



TIF: The Hidden Cost of FasTracks

To promote DRCOG's vision of a more compact urban area, RTD has plans to build transit-oriented developments—high-density housing combined with retail shops and offices—near most of the FasTracks train stations. But the market for such developments is limited. So Denver, Lakewood, and other cities plan to subsidize them using hundreds of millions of dollars of tax-increment financing. In other words, any new property or sales taxes generated by the developments will be used to subsidize the developments. This means other taxpayers will have to pay for schools, fire, police, and other costs imposed by those developments.

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FasTracks supporters don't like to mention the hidden costs of measure 4A. We've mentioned the interest, a whopping \$3.6 billion—four times the interest charges of the 1997 Guide-the-Ride measure. We've noted that the operating costs of rail transit will be at least \$30 million per year more than bus-rapid transit. We've also tried to make people aware that rebuilding the rail lines every thirty years or so will cost nearly as much as the original construction.

One cost that hasn't been discussed is the subsidies to developments RTD would like to see built near most of the sixty rail stations that will be a part of FasTracks. Such "transit-oriented developments" (TODs) are supposed to combine high-density residential with other uses so that people can walk to shops or offices without having to drive.

The problem is that few Americans want to live in such developments. While TOD promoters say they will be attractive to young people, childless couples, empty nesters, and senior citizens, the reality is that populations of all of these demographic groups continue to grow faster in low-density suburbs than cities. Some surveys indicate that as few as 17 percent of Americans aspire to live in high-density, mixed-use developments,¹ and the demand for such developments is often fully met by housing in and near downtowns.

Portland, Oregon, is famous for its numerous TODs, but proud planners rarely admit that not a single TOD was built along the city's first light-rail line for ten years after the land near the line was zoned for such developments. Few TODs were developed until the city and its suburbs started subsidizing them with property tax abatements, below-market land sales, infrastructure subsidies, and direct grants to developers.

Even with these subsidies, which total several hundred million dollars to date, Portland TODs tend to have high vacancy rates. One of the city's first TODs that opened to

great fanfare in 1998 is already slated for demolition because, says the director of the city's housing authority, "We didn't want to be slum landlords."²

Cities in the Denver metro area plan to use eminent domain to obtain land for redevelopment near rail transit stations. But that won't be enough; they will also need to subsidize many if not most of the developments.

In Denver, the subsidy of choice for TODs and other "smart-growth" developments is *tax-increment financing* (TIF). Planners reason that construction of new improvements will lead to higher property tax revenues. Cities can dedicate part or all of the "increment"—the property taxes on the new improvements and/or sales taxes on the new retail—to subsidizing the development for up to twenty-five years. Cities may also charge retailers a "property improvement fee" (PIF)—effectively a sales tax—of some percentage, typically 1 to 2.5 percent, on retail sales. Cities in the Denver metro area typically sell bonds to be repaid by this TIF and PIF and use the borrowed money for infrastructure, brownfield cleanup, or direct grants to developers.

City officials sometimes claim the development is paying for itself. The reality, however, is that the tax increment would normally go to schools to educate the children living in the development; to water and sewer, fire and police, and other public costs of the development. Since the TIF siphons these funds away, taxpayers in the rest of the community must pay for the schools, water, sewer, fire, police, and other urban-services needed to support the new development. PIF can also siphon funds away if cities reduce their regular sales tax to compensate for the PIF tax.

If tax rates aren't raised, then everyone pays by getting lower service levels. But often cities will suffer some financial crisis, leading to demands that taxes be increased to pay for some needed service such as schools, libraries, or police, when no such crisis would have existed without the tax-increment financing.

Tax-increment financing first became popular in the 1970s when federal funds for urban renewal dwindled. At that time, the Colorado legislature authorized cities to use tax-increment financing. Cities first had to determine that an area was “blighted.” They could then dedicate incremental property and sales taxes collected from that area to redevelopment.

Today, at least twenty cities in the Denver metro area have an “urban renewal authority,” “redevelopment agency,” or “reinvestment authority” that uses TIF to promote redevelopment. These range from Edgewater and Sheridan to Aurora, Denver, and Lakewood. All but three of these cities are on a FasTracks route. Passage of FasTracks may inspire Longmont and other cities on FasTracks routes that do not now have urban-renewal authorities to create them.

From the developer’s point of view, TIF could be seen as a mere tax abatement, since the taxes that the developer pays are simply ploughed into the development. But when the city sells bonds, the developer also gets to take advantage of tax-free municipal bonding, which costs less than if the developer had to sell bonds itself. Once the city has invested in an area, it will often provide further subsidies, if only to insure that its initial investment doesn’t fail, which could give officials a reputation for wasting the public’s money.

TIF subsidies can be truly staggering. The Denver Urban Renewal Authority boasts that between 1992 and 2001 it spent \$275 million in public funds on just twenty-five projects. A majority of this came from TIFs.³ TIF subsidies included \$93 million for redevelopment of Stapleton, \$34 million to the Lowry area (6th & Quebec), and at least \$70 million for downtown projects, mostly on the 16th Street Mall or the light-rail line. The Adam’s Mark Hotel, for example, received \$25 million and Denver Pavilions on the 16th Street Mall received \$24 million.⁴

Lakewood provided \$57 million in TIF money towards redevelopment of the 1960s-era Villa Italia shopping mall into the New Urbanist Belmar shopping mall.⁵ To compensate for a 2.5-percent PIF charge on Belmar retailers, Lakewood reduced its 2-percent city sales tax rate for Belmar retailers by half.⁶

Outside of Denver, many communities, including Arvada, Aurora, Englewood, and Wheat Ridge, want to use TIFs to promote transit-oriented developments near FasTracks stations. Where TIFs were once seen as a way of redeveloping blighted areas, they are now seen as a way of socially engineering the region’s population to live in higher densities than residents might choose. Certainly, it would be an impossible coincidence if all of the region’s high-priority “blighted” areas just happened to be next to FasTracks rail stations.

It is likely that TIF did not lead developers to build a

single new housing unit, retail shop, or office space that would not have otherwise been built. Cities in the metro area are convinced, however, that TIF allows them to keep developments in the city centers rather than at the urban fringe. Especially in the last ten years, most TIFs have also supported transit such as the light rail and 16th Street Mall.

The easy availability of TIF money creates a moral hazard for developers. With so many developments getting tax subsidies, what developer would be willing to invest in a project without such subsidies?

Meanwhile, retailers and other businesses in existing developments must continue to pay taxes to subsidize their competition. No doubt some retailers move to subsidized developments to take advantage of the subsidies, thus hastening the blighting of existing malls and creating new opportunities for TIF-financed redevelopment of those areas.

TIF also creates a moral hazard for city officials and planners. Supposedly, urban redevelopment is superior to greenfield development at the urban fringe because it costs less. But if redevelopment requires huge subsidies, then it may in fact be more expensive than so-called sprawl. But once cities start competing with one another in offering redevelopment subsidies, they may find it hard to stop.

Considering economic growth, the city of Denver’s TIF subsidies are likely to be well over \$400 million during the next twenty years. If suburban FasTracks communities with redevelopment agencies make proportional investments, the total could exceed \$1.2 billion. If voters approve FasTracks, most of this is likely to be directed to transit-oriented developments around FasTracks stations. This is a huge hidden cost of FasTracks whose financial and social implications have yet to be examined.

References

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