Boulder Independent Business Alliance™

Supporting locally owned independent businesses.™

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FOR IMMEDIATE RELEASE

Boulder, CO: Responding to the need for community awareness regarding the fate of Crossroads, the Boulder Independent Business Alliance (Biba) has released a preliminary report on the possible implications of a tax increment finance (TIF) district at the embattled mall. The report, available online at www.boulder-iba.org, defines the terminology behind the plan and offers alternative solutions for the 68 acre tract of land that has left negotiations between the city and California-based developer Macerich dissolved.

"There's no doubt that we could do something wonderful with this part of Boulder, but it's just not as simple as signing on a dotted line of a TIF deal," says Rob Smoke, freelance journalist and author of the report. "TIF holds the promise of a no-risk benefit to our sales tax revenue stream, but in point of fact, there are consequences, well-recognized by other communities, that require far more consideration. And there are alternatives to TIF."

While the report does not point to one clear solution to the problem, it does stress the need for a local independent presence at Crossroads. "Our challenge to the community is to reinvest in the property with the intent to own the land under Crossroads and develop the visions of the urban village with respect to the idea of creating a 'commercial open space' for all entrepreneurs," affirms Biba's Executive Director, Xian Izquierdo. "Our continued dependence on non-local corporations such as Macerich Co. will do nothing to prepare our children for the mistakes we may make today."

The report is being released a week after Boulder City Councilwoman Lisa Morzel proposed a ballot initiative to allow an open community voice on the TIF issue. Biba encourages concerned Boulder residents to remain informed and up to date on the city's plans. Rob Smoke feels strongly on this issue, stating that "Boulder's independent business community should insist on due diligence by the City Council, and require that a relatively small amount be expended on studies not conducted by city staff or consultants who are in Macerich Co.'s back pocket."

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TIF at Crossroads:
The Key to Boulder's Economic Vitality –
Or
Public Finance for a Private Developer's Dream?

A Preliminary Report by the
Boulder Independent Business Alliance

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Forward

This past April, when Wal-Mart became part of the Crossroads negotiations with Macerich Co., Biba began asking questions regarding the redevelopment process that surrounded the decisions being made for the community. As we began to take a whole systems perspective on the situation, in order to parse out the questions from the answers, we found that fighting Wal-Mart was the second component of the equation.

The first intervention was to recognize and examine the proposed TIF (tax increment financing). As we found that TIF was not a completely understood avenue of discussion for neither our local merchants nor the activist community, we began searching for ways to educate and advocate for independent businesses in Boulder and beyond.

Rob Smoke, the journalist who initially compiled this report, and I had briefly discussed Wal-Mart actions at City Council meetings. As it became clearer to us at Biba that the TIF was where we could intervene, Rob came to us and asked why were not directly involved in the discussion process.

We agreed to commission a report that took a broad look at TIF's and their impact on a national and local scale. Nate Luce, our Director of Advocacy and Education, spent the next two months compiling the research that has contributed to this report. We feel that we have offered a unique portrait of tax increment financing that encourages the citizens of Boulder to take an active stance on the economic future of their community.

Our conclusions include suggestions—some are visionary and others just add to the mix of possibilities. We offer no clear cut solution to the recent events relating to Crossroads because there is none. Our research on the health of independent businesses and community development, however, concludes that as long as locally owned businesses do not have direct or partial ownership of their space, they will not be able to stand against the rising prices synonymous with commercial development, the effects of build out and the continuously escalating competition for customers with national chains.

What's key to this argument is the recognition of the high rents that often discourage independent entrepreneurs from taking the risk of being in business for themselves. But if recent independent tenets at the mall, specifically Blooming Idiots and Ananda Academy, indicate, Boulder has a creative and opportunistic entrepreneurial base. Our businesses just need the chance to compete.

Our challenge to the community is to reinvest in the property with the intent to own the land under Crossroads and to develop the visions of the urban village with respect to the idea of creating a "commercial open space" for all entrepreneurs. Our continued dependence on non-local corporations such as Macerich Co. will do nothing to prepare our children for the mistakes we may make today.

Xian Izquierdo
Executive Director

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I. TIF: The A,B,C's

The purpose of this report is to examine in broad terms some of the issues related to "TIF"--Tax Increment Financing--as they arise in relation to the redevelopment of Crossroads Mall in central Boulder.

