Colorado Legislative Council Staff

ISSUE BRIEF

Number 17-33 A Legislative Council Staff Publication August 2017

THE IMPACT OF TAX INCREMENT FINANCING ON SCHOOL FINANCE

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Public K-12 eduction in Colorado is financed in part by local governments and in part by state government. The school finance formula establishes a statewide total funding level. The difference between this amount and the local share determines the state's obligation to school finance. The local share is paid primarily from local property taxes. When property taxes are not collected from a specific property, the funding formula requires the state to augment its share of K-12 education funding by the amount of foregone local tax revenue. This issue brief discusses the impact of tax increment financing on the state and local shares of K-12 education funding.

What is tax increment financing? Tax increment financing (TIF) is a tax incentive for redevelopment projects in Colorado with the purpose of improving "blighted" properties. Colorado law empowers urban renewal authorities (URAs) and downtown development authorities (DDAs) to use TIF to incentivize redevelopment projects. TIF allows a developer to use sales or property taxes collected from a project to pay expenses or debt related to the project, with the expectation that revitalization of the surrounding area will improve the local economy and increase future tax revenue for local governments.

TIF and school finance. By allowing local property tax revenue to be used to cover redevelopment expenses, TIF diverts money away from traditional uses such as funding the local share of K-12 education. Thus, while assessed values are increasing due to the redevelopment, local property tax revenue to school finance may not increase in the short term, and the state may have to "backfill" the difference between the actual local share and what the local share would have been absent the TIF incentive.

When is local revenue loss the result of TIF? An important issue in determining the loss of local revenue due to TIF is whether the project would have occurred anyway, independently of the TIF incentive. If the project would have been built at the same location without the TIF incentive, the increase in the state's obligation can be determined by multiplying the assessed value of the TIF property by the relevant mill levy for the local school district, as the state backfills the lost revenue on a dollar-for-dollar basis. However, to the degree these projects occur only because of the TIF incentive, would not have occurred at some other location in the state, and did not divert sales from other locations in the state, the loss of local revenue, and thus the increase in the state share for school finance, would be smaller.

TIF and TABOR. Article X, Section 20 of the Colorado Constitution (TABOR) imposes limits on the growth of property tax revenue for all school districts. For a district at its property tax revenue limit, additional assessed value from new development results in a lower mill levy. Currently, four school districts – Cherry Creek, Colorado Springs, Harrison, and Steamboat Springs – are in this position. For these four districts, the TIF revenue loss may mean that the district's mill levy for school finance drops as a result of the assessed value increase, but not as much as it would have absent the TIF.

The impact of TIF on the mill levy depends on the relative magnitude of the TIF to the increase in assessed value. In FY 2016-17, the mill levy for three of these four districts did not fall as much as it would have otherwise.

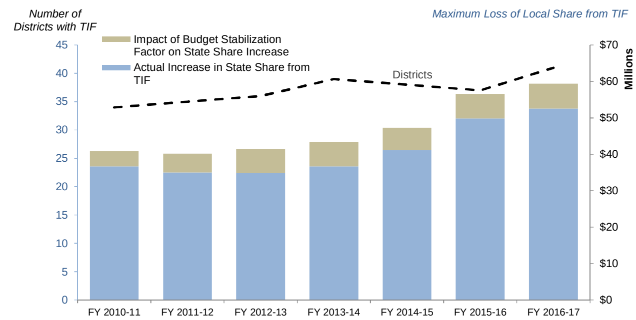
TIF impacts and the budget stabilization factor. During the 2010 legislative session, the General Assembly created a budget stabilization factor to reduce the state's school finance obligation after revenue had fallen during the recession.[1] This factor reduces the overall funding level for most school districts by a proportional amount.

By reducing the overall funding obligation for each district, the budget stabilization factor also reduces the state's contribution to school finance. Since the implementation of this factor, K-12 eduction is funded to a level selected by the General Assembly. In FY 2017-18, the value of the budget stabilization factor was set at $828.3 million, which reduced each school district's total funding by 11.10 percent.

How has TIF reduced the local share historically? Since the implementation of the budget stabilization factor through FY 2016-17, the number of districts employing a TIF incentive and the total impact on both the local and state shares from TIF has grown. Specifically, the number of districts employing a TIF incentive has increased from 34 to 41. Concurrently, the potential reduction in the local share from TIF has grown from nearly $41 million to just over $59 million, while the increase in the state's obligation has grown from nearly $37 million to just over $52 million. The difference in these totals is the impact of the budget stabilization factor established by the General Assembly in those years.

Figure 1 presents these totals over this historical time period. The dotted line indicates the number of districts employing a TIF incentive, while the bars show the maximum reduction in local share that resulted from TIF on a statewide basis. The blue portion represents the actual increase in the state's obligation that resulted from TIF while the gold portion represents the reduction in the state's obligation due to the budget stabilization factor. The gold portions were calculated by applying the established budget stabilization factor to the reduction in local share from TIF.

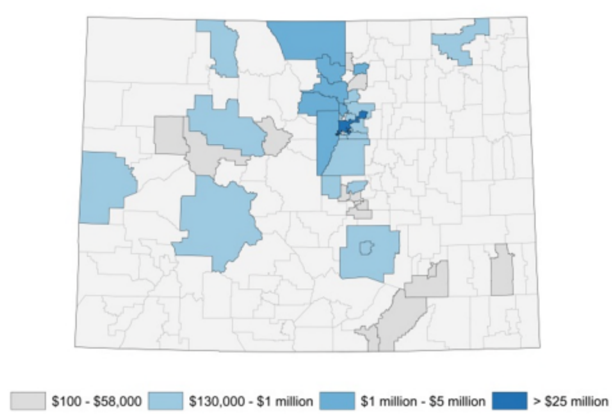
Figure 1
Impact of TIF on Local and State Share



Source: Colorado Department of Education.

Which districts use TIF? Figure 2 shows the geographic distribution of the school districts where TIF is employed. The shading represents the estimated increase in the state's K-12 funding obligation because of TIF. The largest increases are in school districts along the Front Range, and in mountain resort communities. Denver has the largest increase at nearly $26 million, followed by Jefferson County at nearly $5 million.

Figure 2
Colorado School Districts Employing TIF



Source: Colorado Department of Education.

[1] House Bill 10-1369.