _____

‡ This value reflects personal property exemptions IF enacted by the jurisdiction as authorized by Art. X, Sec. 20(8)(b), Colo. Constitution
 * New Construction is defined as: Taxable real property structures and the personal property connected with the structure.
 ≈ Jurisdiction must submit to the Division of Local Government respective Certifications of Impact in order for the values to be treated as growth in the limit calculation; use Forms DLG 52 & 52A
 † Jurisdiction must apply to the Division of Local Government before the value can be treated as growth in the limit calculation; use Form DLG 52B.

USE FOR TABOR "LOCAL GROWTH" CALCULATION ONLY

IN ACCORDANCE WITH ART. X, SEC. 20, COLO. CONSTITUTION AND 39-5-121(2)(b), C.R.S., THE ASSESSOR CERTIFIES THE TOTAL ACTUAL VALUATION FOR THE TAXABLE YEAR 200__:

- 1. CURRENT YEAR'S TOTAL ACTUAL VALUE OF ALL REAL PROPERTY: ¶ 1. \$ _____
- ADDITIONS TO TAXABLE REAL PROPERTY**
- 2. CONSTRUCTION OF TAXABLE REAL PROPERTY IMPROVEMENTS: * 2. \$ _____
 - 3. ANNEXATIONS/INCLUSIONS: 3. \$ _____
 - 4. INCREASED MINING PRODUCTION: § 4. \$ _____
 - 5. PREVIOUSLY EXEMPT PROPERTY: 5. \$ _____
 - 6. OIL OR GAS PRODUCTION FROM A NEW WELL: 6. \$ _____
 - 7. TAXABLE REAL PROPERTY OMITTED FROM THE PREVIOUS YEAR'S TAX WARRANT: (If land and/or a structure is picked up as omitted property for multiple years, only the most current year's actual value can be reported as omitted property.): 7. \$ _____

DELETIONS FROM TAXABLE REAL PROPERTY

- 8. DESTRUCTION OF TAXABLE REAL PROPERTY IMPROVEMENTS: 8. \$ _____
- 9. DISCONNECTIONS/EXCLUSIONS: 9. \$ _____
- 10. PREVIOUSLY TAXABLE PROPERTY: 10. \$ _____

¶ This includes the actual value of all taxable real property plus the actual value of religious, private school, and charitable real property.
 * Construction is defined as newly constructed taxable real property structures.
 § Includes production from new mines and increases in production of existing producing mines.

IN ACCORDANCE WITH 39-5-128(1), C.R.S., AND NO LATER THAN AUGUST 25, THE ASSESSOR CERTIFIES TO SCHOOL DISTRICTS:

- 1. TOTAL ACTUAL VALUE OF ALL TAXABLE PROPERTY 1. \$ _____

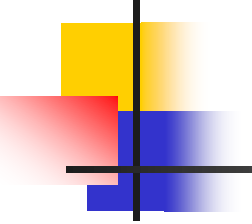
NOTE: ALL LEVIES MUST BE CERTIFIED TO THE COUNTY COMMISSIONERS NO LATER THAN DECEMBER 15.

- Handout A
- Values certified August 25
- Values re-certified December 10
- Mill levy calculated from net AV



Colorado TIFs

- Colorado has approximately 88 development projects that use property tax TIF.
- See **Handout B**



Creation of URA

§ 31-25-104(1), C.R.S.

- An urban renewal authority is created by resolution of the municipality upon the petition of a specified number of electors.
- The boundaries are the same as those for the municipality.



Urban Renewal Plan

§ 31-25-107, C.R.S.

- Municipality identifies an area as appropriate for urban renewal
 - Makes finding that area is a slum/blighted
- Size - many square blocks to a single parcel
- An urban renewal plan is approved for the area
- The plan can include a provision to use TIF
 - Property tax, sales tax or both



URA—Blighted Area

§ 31-25-103(2), C.R.S.

- Blighted means an area that, in its present condition and use, and by the presence of **at least four of the following factors**, 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.



URA—Blighted Area Factors

§ 31-25-103(2), C.R.S.

- (a) Slum, deteriorated, or deteriorating structures;
- (b) Defective or inadequate street layout;
- (c) Faulty lot layout;
- (d) Unsanitary or unsafe conditions;
- (e) Deterioration of site or other improvements;
- (f) Unusual topography or inadequate public improvements or utilities;



URA—Blighted Area Factors (cont.)

§ 31-25-103(2), C.R.S.

