

**TESTIMONY OF JON NICHOLAS TO LONG-TERM FISCAL STABILITY COMMISSION
JULY 29, 2009, 1:30 PM PUBLIC COMMENTS**

My name is Jon Nicholas. I came here today to ask this body to look at the long-term budget implications of urban renewal in Colorado. The amount of tax increment financing diverted to urban renewal authorities nearly doubled from 2005 to 2008, and is fast approaching \$120 million per year. During that same time, the number of URAs grew from 34 to 43 statewide. School districts and counties suffer the largest loss of revenues. Municipalities --who possess the power to create and oversee URAs--contribute only a tiny portion of the total TIF revenue, less than \$5 million statewide.

Urban renewal also impacts the state of Colorado's budget. Under the current state backfill funding formulas, the state of Colorado is on the hook for nearly all of the roughly \$50 million diverted from school districts. With K-12 spending such a large portion of the state's budget, urban renewal TIFs constitute a hidden diversion of state school funding.

Action is needed now, not later. Once an urban renewal debt is issued, the TIF money is gone for decades to come.

If urban renewal development subsidies benefited the state as a whole, doing nothing might be justified. But one problem created by broad use of urban renewal is job piracy. Job piracy occurs when nearby municipalities compete to offer the biggest subsidies for development. Such short-sighted competition doesn't create new jobs; it simply shifts them from one part of Colorado to another.

In Larimer County alone, the tiny town of Timnath declared its entire municipality to be an urban renewal district to fund construction of a Wal-Mart. Nearly all of its revenue will come from Fort Collins residents. Similarly, the Centerra development on I-25 in Loveland is shifting retail activity from downtown Loveland, Fort Collins and Greeley.

Consider a statistical study by economists from Iowa State University. It concluded that on a state-wide basis, urban renewal in Iowa did not promote new jobs or economic growth. In fact, the program subsidized new developments at the expense of Iowa's schools and county

governments. An extreme example of job piracy was a Kansas City, Missouri Wal-Mart-- subsidized by an urban renewal TIF-- that opened one day after a Wal-Mart was closed elsewhere in Kansas City. Kansas City officials didn't even have enough sense to steal jobs from a neighboring town instead of from within their own city limits.

Another problem is the lack of performance benchmarks. Developers make extravagant claims of creating new jobs and tax revenue. Usually, no one tests those claims. Starting in 2007, the Kansas City Star began an in-depth study of urban renewal in Kansas City, Missouri. The paper found that the city has committed \$3 billion over the coming decades to various TIF projects. The city and developers claimed the TIFs would generate about 23,000 new jobs. The actual results were about half that number. The Star estimated that the subsidy for each new job exceeded \$100,000 each. It is unclear what the measured results would be here in Colorado.

Allowing municipalities to decide alone to keep expanding urban renewal cannot be justified. As it stands now, the definition of urban blight is overly broad. Municipalities can declare farm land an "area" containing urban blight and thereby divert millions from other government entities for "public/private" development projects. Counties and special districts have no say in the process. Neither does the state of Colorado.

Using urban renewal for job piracy and unjustified subsidies for new development—not re-development of slums or industrial sites-- is all too common. That is only because state legislatures allow it. Narrowing the Colorado statute and increasing accountability is an important part of ensuring Colorado's long-term fiscal stability. I would welcome the chance to present concrete suggestions to a future meeting of this Commission. Thank you.

Contact: jsnicholas2@hotmail.com.

LIST OF REFERENCES

"Colorado Counties, Inc., "TIF: A Primer on Tax Increment Financing (TIF)", Legislative Report pp. 1-2, January 26, 2009 <http://www.ccionline.org/repository//Legislative%20Reports/1-26->

[09%20leg%20reportbw.pdf](#) (explains Colorado TIF laws and their impact on the state, counties and other taxing districts)

Lang, Jennifer, "New Urban Renewal in Colorado's Front Range," Independence Institute, February 2007, <http://www.i2i.org/articles/2-2007.pdf> (examines how urban renewal is being used in Colorado communities)

"Spree of tax breaks has some wondering if KC has gone overboard," The Kansas City Star, October 6, 2007, <http://www.kansascity.com/698/story/247624.html> (first in series that examined whether local TIF projects delivered the promised new revenue and job growth to Kansas City—they did not, but did provide excess returns to some private developments)

"Shift toward TIF leaves less for basic services," The Kansas City Star, April 15, 2009, <http://www.kansascity.com/274/story/1144776.html> (Kansas City budget recognizes that TIF projects are merely shifting revenue from non-TIF areas to newer TIF developments)

McGraw, Daniel, "Tax Increment Financing: A Bad Bargain for Taxpayers," Reason Magazine, January, 2006, reprinted at http://www.reclaimdemocracy.org/articles/2006/tax_increment_financing.php (examines how TIFs have become subsidies for private business rather than a tool to eliminate urban blight)

Swenson, David & Eathington, Liesl, "Do Tax Increment Finance Districts in Iowa Spur Regional Economic and Demographic Growth?" Dep't of Economics, Iowa State Univ., June 2002 http://www.econ.iastate.edu/research/webpapers/paper_4094_N0138.pdf (Economic study concludes that TIFs in Iowa subsidize new development, but do not promote economic growth; concludes that counties and school districts are or will be burdened; expected benefits of TIFs do not outweigh costs)

Attachment A:

Bar Chart, Total TIF Revenue by Taxing Entity (used in support of HB 09-1070, 2009 session)

Total TIF Revenue by Taxing Entity

