

DATE: January 24, 2006

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**WORK SESSION ITEM
FORT COLLINS CITY COUNCIL**

SUBJECT FOR DISCUSSION

Items Related to the City of Fort Collins' Urban Renewal Authority and the *North College Avenue Urban Renewal Plan*.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Funding Options for the Urban Renewal Authority
 - A. Are there issues or concerns that City Council wishes to see addressed in the development of financing options?
 - B. Shall the URA pursue financing from a third party bank or provide an internal "revolving line of credit" via an Intergovernmental Agreement with the City?
2. Does Council have any questions regarding the proposed addition of the URA into Chapter 2, Article IV of the City Code which identifies "Authorities of the City"?

BACKGROUND

Fort Collins Urban Renewal Authority and the *North College Avenue Urban Renewal Plan*

In 1982, the Fort Collins City Council created an Urban Renewal Authority (URA) and designated itself as the governing board as allowed by law. The boundaries of the URA are the city limits.

In June of 2004, the North Fort Collins Business Association asked the City to recognize the North College Avenue Corridor as an urban renewal plan area. Starting in June 2004, staff worked with a Citizens Advisory Group (CAG), composed of property owners, businesses, and members of the Planning and Zoning Board, to conduct the necessary Existing Conditions Study (a.k.a. "Blight Study") and establish the *North College Avenue Urban Renewal Plan*. The process included the required steps of submitting the Plan to the Planning and Zoning Board, the Poudre School District Board of Education, and the Larimer County Board of Commissioners for their review. The CAG and Planning and Zoning Board discussed all issues extensively. The School Board and Larimer County had few questions and expressed no concerns about the Plan.

On December 21, 2004, the City Council unanimously adopted two resolutions related to the *North College Avenue Urban Renewal Plan*. The first resolution, Resolution 2004-151, adopted the *North College Avenue Existing Conditions Study* and made findings determining the North College Corridor to be a blighted area and appropriate for inclusion in an Urban Renewal Plan.

The second resolution, Resolution 2004-152, made findings and approved the Urban Renewal Plan for the North College Corridor area.

The Plan was adopted to address infrastructure deficiencies and other “blight factors” present in the area that have stifled development/redevelopment activities. These factors add costs to development projects and deter private investment. The long term vision for redevelopment of the area is contained in the *North College Avenue Corridor Plan* and *City Plan*, the City’s comprehensive plan.

Tax Increment Financing

In Colorado, the main function of an urban renewal plan is to authorize tax increment funding (TIF). TIF uses increments of increasing property tax and/or sales tax revenues generated by projects to pay off debt (loans, bonds, or contractual obligations) incurred by the URA in financing urban renewal projects. In other words, tax revenues generated by projects are captured and used to help make the projects feasible in the first place, by “investing” in the projects. TIF is authorized for a period of 25 years after adoption of an Urban Renewal Plan. After 25 years, all taxes revert back to the original taxing entities (County, School District, etc.) TIF is a matter of allocating tax revenues that are already collected. There is no new tax or increase in tax rate.

For the *North College Avenue Urban Renewal Plan*, the property tax will be the primary source of the tax increment. Collection of property tax increments commenced upon adoption of the Urban Renewal Plan. The intent of the Council in authorizing the use of sales tax TIF was to consider it on a project-by-project basis. The City’s general sales tax projections include business activity in the North College area. In turn, General Fund services are based on these projects.

Public Improvement Needs

Staff has identified a list of infrastructure needs for the North College area and estimated the total cost at about \$73 million. Staff has estimated that about \$22 million can be covered by direct development contributions, impact fees, and utility fees, leaving about a \$51 million potential funding gap for infrastructure needs. A few selected high priority projects on the list total about an \$8 million funding gap.

On the other side of the ledger, staff estimates that if full build-out of the area were to be achieved, consistent with the *North College Avenue Corridor Plan*, the development could generate a little over \$3 million per year in property and sales tax increment (about 70% property tax and 30% sales tax). Of course, it is likely to take many years to achieve the ultimate vision of the *North College Avenue Corridor Plan* – almost certainly more than the 25-year life span of TIF. Capital funding needs far exceed available funding even with TIF.

