

CHAPTER 12

SPECIAL TOPICS

TAX INCREMENT FINANCING

The Colorado General Assembly has authorized the use of a form of financing known as "tax increment financing" by urban renewal authorities and downtown development authorities in the State of Colorado. This form of financing was first used in Colorado by the Boulder Urban Renewal Authority, pursuant to a special amendment to the Boulder City Charter, for the Crossroads Urban Renewal Project, which was originally created in 1979.

GENERAL

Tax increment financing (TIF) provides a method whereby certain types of public improvements intended to promote urban redevelopment may be financed through the issuance of tax exempt revenue bonds. It involves the creation of a special fund comprised of increases in ad valorem property taxes or municipal sales taxes, or both such taxes, generated within the tax increment financing area. The increases in such taxes presumably occur as a result of the expenditure of bond proceeds. The increases in tax proceeds are then pledged to pay debt service on the bonds.

This explanation of tax increment financing is intended primarily for county assessors. Consequently, it will deal only with the property tax ramifications. It should be noted, however, that increases in municipal sales taxes may also be utilized in such financing.

Additionally, this explanation may not cover every tax increment financing situation encountered by an assessor. In cases where there is uncertainty as to proper tax increment financing procedures, the assessor should contact the Division of Property Taxation.

An urban renewal authority plan may contain a provision that property taxes levied upon taxable property in the tax increment area after the effective date of the plan may be split between the TIF district and local taxing entities for a period that cannot exceed 25 years. A downtown development authority plan may contain a provision that property taxes levied upon taxable property in the tax increment area after the effective date of the plan may be split between the TIF district and local taxing entities for a period that cannot exceed 30 years. The limit was extended from 25 years to 30 years in 2002. This authorized a downtown development authority to amend an existing plan, extending its life to a maximum of 30 years. The process for determining the final year of a TIF's life is discussed at the end of the TIF portion of this chapter.

The division of property tax is made according to the "base" valuation of the area and any "increment" valuation that may have occurred in the area. The base valuation of the tax increment area begins as the total assessed valuation of all taxable property last certified by the assessor prior to the effective date of the approval of the urban renewal or downtown development tax increment financing plan. All property taxes attributable to the base valuation are paid to each taxing entity (school district, county, city, etc.) within the area according to the mill levy rates fixed each year by or for each such political body.

The "increment" valuation of the tax increment financing area is the amount of assessed valuation, if any, which exceeds the base valuation. All property taxes attributable to the "increment" valuation are paid into the special fund of the urban renewal authority or downtown development authority to pay debt service on the bonds and other indebtedness. Division of Property Taxation policy is that the increment value never drops below zero even if the total valuation of the area drops below the established base valuation. There cannot be a negative increment.

When general reassessments of property occur as a result of a change in the level of value, or as a result of a reassessment ordered by the State Board of Equalization, the new total value of property within the boundaries of the authority is divided between the increment and the base in the same proportion as existed the prior year.

The division of the property tax revenue, as authorized by the urban renewal law, may continue until the bonds and other indebtedness of the authority have been paid, but in no event can this period of time exceed 25 years unless the existing bonds are in default or are about to go into default, § 31-25-107(9)(f), C.R.S. Thereafter, all such tax collections are paid in the normal fashion to those political bodies having taxing jurisdiction over all or any portion of the tax increment financing area.

Two types of governmental units are authorized by statute to utilize tax increment financing in Colorado: urban renewal authorities and downtown development authorities. Colorado statutes pertaining to the authorities are:

Colorado Urban Renewal Law, § 31-25-101, C.R.S., et seq.
Downtown Development Law, § 31-25-801, C.R.S., et seq.

Both authorities operate under the jurisdiction of the municipality in which they are located. An urban renewal authority cannot actually undertake an urban renewal project nor can a downtown development authority undertake a development project without prior approval of the "urban renewal plan" or "plan of development" by the governing body (city or town council, board of trustees, etc.) of the municipality.

The tax increment financing procedures are identical for both governmental units. There are, however, certain basic differences between the two units. The differences are briefly listed below.

CREATION

An urban renewal authority (URA) is created by a resolution of the governing body of the municipality upon the petition of a specified number of electors. Property of an urban renewal authority, as defined in § 31-25-103(6), C.R.S., is exempt from all taxation, except as to any property sold or leased to a non-public entity, § 31-25-110(2), C.R.S.

A downtown development authority (DDA) may be created only after the "qualified electors" have approved the establishment of such an authority at a regular or special election. The election question must state the boundaries of the DDA district and that an ad valorem tax or sales tax, or both, will be used to finance the operations of the district. The election shall be conducted at the time and in the manner required by § 20, art. X, COLO. CONST. The governing body of every municipality in the state may create and establish a downtown development authority, which shall be a body corporate, pursuant to § 31-25-803, C.R.S. All property owned by the authority is exempt from taxation.

AREA OF AUTHORITY

URA boundaries are coterminous with those of the municipality. A project area or tax increment area can be any approved, specified area within the municipality.

DDA undertakings are limited to the "central business district" of the municipality. A tax increment area can be any approved, specified area within the central business district.

AUTHORITY TO LEVY TAXES

An urban renewal authority has no power to levy or assess any ad valorem taxes.

The governing body of the municipality may levy an ad valorem tax on all taxable property in the downtown development district not to exceed five mills. Consequently, a DDA can receive property tax revenue attributable to the mill levy for the DDA entity and from the taxes attributable to the increment. An urban renewal authority can receive property taxes attributable to the increment only.

ISSUANCE OF INCREMENT BONDS

Bonds may be issued by an urban renewal authority at its discretion, and without the requirement of prior voter approval, upon the approval of the governing body of the municipality.