TIF is a highly favored method by which redevelopment projects are financed in contemporary American society. They are legal, with varying degrees of restriction, in forty-eight states. Tax Increment Financing is a tool employed by local municipal governments that allows municipalities to issue large bonds with the intent of raising property value in areas deemed to impair economic values and tax revenues. Typically, projects considered for TIF include housing, office/industrial/retail development and/or redevelopment. Sales tax revenue growth is frozen; all revenue earned above a fixed level goes to pay back developers.

Crossroads, at its peak of productivity in the mid 90's, has represented as much as 10% of Boulder's sales tax revenue and a smaller portion of Boulder's overall operating budget. The mall now constitutes 1.7% of the city's tax revenue. The first Crossroads Tax Increment District (TID), approved by voter authority in the late 70's, was responsible for the creation of the mall and expires this year. Under the present TIF proposal, still under negotiation as of this report but outlined in documents created by the city's negotiating team, the plan would most likely return 80 to 90 percent of the sales tax above the 2000 benchmark of roughly $3.5 million, excluding transit and open space tax portions of Boulder's sales tax. In other words, Crossroads 2000 sales tax level of $3.43 million would have to be realized each year for 25 years before the developer would receive a full return on their loan.

A second unusual aspect of the Crossroads TIF proposal is that the project, if approved this time around, would most likely be approved and enacted through an administrative decision of Boulder's City Council. This is certainly the TIF plan being considered. In this instance, the TIF, instead of being enacted through bond issuance, would be enacted through private lending from the developer. Funding for the approved costs of the project, negotiated between the city and the developer, would be "lent" to the city and the developer would dispense the borrowed funds to its chosen contractors. TIDs exist in every state except for North Carolina and Delaware.

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II. Pros and Cons – Wading Through the Shallow Waters with TIF

Pros

TIFs are considered one of the easiest and most effective local methods of stimulating growth in America. Richard Daley, mayor of Chicago, has called Tax Increment Financing the "only game in town."

- A good starting point might be the city of Broomfield. Elected officials felt that TIF would provide an "economic engine" for their city. They recognized TIF as the instrument for building an engine in the form of the regional "Flatirons Crossing" mall, the project recently sold to Crossroads developer Macerich. A big shopping mall might not be everyone's idea of good urban infrastructure, but just the same, TIF was the answer for Broomfield. **Via TIF, Broomfield created a mall, with ensuing tax revenue, at no direct cost and with no "risk."**

- TIFs were originally designed to rejuvenate what many states deem "blighted" areas—dilapidated neighborhoods or commercial areas that need massive renovations to even be considered economically sustainable. For instance, vacant property at King Drive and West Garfield in Milwaukee, Wisconsin was redeveloped into 41 apartments for low to middle income families and 14,000 square feet of office and commercial space. All of this was accomplished with a $400,000 loan from the TID. TIDs in Colorado do not need to be blighted—they do in nearly every other state that employs TIFs.

Cons

While a TIF has resurrected many economically distressed regions of the country, several negative situations have arisen from what many feel is an abuse of the TIF in locations where such a measure is not needed.

- Consider TID #6 in Wisconsin, located in the rural town of Baraboo. Despite having one Wal-Mart in town already, the city and joint review board approved a $5,768,000 project to build a Wal-Mart super center on an orchard and a cornfield. Wal-Mart has publicly conceded that the super center would have been opened without a TIF.
- TID #11, located on the West Side of Madison, Wisconsin has gone under intense scrutiny from the community. A $1,152,153 bond was issued to the district for the creation of a Woodman's Supermarket. Since its creation in 1983, 10 small to mid-sized grocery stores in the area have closed.
- Now consider Broomfield again. Much like TID #11 in Madison, FlatIron's Crossing succeeded in the sense that they gave all of their allotted funding to promote chain proliferation in their town. Not only does Broomfield lack a locally minded business atmosphere, but they drain significant business away from neighboring communities, most especially Boulder.

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Chicago's Neighborhood Capital Budget Group (NCBG)—an organization that endorses a "community perspective" versus the "conventional wisdom" of TIF finance—creates an interesting dichotomy between the questions and concerns that city officials and community members ask respectively when presented with TIF's.

Conventional Wisdom	**Community Perspective**
The TIF should result in rapid growth in property values	The neighborhood must remain affordable for those who live and work there
The TIF should produce as much new tax revenue (increment) as possible	New tax revenue should be used to address the community's most pressing needs
TIF subsidies should be used to leverage maximum private development	Private developments should be of a high quality that directly benefits the community in which they are located
TIF deals should help increase the profit margins of private companies	TIF benefits should be distributed equitably, not only to private developers but also to those who live in the community—particularly those in need of employment
TIFs should be used to fast-track development	TIFs should be used to fast-track development that is beneficial to the community
Has the TIF made progress toward achieving its stated redevelopment goals?	Does the TIF redevelopment plan include goals that will benefit the existing community? Do they take into account the community's own hopes and goals?
Would a TIF work?	Was a TIF necessary? What were the alternatives?