FUNDING OPTIONS FOR THE URBAN RENEWAL AUTHORITY

Role of the Urban Renewal Authority

Urban Renewal Authorities are created to fix blight issues, including deficiencies in public infrastructure, and thereby create economic benefit for the City. In doing so, URAs address a need that currently can't be met by either the private sector or directly by local government. Here are the primary roles filled by URAs as outlined in an excerpt from the *Economic Benefits from Community Redevelopment Activity in Colorado*, a 2004 report prepared by the Development Research Partners for the Colorado Community Revitalization Association:

- Urban Renewal authorities **ensure economic competitiveness for blighted areas**. Colorado statutes specifically recognize that the private sector is the most efficient mechanism for redevelopment. However, the private sector is not interested in redeveloping blighted neighborhoods where special needs and costs reduce profitability. URA targeted projects compete for private investment with other, easier, more lucrative development projects. By utilizing URA policy tools, public/private relationships may be formed that support private investment and the redevelopment of impaired neighborhoods.
- Urban Renewal Authorities **address hurdles to private investment**. To attract private-sector investment in blighted areas, burdensome costs (over and above those faced by competing locations) must be addressed. Those costs often include improving street patterns, updating or installing new infrastructure, consolidating properties, and removing deteriorated structures. Additional costs are associated with preserving historic structures or removing environmental contamination. Costs to beautify and restore an area's desirability as a work or home location are too high for the private investment community to undertake independently. URA financing and public improvement programs play a critical role in helping clear these hurdles.
- Urban Renewal Authorities **address market failures that leave areas blighted**. High costs discourage private investment in areas most in need of new investment; social and economic adversity impacting these neighborhoods tends to be self-perpetuating. Relieving neighborhoods from crime, vagrancy, vandalism, vacancy, and other public nuisances is a public benefit. Attracting businesses to create jobs and retain consumer dollars locally maintains a community's economic strength, and is also a public benefit. It is the role of the Urban Renewal Authority to provide this public good.

Excerpts from the *North College Avenue Urban Renewal Plan* provide direction how this Plan Area views its primary role:

Preface and Intent:

The driving interest in the establishment of this Plan is to begin offering tax increment financing as a tool to stimulate and leverage both public and private sector development (including redevelopment), to help eliminate blight and prevent the spread of blight. It is the intent of this Plan for any development projects and other implementation actions to be done in a responsive manner, with full consideration for interests and concerns of property owners in the area.

It is fundamental to recognize that the projects in which the URA participates have some flaw that the private sector was unable to address. Otherwise, existing financing options within marketplace should have sufficiently provided the resources. Because of this scenario, URA projects will carry a greater level of risk than a bank qualified project.

REVENUE AVAILABLE TO URBAN RENEWAL AUTHORITY

The primary revenue source for Urban Renewal Authorities is the **tax increment** generated each year that exceed the property taxes associated with the base year valuation (under the state statute, sales tax increment revenues can be another source of URA revenue). For the North College Plan Area, the base year (2004) had a valuation of approximately \$19.3 million. As development occurs, the Urban Renewal Authority will receive the property taxes generated on the excess over the base valuation.

It should be noted that while property valuations in Northern Colorado and specifically Fort Collins have experienced stable growth in recent years, it cannot be assumed that this pattern will remain intact over the 25 year life of the Plan Area. An example of a factor that would have a detrimental impact is the purchase of property by other governments and non-profit organizations, as these entities are exempt from property taxes and effectively remove the property from the tax roll.

In addition to property valuation, the other side of the equation to consider is the mill levy. Any change in the rate will impact the tax increment revenue stream. For example, Poudre School District could pay off their capital bonds. Simultaneously, the demographics of the city change such that retirees represent a larger share of the population, and as a result the District's need to issue bonds for new capital improvements no longer exists. In this example, if the bonds are paid off the increment will go down.

Within this dynamic environment, staff conservatively projects property tax increment revenues available over the next five years as follows:

Year 1 (2006)	\$ 10,000
Year 2 (2007)	200,000
Year 3 (2008)	212,400
Year 4 (2009)	225,600
Year 5 (2010)	<u>240,000</u>
Total over next 5 years	<u>\$ 888,000</u>

It should be noted that staff based these projections on existing projects only. Beginning with that balance, staff utilized an average of the growth rate of 6.2% annually as experienced by the tax levies for the City, General Improvement District and the Downtown Development Authority over the past 5 years.