Downtown development authorities are not authorized to issue tax increment bonds. The municipality may issue the bonds after the question has been approved by the qualified electors within the boundaries of the DDA at a special election held for that purpose.

TAX INCREMENT PROCEDURES FOR ASSESSORS

As soon as the governing body of the municipality has approved a URA or DDA plan, which will involve tax increment financing, the assessor determines the total taxable assessed valuation of real and personal property, including state assessed property within the specific renewal or development area as of the last certification of value date.

The approval date dictates whether this will be the value certified the prior August 25 or the prior December 10. When the assessor initially sets up the TIF district, there is only a base value. Examples provided within this section provide guidelines for calculating the increment and base amounts for future years.

DETERMINATION OF BASE VALUE OF AREA

It is Division policy that the URA or DDA shall furnish the assessor with a map showing the specific area boundaries, a copy of the plan, and relevant city ordinances. The total assessed valuation must include all taxable property within the area, both real and personal. The total assessed valuation must also include the assessed valuation of public utilities attributable to the area. The distributions of value to the area can be obtained from the individual utility companies having facilities within the area. The assessor provides the companies with a map showing the tax increment area boundaries.

BASE BOUNDARIES

BASE BOUNDARIES DO NOT CHANGE UNLESS AREAS ARE LATER ADDED TO THE ORIGINAL TAX INCREMENT FINANCING AREA, BUT INDIVIDUAL ASSESSMENTS CHANGE WITHIN THE AREA.

The base valuation of the area does not change unless there is a general reassessment of taxable property in the county or property is added to the original area. The base is adjusted in an intervening year if an appeals board or court orders a value reduction. It is Division of Property Taxation policy that a general reassessment occurs when there is a statutory change in the level of value (reappraisal at beginning of each reassessment cycle) or when a reassessment of taxable property, some of which is within the TIF area, is ordered by the State Board of Equalization. The base valuation is utilized only to determine the amount of, if any, property taxes that should be paid into the special fund of the URA or DDA.

An exception to this rule exists if an area is added to the original tax increment financing area. As soon as the governing body of the municipality approves the inclusion of the additional area, the URA or DDA must furnish the assessor with a new map, the legal description of the included area, the pertinent city ordinance, and the effective date of the addition. When the inclusion becomes effective, the assessor must determine the total assessed valuation of the property (real, personal, and public utility) within the included area. This additional value is added to the existing base value and the resulting total becomes the new current base value of the enlarged tax increment financing area, §§ 31-25-107(9)(a)(I) and 31-25-807(3)(a)(I), C.R.S.

Many individual assessments within a tax increment area will be changing each year due to properties becoming exempt or taxable, and improvements being demolished, renovated, or newly constructed. Therefore, the total assessed valuation of the area is recalculated each year.

The URA and DDA laws do not intend that the assessor account for any valuation increment of the individual properties within the area. The amount of the increment, if any, of the tax increment area is based on the aggregate assessed valuation of the area for the year. The base valuation of the area, i.e., the total assessed valuation which existed prior to the approval of the plan, is then subtracted from the current aggregate valuation to determine the amount of the increment.

TAXES TO ENTITIES WHEN NO INCREMENT

If the total assessed value of the URA or DDA area does not exceed or is less than the base, all the taxes levied in the area are paid to the funds of the individual taxing entities within the area, such as the county, city, and school district. An urban renewal authority using tax increment financing is not one of the taxing entities. Any property owned by a URA is exempt from taxes, but the authority has no power to levy or assess ad valorem taxes. However, a municipality may impose a DDA levy on all property in a downtown development area. In such cases, the DDA is a taxing entity.

Increases in tax collections occurring by reason of increases in the mill levy alone would be an improper method of funding redevelopment. Tax increment funds are based on an increase in assessed valuation, not on an increase in taxes due only to rising mill levies.

TAXES ATTRIBUTABLE TO INCREMENT GO TO AUTHORITY

When the total assessed value of the tax increment area exceeds the base, the ad valorem taxes attributable to the increment (amount of assessed valuation which exceeds the base) are paid into a special fund of the URA or DDA to pay debt service on the indebtedness incurred by the authority.

Each year, the assessor must account for the total assessed valuation of the tax increment area so that the amount of the increment, if any, can be determined. To facilitate this, the Division of Property Taxation recommends that the tax increment financing area be set up on the assessor's records with its own tax area code.

NO SEPARATE MILL LEVY FOR INCREMENT

The amount of taxes for each property in the urban renewal area is based on the total mill levy for the area for the year. There is no separate mill levy for the increment as the following example demonstrates.

Assume the total base valuation is \$1,000,000 and the increment valuation is \$400,000, resulting in a total assessed valuation for the area of \$1,400,000.

Assume also that there are four taxing entities within the area, and their current mill levies are:

County	.020
City	.015
School district	.050
Special improvement district	<u>.005</u>
Total Mill Levy	.090

- Total ad valorem taxes to be collected for area:

$$\begin{array}{r} \$1,400,000 \quad \times \quad .090 \quad = \quad \$126,000 \\ \text{(Total assessed value)} \quad \text{(Total mill levy)} \quad \text{(Total tax for area)} \end{array}$$
- Ad valorem taxes to be received by above four taxing entities:

$$\begin{array}{r} \$1,000,000 \quad \times \quad .090 \quad = \quad \$90,000 \\ \text{(Base assessed value)} \quad \text{(Total mill levy)} \quad \text{(Tax due to entities)} \end{array}$$
- Ad valorem taxes to be paid into URA or DDA special fund:

$$\begin{array}{r} \$400,000 \text{ increment} \quad \times \quad .090 \quad = \quad \$36,000 \\ \text{(Increment assessed value)} \quad \text{(Total mill levy)} \quad \text{(Tax due to TIF fund)} \end{array}$$

ADJUSTMENTS FOR GENERAL REASSESSMENT

In the event of a general reassessment of taxable property within a URA or DDA increment area, the portions of valuation for assessment distributed to the authority and to the taxing entities having jurisdiction within the project are proportionately adjusted. The intent of the law is to ensure that those increases in property tax proceeds occurring because of the redevelopment project are used to pay project revenue bonds.