- (g) Nonmarketable title;
- (h) Conditions that endanger life or property;
- (i) Buildings that are unsafe or unhealthy;
- (j) Environmental contamination of buildings or property;
- (k) deleted;
- (k.5) The existence of health, safety, or welfare factors requiring high levels of municipal services or substantial physical underutilization; or



URA—Blighted Area Factors (cont.)

§ 31-25-103(2)(I), C.R.S.

- If the owners and tenants do not object, a property can be “blighted” if a **single factor** is present that:
 - “. . . 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.”



Creation of DDA

§ 31-25-804(1), C.R.S.

- The governing body submits a question to voters regarding the establishment of a downtown development authority.
- The ordinance defines the boundaries of the downtown development district.
- The authority is created only after the qualified electors approve the establishment at election.



Downtown Development Plan

§ 31-25-807(3) and (4), C.R.S.

- The governing body finds that corrective measures are needed to halt or prevent:
 - the deterioration of property values or structures
 - the growth of blighted areas
 - or both
- The governing body approves a plan of development.
- The plan may include the use of property tax TIF, sales tax TIF or both.



TIF Boundaries

- URA plan area
 - Eligible area--anywhere within the municipality
 - The boundaries of an area that the governing body determines to be a blighted area shall be drawn as narrowly as feasible to accomplish the objectives of the proposed URA.
- DDA plan area
 - Eligible areas--central business district
 - "Central business district" means the area in a municipality which is and traditionally has been the location of the principal business, commercial, financial, service, and governmental center, zoned and used accordingly.



Authority to Levy

- DDA – can have it's own mill levy of up to 5 mills. § 31-25-817, C.R.S.
 - This is in addition to TIF revenue
- URA has no power to levy or assess ad valorem taxes
 - URA can receive TIF revenue



Taxable Status

- Property owned by URA is exempt
 - Per § 31-25-110, C.R.S.
- Property owned by DDA is also exempt
 - Per § 39-3-105, C.R.S.
 - Because a DDA can levy a property tax, it is a political subdivision pursuant to § 39-1-102(12), C.R.S.



Bonds

- URA—bonds may be issued at its discretion, and without voter approval, upon the approval of the municipality
- DDA—bonds may be issued by the municipality, after voter approval at a special election



Duration

- URA—cannot exceed 25 years
 - City is required to give timely notice to the assessor when any outstanding debt paid by property tax increments has been paid off
- DDA—cannot exceed 30 years or 50 years
 - SB08-170 allows a DDA to extend the use of TIF from 30 to 50 years



New TIF Formed Assessor Responsibilities

- Create one or more new tax areas
- Identify each parcel/schedule in TIF area
- Determine the date on which values were last certified
- Confirm accuracy of valuation/classification
- Ensure correct distribution of state assessed values
- Establish the initial base value
- Communicate with authority/city



Initial Base Value

- Base represents values as last certified:
 - In December (prior tax year)
OR
 - In August (current tax year):
- If values were last certified in December, an increment is possible in the year the TIF was established.



Adjustments to the Base in Subsequent Years

- General Reassessment
 - §§ 31-25-107(9)(e) and 31-25-807(3)(e), C.R.S.
- Value reduction for prior reappraisal year from abatement or decision by an appeals board or court
 - §§ 31-25-107(9)(e) and 31-25-807(3)(e), C.R.S.
- Exception: The boundaries of the TIF area are changed
 - §§ 31-25-107(9)(a)(I) and 31-25-807(3)(a)(I), C.R.S.



Increment

- The increment value is the amount of total value that exceeds the base for any given year.
 - Generally simple to calculate during the intervening year
 - More difficult to calculate during a year of reappraisal



Intervening year procedure

- Any change in value for 2010 is added to or subtracted from the prior year increment.

- Prior year

■ 2009 total valuation	\$5,000,000	100.0000%
■ 2009 base valuation	<u>- 4,750,000</u>	95.0000%
■ 2009 increment	\$ 250,000	5.0000%

- Current year

■ 2010 total valuation	\$5,300,000	100.0000%
■ 2009 base valuation	<u>- 4,750,000</u>	89.6226%
■ 2010 increment	\$ 550,000	10.3774%



Exception to intervening year procedure for abatement/appeal

- Adjust prior year total for appeal reduction of \$50,000 assessed
 - 2009 total valuation \$5,000,000
 - Minus reduction - \$50,000
 - Adjusted 2009 total \$4,950,000
- Re-calculate base value
 - Adjusted 2009 total \$4,950,000
 - X Base value percentage X 95.0000%
 - Adjusted 2009 base value \$4,702,500
- Current year
 - 2010 total valuation \$5,300,000 100.0000%
 - Adjusted 2009 base value - \$4,702,500 88.7264%
 - 2010 increment value \$ 597,500 11.2736%