Staff monitors the activity within the North College Plan Area and will update the above projection as properties are developed and added to the tax roll. Stormwater improvements and the related reduction of the Floodplain Area that currently exists in the North College Plan Area will significantly impact the rate of development and dramatically increase valuations. Due to the uncertainty related to the timing of these changes, the above projection does not reflect that positive impact.

OPTIONS FOR FUNDING THE NORTH COLLEGE PLAN AREA

Having an understanding of the role of the URA, how it generates revenue and a preliminary estimate of what those total revenues will be over the next 5 years, options for funding the project activity in the start-up years of the URA can be evaluated.

- A. There are two basic approaches to funding URA projects. At the far conservative end of the continuum, a **market only approach** is applied. After a Plan Area has been activated, the URA accumulates TIF for the initial 3-5 years. Following this period of limited financial accumulation, the URA then utilizes the cash generated to fund projects. From that point forward, the URA participates in projects based on its established annual TIF revenues. Staff was unable to identify a pure, real life example of this model. However, the newly created DDA in Woodland Park, Colorado utilized this approach and remained relatively inactive during its initial 3 years before issuing bonds and funding projects.

Pros: Little to no financial risk on the part of the URA.

Allows for the TIF stream to become established and facilitate a "clean" bond issue free of prior financing arrangements.

Cons: Market only; the duration of limited accumulation could last for an extended period.

Lose development momentum and owners during the dormant period.

- B. At the other end of the spectrum is the **issuance of bonds at the outset of activating the URA Plan Area**. The bond proceeds will be used to fund projects based upon the TIF stream those projects will generate. This model is employed extensively along the Front Range. In most scenarios, a significant commercial or retail project will anchor the new Plan Area and be the catalyst attracting new development to the area. The new Cabella's in Wheatridge is a prime example of this approach.

Pros: Significant growth of URA resources for projects from the start.

Significant influx of TIF revenues early in the life of the URA.

Capstone project associated with the URA to provide plan area identity that would otherwise not exist.

Attract goods or services not currently available.

Cons: Success dependent upon projections of developer.

For bonds to be priced competitively, a credit enhancement is required. May require the City to step in and cover a gap with whatever funding is deemed appropriate.

May have negative impact on existing stakeholders in the Plan Area. Displacement/relocation of businesses.

- C. A third option is a hybrid of the previous two options. It would be based upon a **market driven approach with financing of start-up capital**. The start-up capital would allow the URA to fund projects in its early years as opposed to having to wait a few years until it accumulated the cash.

Pros: URA could fund projects in its first year.

URA would demonstrate its commitment to the plan area and its stakeholders.

URA would be assuming a nominal amount of risk. The City would share the same nominal amount of risk if the City is the source of funding. If a bank is the source of funding, the City has no risk.

Cons: May handicap ability to attract capstone project.

Since primarily market driven, change in plan area may be slower than desired.

There are two sources for financing the start-up capital; either a bank or a loan from the City. Staff has explored both options.

- The bank loan would charge an interest rate at the prime rate (currently 7.25%) and require a pledge of the future TIF revenue stream as additional security. It should be noted that this pledge could inhibit the URA's ability to participate in large scale projects that require significant financing above and beyond this initial amount of start-up capital.

- The City would assess the rate on a Treasury Note equal to the life of the loan plus an additional fifty basis points. For example, if the life of the loan was set at five years, the interest rate would be equal to the five year Treasury Note (approximately 4.50%) plus an additional .50% for a total interest rate of 5.00%. In addition to the rate being below the rate charged by a bank loan, this financing arrangement would not require a pledge of the TIF revenue stream. As a result, the URA would preserve its ability to issue bonds in the future should a large scale opportunity arise during the next five years.

RECOMMENDATION

Given the present condition of the plan area and the lack of a recognized capstone project, staff recommends Option C, the hybrid approach – combining the market approach (accumulating the tax increment) with financing start-up capital (a loan for a line of credit). Should a large scale project come forward that would enhance the identity of the plan area and provide significant economic benefits, staff would present Council with alternatives at that juncture.