A general reassessment of taxable property occurs each year in which there is a change in the level of value used in determining actual value. Current statutes provide that odd numbered years are years of reappraisal.

It is possible, however, that a general reassessment can occur in the intervening year between reappraisals. The State Board of Equalization may order one or more classes of property in a county to be reappraised during an intervening year. If a portion of the properties involved in a reappraisal are located within the boundaries of the tax increment financing area, the reappraisal is considered a general reassessment.

PROCEDURES FOR ADJUSTING BASE AND INCREMENT

Four different tax area financing situations can exist during a year of general reassessment. Each situation will affect the base and increment values in a somewhat different way. The situations and the recommended procedures are shown below.

In all four situations, all value changes due to redevelopment of the DDA or URA area must be separated from value changes due only to the reappraisal. Changes due to redevelopment of the area will determine whether there is a tax increment gain or loss for the year of reappraisal. Changes due to the reappraisal are apportioned between the base and increment values.

The following examples were developed by the Division to effectively demonstrate the methodology.

PRIOR INCREMENT AND INCREMENT GAIN IN REAPPRAISAL YEAR

Example 1

The most common situation during a year of general reassessment for a URA or DDA that has existed for a period of years is that there was an increment for the previous year. In addition, there is an increment gain in the current year because increases in value due to the prior year's redevelopment of the area more than offset decreases.

In this case, the determination of the new base and new increment is a five-step procedure:

1. Calculate the aggregate changes in value from the prior year that are due to redevelopment of the area. Such value changes are the result of:
 - a. New construction, defined as any new taxable structure built during the preceding year (assessed as of January 1 of the current year) and new personal property associated with the new structure. New personal property not tied to a new structure may be new construction if the acquisition of the property was associated with the redevelopment. Properties must be reviewed on a case-by-case basis prior to including the amount as new construction.

It also includes rehabilitation, remodeling, and building additions; and new construction values on state assessed properties within DDA or URA areas which are distributed by the state assessed companies based upon tax area maps provided by the county assessor.

Two options exist for reporting new construction for structures that take longer than one year to complete. Option one: report only that portion of the value of the structure completed each year as new construction. Any portion of the value of the structure that was reported as new construction for the previous year is not reported again. Option two: report the full value of the new structure as new construction when the structure is 100 percent complete.

- b. Previously exempt property which became taxable in the current year. The value reported is most likely a prorated amount because the property became taxable after January 1. The full value of the property is reported over a two-year period.
- c. Demolition, defined as taxable property demolished or destroyed in the current year.
- d. Previously taxable property which became exempt in the current year. The value reported is most likely a prorated amount because the property became exempt after January 1, thus a value proration is necessary. The full value of the property is reported over a two-year period.

A net increase in the value changes signifies an increment gain that would have occurred even without the reappraisal.

2. Calculate the percentages of the prior year's total assessed valuation that were attributable to the base and to the increment. The percentages will be used to apportion the new valuation after general reassessment.
3. Subtract the net increase in value due to redevelopment changes from the reappraised total value of the area. The result is the adjusted total value after reappraisal.
4. The adjusted total valuation is then multiplied by the percentages determined for the base and increment in Step 2 above. The value arrived at by multiplying the base percentage is the adjusted base value. The value arrived at by multiplying the increment percentage is the adjusted increment value.
5. Add the reappraised value of the net increase due to the prior year's redevelopment activities calculated in Step 1 to the adjusted increment value calculated in Step 4. The result is the total increment for the current year.

Illustration of Example 1: Prior Increment and Increment Gain from Redevelopment in Year of Reappraisal:

During a 2007 reappraisal:

Step 1: Changes in Value from 2006 due to Redevelopment.

New construction (real and associated personal)	\$198,000
Prior exempt, now taxable	40,000
Demolition	(22,000)
Prior taxable, now exempt	(5,000)
Net increase due to redevelopment	<u>\$211,000</u>

Step 2: Percentages Attributable to Prior Base and to Prior Increment

2006 total valuation		\$3,623,370
2006 base valuation		<u>- 3,079,865</u>
2006 increment		\$ 543,505
2006 base percentage	$\frac{\$3,079,865 \text{ (06 base valuation)}}{\$3,623,370 \text{ (06 total valuation)}}$	= .85 (85%)
2006 increment percentage	$\frac{\$543,505 \text{ (06 increment)}}{\$3,623,370 \text{ (06 total valuation)}}$	= .15 (15%)

Step 3: Determine Adjusted Reappraisal Valuation

2007 total valuation after reappraisal		\$5,000,000
Less increase due to redevelopment		<u>- 211,000</u>
Adjusted reappraisal valuation		\$4,789,000

Step 4: Apportionment for Adjusted Base and Increment

2007 adjusted reappraised valuation	=	\$4,789,000
Adjusted new base (\$4,789,000 x .85)	=	\$4,070,650
Adjusted increment (\$4,789,000 x .15)	=	\$ 718,350

Step 5: Determine Total Increment for 2007

Adjusted increment (Step 4)		\$ 718,350
Plus increase due to redevelopment (Step 1)		<u>+ 211,000</u>
Total increment for 2007		\$ 929,350
New base for 2007		\$4,070,650
Increment for 2007		<u>+ 929,350</u>
Total TIF area valuation for 2007		\$5,000,000

PRIOR INCREMENT, BUT NO INCREMENT GAIN IN REAPPRAISAL YEAR**Example 2**

During the year prior to general reassessment, there may have been a net decrease in value changes due to redevelopment. This can result from a large amount of demolition relative to new construction or a substantial amount of taxable property becoming exempt because it was acquired by the DDA or URA or another tax exempt entity.

