# Testimony to Colorado Long-Term Fiscal Stability Commission

July 29, 2009

Dear Hon. Sen. Heath, and Members of the Long-Term Fiscal Stability Commission:

Though unable to join you in person for public testimony, I'd like to submit the following for your consideration as you tackle the extremely difficult challenge of addressing projected budgetary shortfalls in our great state.

My name is Roger Hoffmann, and I'm a resident of Loveland, where for over 25 years I've been a community volunteer and member of numerous boards, commissions and civic groups, dealing with everything from Affordable Housing to Land Use and Transportation Planning and, yes, economic stability as a member of Loveland's Economic Vitality task force in the '90s.

I would guess that the Commission members understand and accept the premise that the challenging goal of attaining fiscal health and stability will not likely be met by any single action; but rather requires a set of strategies that will increase net revenues, implement cost efficiencies wherever possible, and otherwise to stop losses. It's in the latter areas that I'm offering this recommendation.

I believe that an area of fairly significant fiscal opportunity exists, if the State were to close a statutory loophole that results in the loss of possibly hundreds of millions of dollars of taxes; and equivalent unnecessary expense to the state. This is due to mis-use of urban renewal; i.e. mis-application of this tool for purposes almost completely opposite to the intentions as stated in the statute's purpose and Declarations

The following is illustrative of the problem.

Loveland is also home to an I-25 centered development project (Centerra,) which in 2004 converted 1,300 acres of prime irrigated farmland at the intersection of I-25 and US 34 to a large mall development. This was done using "blight" designation and Urban Renewal Authority in order to be able to use tax increment financing (TIF). This means that all of the property tax above the base (raw land) value is collected by the Authority, which means, ultimately, the developer. This misuse of both blight designation and the Urban Renewal statue, allowed the developer to take a then estimated $691 Million in combined TIF and Sales Taxes from the City, County and School and other Districts, over the 25 years of the agreement.

With respect to last year alone, for the property tax increment, Larimer County has lost just under $1.9 Million. That is, nearly $2 Million of property taxes which would have otherwise gone to a badly strapped county budget has been siphoned off by a single development, for its purposes & under its control.

But that's <u>only part</u> of it. My fellow taxpayers in Loveland, for the same period, have lost another $800,000, in the face of serious budget challenges. And that doesn't include lost sales taxes, as the City also rebates back to the developer nearly half (42%) of the sales taxes collected.

But the biggest loss has been to the state of Colorado, because of the nearly $3.5 million lost by the local school district. … funds which, as you know, must be backfilled by the state. That's $3.5 million lost to Colorado in just *one* year, by *one* School District, to *one* URA.

This is not an isolated case, unfortunately; for soon after Loveland mis-applied the URA statute, the tiny town of Timnath decided to employ it for a 10-fold expansion, again on farmland. And as is usually the case, once such a tactic has been employed, it tends to become used broadly, especially as communities strive to "compete" for sales taxes and commercial development.

It's likely that the state is already losing **tens of millions of dollars annually** to such misuse; and this is certain to grow as both the property tax increment (valuation) increases, and as the number of TIF projects on agricultural land increases.

To extrapolate this in terms of full fiscal impact, if the state were to see just one new such TIF project per year, the loss would be on the order of $1.7 Billion (NPV) over 25 years, which is a common period for URA projects such as Centerra.

However, as the property continues to develop and/or the assessed value otherwise increases, the losses will escalate.

Also, in this one example, these losses have been compounded by the fact that several businesses that had previously been located in the City of Loveland, and from which the City, County and Districts were collecting full property taxes and sales taxes, moved out to the newly subsidized development, and as a result, their property taxes AND sales taxes were lost from those local governments to the development; and to add further injury, abandoned sites were left in their wake. Sadly, but predictably, perhaps, these same properties remain unoccupied years later; and now constitute real examples of urban blight which further reduce state revenues.

So it is brutally ironic that the very tool (Urban Renewal Authority) which was created to encourage the redevelopment of slums or blighted, possibly abandoned urban properties, has in recent years been perverted to subsidize new suburban developments on the fringes which now are directly leading to the creation of true urban blight…while diverting the very tax revenues that local governments need to maintain the urban infrastructure and services.

I want to conclude by saying that I'm not in the least an opponent of urban renewal. When properly applied, the redevelopment of truly blighted urban land may more than make up for the lost property tax increment, and indeed may be the only way such truly blighted land would ever be put to productive use in a reasonable timeframe. There are lots of examples of this.

But the mis-application of this tool to hasten green field development on the fringes, development which may in fact hasten the blight of established core areas of communities, is counterproductive to every legitimate aim of local and state government; and I urge you to correct this by supporting this bill to prevent its further misuse. Without the amendment that HB 1070 offers, this abuse will likely accelerate, because a small industry has now arisen to help developers and land speculators take advantage of the loophole language in the URA statute; and they now routinely play local governments against each other as they seek greater and greater such subsidies for their developments. This is surely not the intent of the Urban Renewal Authority statute.

Unfortunately, various attempts to close this loophole have not been paid sufficient heed. That is in part, I believe, because there was too little understanding that this is NOT just a municipal or local government concern. The state has a compelling fiscal stake in ensuring that urban renewal is only used per original intent.

Again and in conclusion, I want to restate that fiscal stability is not a simple matter that can't be achieved with a single answer. It will require the use of every tool in your kit; both on the revenue and expense side. I urge you, as part of your strategies, to address the loophole in URA law which allows it to be misused for farmland development. Doing so would save the state hundreds of millions of dollars in direct costs and possibly more in indirect ones.

Thank you for your consideration. While I am simply a citizen interested in good government and our state's long-term fiscal health, and not an expert, I will gladly offer my help or clarification of any of these points, if needed.

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