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III. Questions and Answers

As of this writing, the probability of a TIF investment in Crossroads must be rated as exceptionally high, regardless of whether Macerich develops the property or not. The most recent public discussion by members of Boulder's City Council indicates that a firm majority supports a TIF for Crossroads, even in light of the many unanswered questions, which include:

What stores will move into Crossroads Mall?

If a TIF does provide Crossroads with the money to strengthen the mall, developers will pursue big name businesses for several reasons. If the goal of a TIF is to raise property values, then bringing in successful corporate stores to attract customers will accomplish that goal with more swiftness than a wide variety of local independent shops. Businesses with ready-made brand recognition will also attract more customers initially than local ventures that do not have the means to reach the entire community.

To box or not to "big-box"?

Nationwide, malls rely on chain anchors to bring in consumers. This is a reasonable strategy; however, the consequences are usually dire for entrepreneurs, as chains take away customers from independents and drive the average rent up to rates that small business cannot afford. Crossroads already faces
strong competition from several malls in the surrounding area, most notably FlatIrons; why wouldn't the city take an original stance and anchor the mall around a wide variety of local independent businesses or creative attractions that distinguish Boulder from other communities? An innovative plan free from chain dependence might prove to be more attractive to the community.

What mitigating provisions can be made for Boulder's independent businesses if the TIF goes through?

The answer lies within the context of the deal itself—right now the deal does not include considerations for the independent business community. The deal, however, could be constructed to provide special incentives for local businesses that wish to relocate to the new mall, or perhaps qualify for special considerations that would promote that relocation. That would open a whole new set of questions, but in essence, current proposals being examined by BURA and the city's negotiating team do not offer any loss protection system for independent businesses. The TIF proposal could be restructured to create a non-contiguous business district, whereby businesses outside of Crossroads could also reap some return on investments made to their infrastructure. Other mitigating provisions might include various mechanical

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alterations, such as a location at Crossroads promoting visitation to other sections of Boulder or alternative free transit between downtown and the new mall. These and other concepts are within the realm of discussion if not in the realm of proven viability.

How much public space and for what end?

Public space, whether in the form of a plaza, park, botanic garden or cultural facility, has long been part of the Crossroads discussion. The framework plan that has been undergoing refinement over the past year by members of BURA and the city's negotiating team includes NO requirement for a specific amount of public space or a specific use for that space. In point of fact, the only public space mentioned by the negotiating team, to date, would be "public" space owned by the private developer.

Presumably, a plaza would exist, but since this plaza space would be owned by the developer, kiosks and various other accoutrements would not be returning income to the city. Macerich or any other developer would be collecting a high rent on kiosks that provide a stark contrast to the rents charged by the City of Boulder for its kiosks on the Pearl Street Mall. Thus, there's an inherent restriction on the type of businesses participating at Crossroads that influences its potential attraction to shoppers from surrounding communities, who may be looking for something different, but instead find the kiosks (and stores) that similarly exist at the other malls by virtue of the level of rent affordability.

What about housing at Crossroads?

Current framework plans have called for several hundred units of housing at Crossroads, and as of this writing, it seems that a developer would be willing to contract out this portion of the project and provide Boulder with some affordable housing as part of the total package. Housing would allow entrepreneurs the opportunity to maintain business in Crossroads more affordably.

Are there any drawbacks to a successful TIF?

A persistent problem that comes with a successful TIF is the crippling effect it has on potential growth. In essence, TIF's create a streamlined growth rate in order to generate revenue. But what happens should Crossroads extend above and beyond its expectations? The additional revenue stays out of Boulder's pocket. A professional assessment of this risk needs to be made before a TIF is enacted. In addition, rising property values beget rising rents in the TID and surrounding areas, making it harder for independent businesses to compete.

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Does a TIF actually affect my tax rate?

TIF's have no direct impact on the community's tax rate, and proponents of TIDs are the first to say so. What they often neglect to mention is the indirect effect on the tax rate that occurs over the course of time. If a TIF succeeds and property values are raised, then the assessed rate of property values in that area is raised. When property values are raised, the total amount paid in property taxes increases as well.

Missing links?