In this situation, determining the new base and the new increment is a three-step procedure. The first two steps are similar to the first two steps in Example 1:

1. Calculate the aggregate changes in value from the prior year that are due to redevelopment of the area. Such value changes are the result of:

- a. New construction, defined as any new taxable structure built during the preceding year (assessed as of January 1 of the current year) and new personal property associated with the new structure. New personal property not tied to a new structure may be new construction if the acquisition of the property was associated with the redevelopment. Properties must be reviewed on a case-by-case basis prior to including the amount as new construction. It also includes rehabilitation, remodeling, and building additions; and new construction values on state assessed properties within DDA or URA areas which are provided by the state assessed companies based upon tax area maps provided by the county assessor.

Two options exist for reporting new construction for structures that take longer than one year to complete. Option one: report only that portion of the value of the structure completed each year as new construction. Any portion of the value of the structure that was reported as new construction for the previous year is not reported again. Option two: report the full value of the new structure as new construction when the structure is 100 percent complete.

- b. Previously exempt property that became taxable in the current year. The value reported is most likely a prorated amount because the property became taxable after January 1, thus a value proration is necessary. The full value of the property is reported over a two-year period.
- c. Demolition, defined as taxable property demolished or destroyed in the current year.
- d. Previously taxable property that became exempt in the current year. The value reported is most likely a prorated amount because the property became exempt after January 1, thus a value proration is necessary. The full value of the property is reported over a two-year period.

A net decrease in the value changes indicates that there is an increment loss due to redevelopment after the reappraisal is completed.

2. Calculate the percentages of the prior year's total assessed valuation that were attributable to the base and to the increment. The percentages will be used to apportion the new valuation after general reassessment.
3. Determine the amount of the 2007 increment by multiplying the total reappraised valuation by the increment percentage calculated in Step 2 above, and then subtracting the amount of the increment decrease calculated in Step 1 above. The new base is determined by subtracting the 2007 increment from the 2007 total reappraised value.

The increment amount can increase or decrease in the year of general reassessment because of value changes due to redevelopment of the TIF area. In Example 1, the value increase due to redevelopment was added to the adjusted increment to determine the total increment for the year. In this Example 2, the value decrease due to redevelopment will be deducted from the adjusted increment to determine the total increment for the year.

Illustration of Example 2: Prior Increment, but No Increment Gain from Redevelopment in Year of Reappraisal:

Step 1: Changes in Value from 2006 due to Redevelopment

New construction (real and associated personal)	\$182,000
Prior exempt, now taxable	18,000
Demolition	(48,000)
Prior taxable, now exempt	<u>(202,000)</u>
Net decrease due to redevelopment	\$ (50,000)

There is a net decrease in value changes from the prior year due to redevelopment, and therefore, an increment loss for 2007.

Step 2: Percentages Attributable to Prior Base and to Prior Increment

2006 total valuation	\$3,623,370
2006 base valuation	<u>- 3,079,865</u>
2006 increment	\$ 543,505
2006 base percentage	$\frac{\$3,079,865 \text{ (06 base valuation)}}{\$3,623,370 \text{ (06 total valuation)}} = .85 \text{ (85\%)}$
2006 increment percentage	$\frac{\$543,505 \text{ (06 increment)}}{\$3,623,370 \text{ (06 total valuation)}} = .15 \text{ (15\%)}$

Step 3: Apportionment for Adjusted Base and Increment

Total 2007 reappraised valuation =	\$4,739,000
Increment portion: \$4,739,000 X .15 (from Step 2) =	\$710,850
Less increment decrease (from Step 1) =	<u>- 50,000</u>
Adjusted increment for 2007 =	\$660,850
Adjusted base for 2007:	
\$4,739,000 total valuation - \$660,850 increment =	\$4,078,150
Adjusted increment for 2007 =	<u>+ 660,850</u>
Total TIF area valuation for 2007 =	\$4,739,000

NO PRIOR INCREMENT, BUT INCREMENT GAIN IN REAPPRAISAL YEAR

Example 3

In this example, there has been no increment up to the current year of general reassessment. Consequently, there cannot be an apportionment of value due to reappraisal to an increment. The entire reappraised value of taxable property existing in the prior year is attributed to base value.

The assessor ascertains whether or not there is an increment for the current year of general reassessment by determining if there is a net increase or a net decrease in value changes as a result of redevelopment.

The following illustration shows a net increase in value within the TIF area resulting from redevelopment. The net increase is the increment for the current year of general reassessment. The determination of whether or not there is an increment for the current year is a two-step procedure.

1. Calculate the aggregate changes in value from the prior year that are due to redevelopment of the area. Such value changes are the result of:
 - a. New construction, defined as any new taxable structure built during the preceding year (assessed as of January 1 of the current year) and new personal property associated with the new structure. New personal property not tied to a new structure may be new construction if the acquisition of the property was associated with the redevelopment. Properties must be reviewed on a case-by-case basis prior to including the amount as new construction. It also includes rehabilitation, remodeling, and building additions; and new construction values on state assessed properties within DDA or URA areas which are provided by the state assessed companies based upon tax area maps provided by the county assessor.