ADDING THE URBAN RENEWAL AUTHORITY INTO CHAPTER 2, ARTICLE IV OF THE CITY CODE WHICH IDENTIFIES “AUTHORITIES OF THE CITY”

Chapter 2, Article IV of the City Code currently lists the “Authorities of the City” as differentiated from the listing of City “Boards and Commissions” contained in Chapter 2, Article III of the Code. Authorities of the City have different legal status, roles, responsibilities, and powers that go beyond those of the City Boards and Commissions. On February 20, 2001, the Council passed Ordinance No. 26, 2001, creating a new Article IV of the City Code pertaining to Authorities of the City and included the Downtown Development Authority (DDA) and the Fort Collins Housing Authority (FCHA) in the listing of Authorities. The DDA, created by an ordinance of the Council, is a separate corporate entity from the City. The FCHA, established by the Council in the manner provided by state statute, is a body both corporate and politic and is a separate legal entity from the City. Likewise, the Urban Renewal Authority (URA), established by the Council in the manner provided by state statute is also a separate “body politic.” Therefore, staff believes the URA should be added to the listing of Authorities of the contained in Chapter 2, Article IV of the City Code. See Attachment 1 for the proposed Code language. This is a housekeeping action.

NEXT STEPS

INTERGOVERNMENTAL AGREEMENT (IGA) BETWEEN THE CITY AND THE URA

Staff is working on an Intergovernmental Agreement (IGA) between the City and the URA. The principal reason for the establishment of an IGA between the City and the URA is to set forth the independent relationship between the City and URA since the City is a municipal corporation and the URA is a separate “body politic.” Since the entities are separate (even though the City Council governs both) it is important that the relationship between the two entities be made clear.

The IGA will cover the following major topics for the North College Urban Renewal Area: land use matters, URA staffing, and tax increment finance.

ATTACHMENTS

1. Proposed Code language for including the URA in the listing of the Authorities of the City in Chapter 2, Article IV of the City Code.

ORDINANCE NO. , 2006
OF THE COUNCIL OF THE CITY OF FORT COLLINS
AMENDING CHAPTER 2, ARTICLE IV BY THE ADDITION
OF A NEW DIVISION 4 REGARDING THE URBAN RENEWAL AUTHORITY

WHEREAS, Chapter 2, Article IV of the Code of the City sets forth a listing and certain regulations regarding the authorities of the City; and

WHEREAS, the Urban Renewal Authority, having been a long-established authority of the City, should be included in the list of authorities as contained in Chapter 2, Article IV.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS that Chapter 2, Article IV of the Code of the City of Fort Collins is hereby amended by the addition of a new Division 4, to read as follows:

DIVISION 4. URBAN RENEWAL AUTHORITY

Sec. 2-480. Creation.

There has been created and established pursuant to Title 31, Article 25, Part 1, C.R.S. an Urban Renewal Authority, hereafter referred to in this Division as the "authority."

Sec. 2-481 Membership; term.

(a) Members of the board of commissioners of the authority shall be appointed by the Mayor in accordance with the provisions contained in Title 31, Article 25, Part 1, C.R.S.

(b) Terms of office, appointments, removals and the filling of vacancies of authority board members shall be established and governed as set forth in Title 31, Article 25, Part 1, C.R.S.

Sec. 2-482 Jurisdiction.

The authority shall exercise its powers within the boundaries of the Urban Renewal Authority, which boundaries are concomitant with the boundaries of the City of Fort Collins, and shall also exercise its powers within any of the urban renewal plan areas that are located within the boundaries of the authority.

Sec. 2-483 Conflicts of interest.

The officers and employees of the authority shall be governed by the applicable state statutory rules of ethical conduct and said persons shall be expressly exempted from the provisions of Article IV, Section 9 of the Charter.

Sec. 2-484 Functions.

The authority shall be a body corporate with all the purposes and powers authorized by Title 31, Article 25, Part 1, C.R.S., and all additional and supplemental powers necessary or convenient to carry out and effectuate the purposes and provisions of said statutes.

Sec. 2-485 Minutes; annual report; work plan.

The authority shall take and file minutes in accordance with the requirements of § 2-73 of this Code. On or before January 31 of each year, the authority shall file a report with the City Clerk setting forth the activities of the authority for the previous year. On or before November 30 of each year, the authority shall file a work plan with the City Clerk for the following year.

Introduced and considered favorably on first reading and ordered published this * day of *, A.D. 2005, and to be presented for final passage on the * day of *, A.D. 2005.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading this * day of *, A.D. 2005.

Mayor

ATTEST:

City Clerk