Adjustment to Base/Increment During Year of General Reassessment

- Base and increment proportionately adjusted first to reflect the reappraisal
- Then, the increment is adjusted to account for the growth value
- Intent of law: to ensure that only those increases in property tax proceeds occurring because of redevelopment are used to pay project revenue bonds



Value attributable to non-reassessment changes

- The assessor must identify value resulting from the following changes:
 - Changes to the physical characteristics of properties
 - Changes to the legal characteristics of properties
 - Changes to the use of properties



Examples

- New construction real and associated personal
- New personal property located to TIF area as a result of development project
- Classification changes
- Demolished/destroyed property
- Changes in land use entitlements (includes platting)
- Assemblage or splitting of land parcels
- “Unusual conditions”
- Installation of streets, curbs, sidewalks and utilities, the mitigation of contamination, mitigation of unusual topography, or similar site improvements



Step #1: Value attributable to non-reassessment changes – Tax Year 2011

■ New construction (real/personal)	\$198,000
■ Prior exempt, now taxable	\$ 40,000
■ Reclassification from agricultural to vacant	\$105,000
■ Demolition	\$ (22,000)
■ <u>Prior taxable, now exempt</u>	<u>\$ (5,000)</u>
■ Total value attributable to non-reassessment changes	\$316,000



Step #2: Percentages Attributable to Prior Base and to Prior Increment:

■ 2010 total valuation	\$3,623,370
■ 2010 base valuation	<u>- 3,079,865</u>
■ 2010 increment	\$ 543,505

■ 2010 base percentage	$\frac{\$3,079,865 \text{ (10 base valuation)}}{\$3,623,370 \text{ (10 total valuation)}} = .850000 \text{ (85.0000%)}$
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■ 2010 increment percentage	$\frac{\$543,505 \text{ (10 increment)}}{\$3,623,370 \text{ (10 total valuation)}} = .150000 \text{ (15.0000%)}$
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Step #3: Determine Adjusted Reappraisal Valuation

- 2011 total valuation after reappraisal \$5,000,000
- Less increase due to redevelopment - 316,000
- Adjusted reappraisal valuation \$4,684,000



Step #4: Apportionment for Adjusted Base and Increment

- 2011 adjusted reappraised valuation = \$4,684,000
- Current year Base ($\$4,684,000 \times .850000$) = \$3,981,400
- Adjusted increment ($\$4,684,000 \times .150000$) = \$ 702,600



Step #5: Determine Total Increment for 2011

■ Adjusted increment (Step 4)	\$ 702,600
■ Plus increment due to non-reassessment changes	<u>+ 316,000</u>
■ Current year Increment	\$ 1,018,600
■ Current year Base	\$ 3,981,400
■ Current year Increment	<u>+ 1,018,600</u>
■ Total TIF area valuation for 2011	\$ 5,000,000