Two options exist for reporting new construction for structures that take longer than one year to complete. Option one: report only that portion of the value of the structure completed each year as new construction. Any portion of the value of the structure that was reported as new construction for the previous year is not reported again. Option two: report the full value of the new structure as new construction when the structure is 100 percent complete.

- b. Previously exempt property which became taxable in the current year. The value reported is most likely a prorated amount because the property became taxable after January 1, thus a value proration is necessary. The full value of the property is reported over a two-year period.
- c. Demolition, defined as taxable property demolished or destroyed in the current year.
- d. Previously taxable property which became exempt in the current year. The value reported is most likely a prorated amount because the property became exempt after January 1, thus a value proration is necessary. The full value of the property is reported over a two-year period.

A net increase in the value changes indicates that there is an increment due to redevelopment for the current year.

2. Subtract the increment for the current year from the total reappraised value of the TIF area. The result is the new base.

Illustration of Example 3: No Prior Increment, but Increment Gain from Redevelopment in Year of Reappraisal:

Background:

2006 total valuation	\$6,460,000
2005 base valuation	<u>- 6,970,000</u>
2006 increment calculation	\$ (510,000)
 2006 increment	 \$0

Because the 2006 total valuation was less than the 2005 base valuation, there was no increment for 2006. There cannot be a negative increment value.

Step 1: Changes in Value from 2006 due to Redevelopment

New construction (real and associated personal)	\$340,000
Prior exempt, now taxable	140,000
Demolition	(45,000)
Prior taxable, now exempt	<u>(75,000)</u>
Net increase due to redevelopment	\$360,000

The resulting net increase of value changes from 2006 to 2007, which were due to redevelopment, is the amount of the increment for 2007. The amount must be subtracted from the total reappraised value of the TIF area to determine the new base value for 2007, as shown in Step 2 below.

Step 2: Subtract the current increment to determine new base

Total 2007 reappraised valuation	\$7,590,000
Less 2007 increment	<u>- 360,000</u>
New base value for 2007	\$7,230,000

NO PRIOR INCREMENT, NO INCREMENT GAIN IN YEAR OF REAPPRAISAL

Example 4

In the following example there has been no increment up to the current year of general reassessment. Consequently, there cannot be an apportionment of value due to reappraisal to an increment. The entire reappraised value of taxable property existing in the prior year is attributed to base value.

An analysis of value changes due to redevelopment, in the illustration below, shows that the changes result in a net decrease in value within the TIF area. This indicates that there is no increment in the current year of general reassessment. Therefore, the new total reappraised value becomes the new base.

Illustration of Example 4: No Prior Increment and No Increment Gain from Redevelopment in Year of Reappraisal:

Background:

2006 total valuation	\$6,460,000
2005 base valuation	<u>- 6,970,000</u>
2006 increment calculation	\$ (510,000)
 2006 increment	 \$0

Because the 2006 total valuation was less than the 2005 base valuation, there was no increment for 2006. There cannot be a negative increment value.

Step 1: Changes in Value from 2006 due to Redevelopment

New construction (real and associated personal)	\$ 260,000
Prior taxable, now exempt	<u>- 450,000</u>
Net decrease due to redevelopment	\$ (190,000)
 2007 increment	 \$0

Because of the resulting net decrease of value changes from 2006 to 2007, which were due to redevelopment, there is no increment for 2007. The total 2007 reappraised value of the area becomes the new base.

Total 2007 reappraised valuation	\$7,230,000
2007 Increment	<u>0</u>
New base for 2007	\$7,230,000

EFFECT OF RESIDENTIAL ASSESSMENT RATE CHANGE

The residential assessment rate is subject to change during each year in which there is a change in the level of value used in determining actual value. The Colorado Constitution provides that in each such year, the residential assessment rate shall be adjusted to ensure that the aggregate state-wide ratio of valuation for assessment attributable to residential real property shall remain the same as it was in the year immediately preceding the change in level of value.

Any change in the residential assessment rate during a year of general reassessment will not affect the assessor's calculation of the new base and the new increment as shown in the preceding four examples. The effect of a change in the residential assessment rate will be included in the reappraised total assessed valuation. Any increase or decrease resulting from the change will be automatically distributed when the apportionment of the new values is made between the new base and the new increment.

DETERMINING INCREMENT IN INTERVENING YEAR

Except for the situation described in subsequent paragraphs, determining the amount of the increment, if any, in an intervening year between reappraisals is a simple procedure. The total valuation of the DDA or URA area is compared to the base valuation that was determined for the preceding year of reappraisal.

If the valuation for the intervening year exceeds the base valuation, the excess is the amount of the increment for the intervening year. Conversely, if the valuation for the intervening year is less than the base valuation, there is no increment for the intervening year. Whether or not there was an increment in the preceding year has no effect on increment determination for the intervening year.

Listed below are three examples of increment determination in an intervening year.

