

How Is Redevelopment Financed?

The primary tool used throughout the state to finance redevelopment efforts is tax increment financing (TIF). TIF, the net new tax revenues generated by a redevelopment project, is used to fill the gap between the total cost of a project and the level of private financing the project can support.

TIF enables redevelopment agencies to pledge tax increment generated by a redevelopment to pay off bonds or reimburse developers for eligible project costs if the project brings in new revenue. In either case, TIF revenues generally are used for improvements associated with the redevelopment that benefit the public, including site acquisition and clearance; construction and/or reconstruction of streets, utilities, parks or other public infrastructure; and the removal of hazardous materials or conditions.

How does TIF work?

Under this financing mechanism, the level of property and/or municipal sales tax collections in a project area before redevelopment is set as a base and the new tax revenues expected to be generated are estimated. The difference between the base and the increased taxes collected as a result of the redevelopment project constitute the “tax increment.” The base, adjusted every two years in connection with the reassessment process, continues to be paid to the normal taxing entities, while the increment is used for a specified period of time to pay off bonds or to reimburse a developer for a portion of their costs.

Where does an urban renewal authority get the authority to use TIF?

Urban renewal authorities (URAs) are authorized by state law to use TIF. The authorization is contained in the Colorado Urban Renewal Law.

Are there any special requirements for using TIF?

Yes. TIF may only be used for redeveloping an area that is blighted, based on criteria contained in state law.

How is the level of TIF funding for a project determined?

The amount of TIF varies from project to project. In order to determine the level of TIF funding a project is eligible for a URA typically uses the lesser of three amounts—the financing gap, the TIF capacity of the project (how much sales and/or property tax increment it is expected to generate) or the eligible costs.

How long can TIF be used for a redevelopment project?

The length of the period in which TIF may be used in a redevelopment project is tailored to each specific project. The maximum length of a TIF project area is 25 years, but many have shorter durations. Once the monetary obligations related to a project are fulfilled, the increased revenues generated by the project revert to the normal taxing entities.

Do property taxes increase to pay for a redevelopment project?

No. Property tax increment revenues are the result of any rise in property values due to redevelopment, not an increase in tax rates.

Do taxing entities serving a redevelopment project area lose tax revenue?

No. Taxing entities such as public schools and special districts continue to receive all the tax revenues they were receiving the year a redevelopment project was begun (the base year). Over the long term, they benefit from the redevelopment project and the tax increment financing process because once the URA's financial obligation has been repaid they receive all the tax increment created by the redevelopment that the URA had been using to repay bonds or to reimburse developers.

Source: Denver Urban Renewal Authority 2014