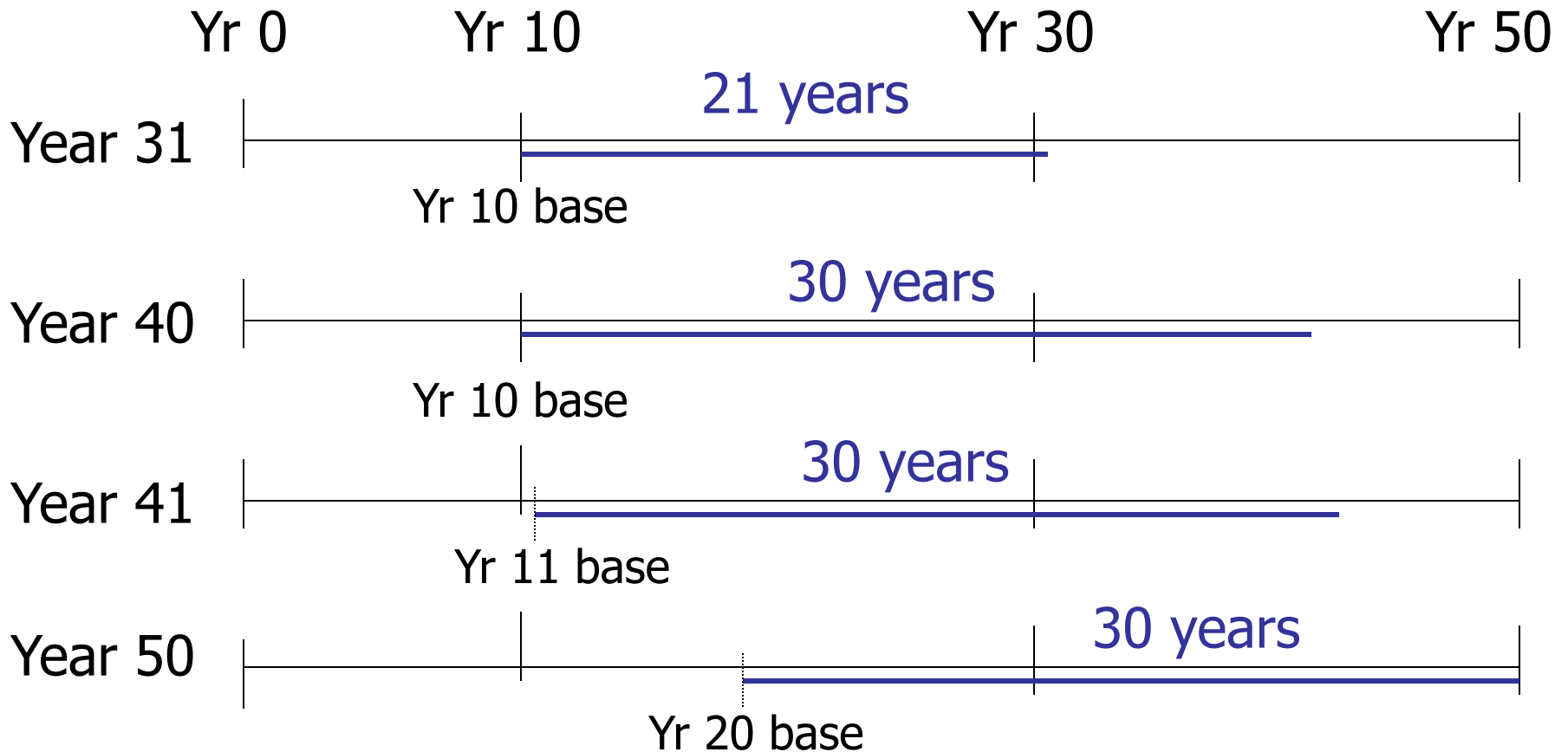


20-year extension of DDA TIF

- TIF life extended to 50 years
- TIF gets only 50% of increment revenue unless different split agreed to
- In years 31-40, is moved forward 10 years
- In years 41-50, the initial base advances forward 1 year annually



20-year extension of DDA TIF





Reporting TIF values

- Certification
 - See **Handout A**
- Entity overlaps less than 100% of TIF area
 - See **Handout C**

HB10-1107

Agricultural Land in URA

- Severely restricted a city's ability to include agricultural land within a URA TIF area that uses either property or sales tax TIF
- Defined agricultural land to include land classified as agricultural at any time during the prior 5 years
- Established the assessor as enforcer
- Created new assessor calculation rules for agricultural land that is appropriately included in a URA



Exceptions to Ag. Land Restriction

- “Brownfield site;”
- At least 1/2 of area consists of parcels containing “urban level development;”
 - Urban level development – predominance of permanent structures or infrastructure
- The land is a municipal enclave and is surrounded by urban level development; or
- Each taxing entity agrees to its inclusion



Exceptions to the Exceptions

- In addition, agricultural land can only be included in a URA prior to June 1, 2020 if:
 - It is contiguous to the TIF area and the TIF existed on June 1, 2010;
 - Since June 1, 2010, the owner has owned both the ag. land and other contiguous land located within the TIF; and
 - Both the agricultural land and the owner's other land are to be developed solely to create long-term manufacturing jobs.



When does the TIF end?

- The property tax revenue “. . . shall be divided for a period not to exceed twenty-five years after the effective date of adoption of such a provision . . .”
§ 31-25-107(9)(a), C.R.S.
- It is Division policy that the General Assembly intended that URAs be eligible for 25 years of revenue and DDAs be eligible for 30 or 50 years of revenue from TIF.



Final year examples

- A TIF provision for a URA was passed on July 1, 1986
 - $1985 + 25 = 2010$ (collectable in 2011)
- A TIF provision for a URA was passed on November 30, 1986
 - $1986 + 25 = 2011$ (collectable in 2012)



Abatements

- URA/municipality obligated to re-pay its portion of abatement,
 - § 31-25-107(9)(a)(III), and § 31-25-807(3)(a)(III), C.R.S.
- But, if property with significant new construction later receives a large abatement, should the reduction in tax affect the entities and authority in proportion to the base/increment split or in proportion to that property's split between the base and increment?
- Should the increment be recalculated?