Example 1: Increase in Increment in Intervening Year:

2007 total valuation	\$5,000,000
2007 base valuation	<u>- 4,750,000</u>
2007 increment	\$ 250,000
2008 intervening year total valuation	\$5,300,000
2007 base valuation	<u>- 4,750,000</u>
2008 increment	\$ 550,000

Double check:

2008 intervening year total valuation	\$5,300,000
2007 total valuation	<u>- 5,000,000</u>
Difference	\$ 300,000
2007 increment	\$ 250,000
Increment gain in 2008	<u>\$ 300,000</u>
2008 increment	\$ 550,000

Example 2: Decrease in Increment in Intervening Year:

2007 total valuation	\$5,000,000
2007 base valuation	<u>- 4,750,000</u>
2007 increment	\$ 250,000
2008 total valuation	\$4,700,000
2007 base valuation	<u>- 4,750,000</u>
2008 increment	\$ (50,000) OR \$0

Double check:

2007 total valuation	\$5,000,000
2008 total valuation	<u>- 4,700,000</u>
Difference	\$ (300,000)
2007 increment	\$ 250,000
Increment decrease in 2008	<u>\$ (300,000)</u>
2008 increment	\$ (50,000) OR \$0

Example 3: Increment Established in Intervening Year:

2007 total valuation	\$4,750,000
2007 base valuation	<u>- 4,750,000</u>
2007 increment	\$ 0
2008 total valuation	\$5,000,000
2007 base valuation	<u>- 4,750,000</u>
2008 increment	\$ 250,000

EXCEPTION: VALUE REDUCTION ORDERED BY BAA OR COURT

If reductions in value within the TIF area are ordered by the Board of Assessment Appeals or a court of law in the following intervening year as the result of an appeal properly initiated during the year of general reassessment, such reductions in value are to be proportionately divided between the base and the increment.

Illustration of Exception: Value Reduction Ordered by BAA or Court:

The example below is provided only to demonstrate the split of the value reduction. The example does not reflect other value changes such as new construction, destroyed property, manufactured home movement, changes to the value of personal property, and value adjustments resulting from a protest or appeal, that will normally occur in an intervening year.

2007 total valuation	\$9,248,220 (100%)
2007 base valuation	- 5,553,300 (60.0472%)
2007 increment	\$3,694,920 (39.9528%)
Reduction ordered by appeals board:	\$42,220
2007 total valuation	\$9,248,220
Less reduction for exceptions for intervening year	- 42,220
Adjusted 2007 total assessed valuation	\$9,206,000
Adjusted 2007 total assessed valuation	\$9,206,000
2007 base percentage	x .600472
Adjusted 2007 base valuation	\$5,527,945
2008 total assessed valuation	\$9,206,000
Adjusted 2007 base valuation	\$5,527,945
2008 increment valuation	\$3,678,055

The reasons for the proportionate division of the reduced valuation are twofold. Sections 31-25-107(9)(e) and 807(3)(e), C.R.S., provide that when there is a general reassessment (reappraisal) of taxable property valuations in any county in which there is a TIF area, the portions of assessed valuation attributable to the base and the increment are to be proportionately adjusted in accordance with such reassessment. A reappraisal or reassessment is defined as the mass appraisal of all property within an assessment jurisdiction at the beginning of or within a reappraisal cycle. The reappraisal cycle is not complete until the review and appeal process has concluded, and final values have been set for all properties. In certain instances, final values of appealed properties may not be set until the intervening year.

The second reason for proportionate division of the reduced valuation is the purpose of the division of property taxes as provided in §§ 31-25-107(9) and 807(3), C.R.S. The purpose is to return to the taxing entities the tax revenues they would have received had there been no redevelopment, and to permit the increase in tax revenues which occurred by reason of the redevelopment to be used to pay the redevelopment revenue bonds. In the event of a general reassessment of taxable property within a TIF area, the base valuation and the increment valuation shall be proportionately adjusted in accordance with the reassessment valuation. The intent of the law is to ensure that only those increases in property tax revenue occurring because of the redevelopment project are used to pay the revenue bonds, and to prevent a

"windfall" in increased revenues to the redevelopment agency caused only by a reappraisal at a higher level of value.

Conversely, when reductions in value occur which are not attributable to the redevelopment, the total of such reductions shall be proportionately divided between the base and the increment. The reductions made during the appeals process resulted from erroneous or excessive valuations made during the general reassessment, and not from the redevelopment. Again, the reduction must be proportionately divided between the base and the increment. Not to do so would be to present the local government tax entities with a tax "windfall" by immunizing them against the loss occasioned by property tax appeals.

IDENTIFY CAUSES OF CHANGES FROM PRIOR YEAR

Various officials and governing boards are apt to inquire as to why the base and increment amounts are not more or less than they actually are. It is important, therefore, that all tax increment financing calculations are well documented, including itemization of major changes that are the result of redevelopment.

LISTING BASE AND INCREMENT ON ABSTRACT

Counties with a TIF must complete an additional area in the Abstract of Assessment. The assessed value of the base and increment, as of August 25, are listed in the abstract on the Cities and Towns and School Districts pages, by city/town and school district. The final base and increment values for certification are listed on the Certification of Levies and Revenues.

LISTING INCREMENT IN CERTIFICATION OF VALUE

Counties with a TIF must complete an additional area on the Certification of Values form (DLG57). When there is an increment, the assessed value of the increment is listed on "line 3" and deducted from the "Current Year's Gross Total Taxable Assessed Valuation" for the entities which levy taxes in the tax increment area. These entities levy taxes only on the base valuation in the tax increment area. The following example illustrates a portion of the Certification of Values form and shows the area where the increment is listed.

CERTIFICATION OF VALUATION BY COUNTY ASSESSOR	
NAME OF JURISDICTION _____	NEW ENTITY: () YES () NO
IN _____ COUNTY, COLORADO ON _____,	20____.
1. Previous Year's Net Total Taxable Assessed Valuation:	1. \$ _____
2. Current Year's Gross Total Taxable Assessed Valuation:	2. \$ _____
3. Less TIF District Increment, if any:	3. \$ _____
4. Current Year's Net Total Taxable Assessed Valuation:	4. \$ _____

The Current Year's Net Total Taxable Assessed Valuation is used to determine an entities mill levy. Sections 31-25-107(9) and 39-5-128(3), C.R.S., provide that taxes produced by the increment are paid into the URA fund, and that the certification of value shall not include the increment.