The unanswered questions that haven't been raised in this report include items like the financial details of a completion bond. What's the limit on what the developer can spend (or rather, lend us)? What are the time constraints for finishing various phases of the project? What are the mitigating factors relating to automobile traffic and parking? Will the project be pedestrian and bicycle friendly? Some of these questions are perhaps incidental to the project; some are probably not. A bigger and better question probably is…***what are the alternatives to TIF?***

IV. Alternatives

One alternative is that the City could more creatively decide what it wants and seek to obtain it through condemnation of the property and a payoff of current stakeholders. The city could put out a request for proposals. Some of those proposals might actually have a substantially different effect on the revenues of Boulder's independent businesses. For instance, NYC's Chelsea Piers represents a version of a mall that includes almost no shopping, but is a vital revenue-generating attraction for the part of town in which it's located. The key element? A wide range of health and sporting facilities. There is a handful of restaurants and shops, but the main attraction is recreation.

Another angle: Crossroads could be rebuilt under independent authority to provide co-op housing: a use for tax-increment financing that has been undertaken in other states and most recently in Boulder, with the redevelopment of the Holiday neighborhood. Co-op apartments, created under independent authority, could be primarily paid for over time by the inhabitants, with possible contribution from a TIF. Other ideas include the establishment of a restaurant venue for locations that would normally not be able to afford the typical mall rents. Again, this is the sort of nascent possibility that could be designed into a more independently-functioning mall, and probably not a mall operated by a typical mall developer, since the typical mall developer charges a premium for rent.

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Another alternative to a TIF partnership with the current developer would be for the city to create a TIF supporting condemnation; the city would then have free-market options that would exist for proposals to be examined and submitted on a more open basis. At this point in time, with very little or no research on the topic, there is still every reason to believe that a different developer, or set of local developers, could partner with the city to obtain BOTH a redevelopment project with strong community values at its core AND be self-sustaining economically.

If we were to consult with the AABGA (American Association of Botanical Gardens and Arboretum) we would find many public gardens that manage to sustain themselves financially, and provide uplift, economic and otherwise, to the surrounding community. Likewise, if we were to look at the activity mall concept, then we could find models to work with, such as the one in New York City, where substantial income is generated, and the project is an integral part of the community. Even if Boulder were to create an independent authority for a cooperative housing project, we could find examples of extremely successful projects, where tenants have an ownership interest in their property, help manage it, and pay for all the costs over time. To have these options swept off the table because speed and ease of delivery are the foremost considerations would perhaps be a tragic circumstance for the values intersecting Boulder's independent business community and the broader community.

A TIF that would exclude the current developer or the particular type of project currently under consideration would, of necessity, be driven through the political will of the voters and members of the independent business community who can envision the changes that would raise the level of expectation for Crossroads.

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V. Conclusions

There's little doubt about the fact that the quickest solution to the "problem" of Crossroads would be a TIF. The developer and all TIF advocates have the edge, if speed and ease of delivery are the foremost considerations for this project. They would no doubt argue that the Mall is in a state of decline, and an emblematic hurdle for shoppers who travel elsewhere to find the goods they once expected to find here in Boulder. Finally a TIF offers a quicker than average route to obtaining requisite tax revenue for the city.

On the other hand, there are arguments to suggest that speed should not be the ultimate consideration. Incidentally, statistical data on the economic status of the BVRC, available to the public and to our City Council, directly contradicts information that was provided four years ago by a BURA and City-financed consultant, who stated that the city faced quite dire consequences by not immediately entering into a TIF arrangement to support a redevelopment partnership with the Macerich Company.

Crossroads is a difficult puzzle to piece together. With four different owners, the addition of FlatIron's Crossing, and a myriad of other problems, there is no one quick solution to the situation. To simply issue a TIF and leave development in the hands of a corporation with no true stake in the community would be irrational and hurried. Other options need to be pursued—creative, forward-thinking ideas that truly makes Crossroads a unique and attractive experience that BURA, the city and the community are looking for.

The city would do well to reexamine the current call for a TIF at Crossroads. The appropriate response would be to obtain an outside, independent analysis of the TIF proposal coming before our City Council—anything less, given the level of public spending involved, would be a disservice to the voters and the independent business community in particular.

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This preliminary report will have a follow-up in the coming months; for further TIF info, check out www.ncbg.org, www.goodjobsfirst.com, www.ci.boulder.co.us/bura, and dcbiz.dc.gov/info/tif.shtm.

Rob Smoke, author of this report, works for the Colorado Dept. of Labor and produces news and public affairs for KGNU, 88.5 FM, Boulder's community radio station. His coverage of the Boulder City Council can be heard Wednesday mornings following council meetings. Contact: 303-215-3227; e-mail: oldstogie@hotmail.com

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