

**GRAND JUNCTION CITY COUNCIL
DOWNTOWN DEVELOPMENT AUTHORITY/DOWNTOWN GRAND JUNCTION
BUSINESS IMPROVEMENT DISTRICT BOARD OF DIRECTORS
SPECIAL WORKSHOP**

TUESDAY, MARCH 17, 2015, 11:30 A.M.

**CITY HALL AUDITORIUM
250 N. 5TH STREET**

- 1. Welcome and Introductions**

- 2. Progress Report on Tax Increment Financing (TIF) Spending Restrictions:**
Discussion regarding the benefits in allowing greater flexibility in the utilization of TIF to achieve the long-term goals and objectives for Downtown's continuing redevelopment. [Attachment](#)

- 3. Las Colonias Amphitheater (DDA's Participation)**

- 4. White Hall Update**

- 5. Homelessness/Vagrancy/Whitman Park**

- 6. Miscellaneous Updates**

- 7. Other Business**

Greater Flexibility in the Utilization of TIF: Analysis of the Municipal Sales Tax TIF

Introduction

In 2014 the DDA initiated discussion with Grand Junction City Council regarding the benefits in allowing greater flexibility in the utilization of TIF to achieve the long-term goals and objectives for Downtown's continuing redevelopment. The impetus for expanding TIF utilization arises from the current restrictions limiting TIF exclusively for public facilities. This impedes the DDA's potential to leverage private investment in taxable development through more direct participation in public-private partnerships.

The DDA's TIF comprises two distinct sources of tax increment revenues – a property tax TIF and a municipal sales tax TIF - both of which are regulated by a variety of legal instruments. Depending on the strategy being pursued, any change facilitating the expansion of TIF utilization would require amendment of one or more of these legal controls, each of which entail varying degrees of complexity and risk.

The most comprehensive approach would be a new ballot authorization by the DDA Electors expanding eligible uses of all TIF. This is by far the most complicated approach and carries considerable risk of failure. A simpler though less comprehensive approach might be accomplished through the modification of the sales tax TIF. This analysis offers a closer look at that strategy.

Municipal Sales Tax TIF vs. Property Tax TIF

The Downtown Development Authority statute (C.R.S. 31-25-801 et seq) provides for the establishment of Tax Increment Financing as a means of funding DDA projects, authorizing the dedication of either property tax increment revenues or municipal sales tax increment revenues, or both, to the Authority. Since its inception the Grand Junction DDA has received both. While they share many common characteristics and restrictions, the two TIFs are distinct components of DDA funding and are administered differently. The property tax TIF is more strictly defined as it conforms to broader property tax regulations and practices, such as valuation and assessment protocols mandated by the Colorado Division of Property Taxation. The sales tax increment, however, is less defined and provides greater flexibility and discretion in its implementation at the local level.

The “Discretionary” Aspect of Sales Tax TIF

Prior discussions of this topic have alluded to the sales tax TIF as “discretionary” on the part of the City, and therefore something that might be modified with greater ease and latitude. We need to distinguish the source and extent of this discretionary aspect and how it can be marshaled for the ultimate goal of increasing the flexibility of the DDA's funding.

TIF is a means of implementing capital improvements financed with long-term debt that is guaranteed by predictable and bondable future revenue streams. It would defeat the essential purpose of TIF, and the legislative intent of the statute, if increment revenues were completely discretionary and subject to cancellation or rescission at any time; the architecture of debt financing would simply collapse as a result.

The section of the DDA statute dealing with the extension of DDAs and TIF for an additional 20-year term (GJDDA is in its 20-year extension) states

“The governing body may also by ordinance extend the period during which sales taxes shall be allocated for one additional extension of twenty years with no change to the established sales tax base year. Notwithstanding any other provision of this subparagraph (IV), any extension authorized pursuant to this subparagraph (IV) may only be considered by the governing body during the final ten years of the original thirty-year period.”

While the decision to extend the DDA’s sales tax TIF for an additional 20 years is discretionary on the part of Council, once extended the statute explicitly states the sales taxes *shall* be allocated for the 20 year term. The statute further limits the time when extension of the sales tax TIF can be considered to the final ten years of the original thirty-year period, which suggests that reconsideration of the sales tax TIF extension is precluded thereafter.

Allocation of the Sales Tax Increment

The discretionary aspect of the sales tax TIF derives from the “allocation” provision in the statute. The sales tax increment is the gross amount of growth in sales tax revenues from a defined district as measured from a base year. The gross increment is subject to allocation between the DDA and the City. In the DDA’s original Plan of Development (1981), the City and DDA agreed to allocate the sales tax increment 80% to the DDA and 20% to the City. In 1983 when the DDA district was expanded, the DDA and City agreed to a new allocation ratio of 70%- 30% respectively for new properties added to the district, leaving the 80%-20% allocation in place for the original district. In both of these instances, the allocation was the result of mutual agreement between the DDA and City and evidenced by the adoption of separate resolutions by each party setting forth the ratio.

At some later date, additional property brought into the DDA district was allocated 100% to the DDA. The administrative record regarding this third allocation adjustment is unclear. But historically the DDA and City have approached the allocation of sales tax increment as a policy decision based upon mutual consent.

In light of the allocation provision, it should be noted that the City already retains a portion of the sales tax increment for its own use. Unlike the DDA whose sales tax increment is remitted as TIF-restricted funds, the City does not designate its retained increment revenues as exclusively for reinvestment Downtown or exclusively for capital purposes only; it’s is not earmarked in any way.

An adjustment in the allocation of the sales tax increment offers an opportunity to reduce that portion of the increment that flows to the DDA subject to current TIF restrictions, and free up a larger percentage of the increment that can be distributed as something other than TIF to the DDA for broader uses. As the allocation ratio is a matter of policy as mutually agreed by the DDA and City, this strategy would not require any additional approval or authorization by the DDA Electors, and can be implemented by adoption of new resolutions.

A "reduce and replace" strategy also respects the integrity of our current bond financing. In December 2012 the City issued bonds on behalf of the DDA to allow repayment to the City of the funds advanced for the reconstruction of Main Street (Uplift Phase II) and the \$3 million dollar contribution to the Avalon Theater renovation and expansion. While the bond documents identified all the revenue sources of the DDA, including the sales tax TIF, only the property tax TIF revenues were specifically pledged to debt service. Current and projected property tax TIF revenues provide approximately a 1.35 debt coverage ratio. The additional revenues of the DDA were noted as "supplemental" funding sources that would be available should property tax TIF revenues diminish, and therefore were taken into consideration by the bondholder in pricing the risk. Reducing the sales tax TIF portion while simultaneously replacing it with more flexible funds would not alter the total DDA revenues described in the bond documents. The make-up of the supplemental funding would simply have been re-categorized.