LISTING INCREMENT IN CERTIFICATION OF LEVIES REPORT

Counties with a TIF must complete an additional page in the Certification of Levies and Revenue form (3-CLR). When there is an increment, the name of the tax increment authority, the name of each entity that levies a tax in the tax increment area, the assessed value of the increment for each entity, and the amount of revenue generated from the increment by each entity are listed on the form. The total assessed value and the amount of revenue generated from the TIF is also listed.

EXCEPTION: TAXING ENTITY COVERS PART OF TIF AREA

Some taxing entities encompass only a portion of the TIF area. They either lie fully within the TIF boundary but encompass only a portion of the TIF, like the hole of a donut, or they lie on both sides of the TIF boundary but encompass only a portion of the TIF. For both situations, only that share of the increment which is proportionate to the taxing entity's share of the total valuation in the TIF area should be deducted. Certifying more than the taxing entity's proportionate share of the increment would result in an excessive reduction of assessed valuation from which the entity's portion of the property tax revenue is derived.

The steps for determining the entity's proportionate share of the increment are as follows.

1. Determine the total assessed valuation of those properties in the TIF area that are also within the taxing entity. This can be accomplished by assigning a special tax area code to such properties.
2. Divide the total valuation of such properties by the total valuation of the entire TIF area.
3. Multiply the resulting percentage by the total increment valuation to determine the amount of increment valuation certified to the taxing entity. This amount is deducted from the entity's gross total assessed valuation to determine its net total assessed valuation.

EXAMPLE 1: ENTITY FULLY WITHIN PORTION OF TIF (DONUT HOLE)



3. Amount of increment to be deducted from total valuation of entity:
 $\$2,000,000 \times .40 = \$800,000$

Certified net total valuation of entity for levying purposes:
 $\$4,000,000 - \$800,000 = \$3,200,000$

EXAMPLE 2: ENTITY OVERLAPS TIF AREA BOUNDARY

	TIF area total assessed valuation	\$10,000,000
	TIF increment assessed valuation	\$ 2,000,000
	Entity total assessed valuation	4,000,000
1.	Entity assessed valuation	\$ 1,000,000
2.	Percentage of entity	$\frac{\$1,000,000}{\$4,000,000} = 25\%$
3.	Amount of increment	$\$2,000,000 \times 25\% = \$500,000$
	Certified net total valuation of entity for levying purposes:	$\$4,000,000 - \$500,000 = \$3,500,000$

MILL LEVY FOR BASE AND INCREMENT

When there is an increment in the tax increment financing area, § 39-1-111(4), C.R.S. provides that the county commissioners shall make the same levy for both the increment portion and the base portion of value. Thus, if the total levy of the taxing entities within the area is 90 mills, the levy for the increment is also 90 mills.

INFORMATION LISTED IN TAX WARRANT

Section 39-5-129, C.R.S., states in part, "At the end of the warrant, the aggregate of all taxes levied shall be totaled, balanced, and prorated to the several funds of each levying authority, and the treasurer shall be commanded to collect all such taxes."

In the case of a tax increment financing area in which there is an increment, the property taxes for that area are totaled at the end of the tax roll. The proper amount of the total taxes attributable to the base valuation are prorated to each taxing entity in the area according to the mill levy set for each such entity. The total taxes attributable to the increment valuation are prorated to the special fund of the URA or DDA. The prorations can be made by percentages or mill levies.

An illustration of how this can be done in a summary at the end of the tax warrant follows, using the example shown in "No Separate Mill Levy for Increment" of this section:

Assume the total base valuation is \$1,000,000 and the increment valuation is \$400,000, resulting in a total assessed valuation for the URA or DDA area of \$1,400,000.

Assume also that there are four taxing entities within the area and their current mill levies are:

County	.020
City	.015
School district	.050
Special improvement district	<u>.005</u>
Total Mill Levy	.090

Total ad valorem taxes to be collected for area:
 $\$1,400,000 \times .090 = \$126,000$

Ad valorem taxes to be received by above four taxing entities:
 $\$1,000,000 \times .090 = \$90,000$

Ad valorem taxes to be paid into URA or DDA special fund:
 $\$400,000 \text{ increment} \times .090 = \$36,000$

Example: Treasurer's proration of taxes by mill levies:

County	.020 x \$1,000,000 base =	\$ 20,000
City	.015 x \$1,000,000 base =	15,000
School district	.050 x \$1,000,000 base =	50,000
Special imp. district	.005 x \$1,000,000 base =	<u>5,000</u>
		\$ 90,000

Example - Treasurer's proration of taxes by percentage:

The total ad valorem taxes to be collected for the tax increment financing area is \$126,000. The percentage distributions of the total are computed as follows:

County	\$ 20,000 ÷ \$126,000 =	15.8730%
City	15,000 ÷ \$126,000 =	11.9048%
School district	50,000 ÷ \$126,000 =	39.6825%
Special imp. district	5,000 ÷ \$126,000 =	3.9683%
URA or DDA fund	<u>36,000 ÷ \$126,000 =</u>	<u>28.5714%</u>
	\$ 126,000	100.0000%

DETERMINING THE FINAL YEAR

FINAL YEAR CALCULATING THE BASE AND INCREMENT

The approved plan of an urban renewal or downtown development authority may contain a provision that property taxes levied upon taxable property in the designated area after the effective date of the plan shall be split between the TIF district and local taxing entities for a period not to exceed 25 or 30 years. The provision in urban renewal law concerning the 25-year limit is quoted as follows:

Approval of urban renewal plans by the local governing body.

(9) (a) Notwithstanding any law to the contrary, any urban renewal plan, as originally approved or as later modified pursuant to this part 1, may contain a provision that taxes, if any, levied after the effective date of the approval of such urban renewal plan upon taxable property in an urban renewal area each year or that municipal sales taxes collected within said area, or both such taxes, by or for the benefit of any public body **shall be divided for a period not to exceed twenty-five years after the effective date of adoption of such a provision, as follows:**

(I) That portion of the taxes which are produced by the levy at the rate fixed each year by or for each such public body upon the valuation for assessment of taxable property in the urban renewal area **last certified prior to the effective date of approval of the urban renewal plan** or, as to an area later added to the urban renewal area, the effective date of the modification of the plan, or that portion of municipal sales taxes collected within the boundaries of said urban renewal area in the twelve-month period ending on the last day of the month prior to the effective date of approval of said plan, or both such portions, shall be paid into the funds of each such public body as are all other taxes collected by or for said public body.

§ 31-25-107, C.R.S. (emphasis added)

Similar language discussing the 30-year limit for downtown development authorities is found in § 31-25-807(3)(a), C.R.S.

Pursuant to the above-referenced statutes, the original base is calculated from the values last certified by the assessor prior to the approval of the plan containing the TIF provision. If the plan was approved prior to the assessor first certifying values for the current year, the value of the initial base reflects the values as certified on or before the final certification of values in the prior year. If the plan was approved after the first certification of values or after the final certification of values, the initial base reflects the most current values as certified in the current year. Values are first certified by the assessor no later than August 25 of each year, and they are recertified no later than December 10 of each year, §§ 39-5-121(2), 39-5-128, and 39-1-111(5), C.R.S. In either case, the first year in which it is possible to have an increment value is the year following the assessment year used for establishing the initial base.

Regardless of a plan's date of approval, the Division of Property Taxation believes that the General Assembly intended for each urban renewal and downtown development area to be eligible for the maximum 25 or 30 tax years of TIF revenue. Therefore, unless the approved plan specifies a more limited time frame, or the authority notifies the assessor that the indebtedness has been paid, the assessor should calculate a base and increment for 25 or 30 consecutive tax years after the year used for establishing the initial base.

NOTE: The statutory deadline for certifying values to taxing entities has changed several times over the last 30 years. The deadline was September 15 from 1976 to 1987, September 25 in 1988, October 10 from 1989 to 1992, and August 25 from 1993 to present. The assessor's records should indicate the tax year that was used for establishing the initial base value.

Example 1: TIF Plan Approved Before Values are Certified

An urban renewal plan with a TIF provision was adopted on July 1, 1984. The initial base was established using 1983 certified values. Tax year 1984 was year one because it was the first year with the potential for an increment. The final year for calculating the base and increment is determined as follows: $1983 + 25 = 2008$ (taxes collectable in 2009).

Example 2: TIF Plan Approved After Values are Certified

A downtown development plan with a TIF provision was adopted on November 30, 1984. The initial base was established using 1984 certified values. Tax year 1985 was year one. The final year for calculating the base and increment is determined as follows: $1984 + 30 = 2014$ (taxes collectable in 2015).

FINAL YEAR REVENUE

Property tax revenue is collected in arrears from mill levies that are certified to generate a pre-determined annual revenue amount. For TIF, the anticipated revenue is calculated and divided at the time mill levies are certified, but some revenue is collected and/or adjusted after 25 or 30 years have expired from the date on which the TIF provision was adopted. If the original base reflected values from the tax year in which the plan was adopted (Example 2 above), the act of certifying the final year levies itself is likely to occur after 25 years have passed from the date on which the plan was adopted. The Division of Property Taxation believes that the General Assembly intended for the TIF area to receive its proportionate share of revenue collected on tax bills issued pursuant to the tax warrant for the final tax year (year 25 or 30), even if the levies were certified more than 25 years and zero days from the date on which the plan was adopted.

However, questions involving abatements and omitted property are less clear because the adjusted values and tax amounts were not anticipated when the mill levies were certified. Neither statute nor the courts have addressed the distribution of TIF revenue associated with abatements and omitted property when the adjustments are made after the 25 or 30 years have expired. The Division recommends that treasurers consult with their county attorney when the question arises.

RESIDENTIAL ASSESSMENT RATE ADJUSTMENT

Until 1982, the assessment rate for both residential and non-residential property was 30 percent. However, beginning in the early 1970's, the market values of residential property increased much faster than values of non-residential property, shifting a greater percentage of the tax burden to residential property owners. In 1982, § 3(1)(b), art. X, COLO. CONST., was enacted to stabilize the tax burden on residential property. The amendment established a floating assessment rate for residential property while fixing the assessment rate for most other classes at 29 percent. The residential assessment rate is adjusted during years of reappraisal to maintain a consistent ratio between the total statewide assessed values of residential and non-residential property. The Property Tax Administrator is responsible for performing the residential assessment rate study, § 39-1-104.2(4), C.R.S.

The General Assembly adjusts the residential assessment rate based on the findings of the study conducted by the Property Tax Administrator. The study begins with a calculation of the ratio of statewide residential to non-residential value for the prior reappraisal year. The ratio is then adjusted to account for new construction of residential and non-residential property that occurred during the prior two years. For the purpose of this study, new construction includes new real and associated new personal property, and the net change in