

# Finance Subcommittee

## Discussion of Revenue Alternatives City of Arvada June 17, 2008

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# Agenda

Tonight we will address:

- The approach to examining alternate revenue sources
- Comparisons of metro area sales and property taxes
- A variety of revenue alternatives



# General Approach

- Three-tiered funding strategy for Arvada's capital needs
  - Tier I
    - City Charter Requirement
    - Funded with 60% of first sales tax penny
  - Tier II
    - One-time Money for CIP Needs
      - Depends on City's Financial Ability
      - Budget Reductions Fund On-going CIP Needs
  - Tier III
    - Alternate revenue sources
- The focus tonight is on options for Tier III

# Revenue Strategies: Criteria

- Diversity
- Materiality and sustainability
  - Sustainability addresses both sufficiency and reliability
- Other criteria
  - Economic efficiency
  - Simplicity and ease of administration
  - Broad base and low rates
  - Equity
- Is voter approval required?
  - Public acceptance is the single most critical (and complicated) consideration even if voter approval is not required.
- Are there any (significant) barriers to implementation?
  - Revenue options that require changes in federal law or the State Constitution face nearly insurmountable barriers.
  - Items that require a change in state law change are less daunting.

# Consultant Observations – Part I

- Public understanding and acceptance is critical.
  - Need a significant communication effort regardless of what choices are made by Council / offered to the voters.
- Taxes or fees that are directly tied to specific programs or projects are more easily understood and generally receive greater support.
  - Example – 3 mills to support Arvada’s trails and parks vs. 3 mills for the General Fund.
  - This provides a means to frame budget choices
    - Example – fully funding the street maintenance program costs \$80 per year per single-family home.
- Beware of earmarking all revenues – it ultimately makes the budget much harder to balance.
  - Boulder provides a clear example of this phenomenon.



# Comparison of Metro Area Sales and Property Taxes

# Consultant Observations – Part II

- Comparability to neighboring communities with similar characteristics is another key issue.
  - Comparability affects opinions about the cost of government.
  - This is especially true for business location choices.
- Therefore, taxes and fees that focus on goods or services which present less risk of business flight are a good idea.
  - Example – landscaping services would be taxed at the point of delivery (e.g. my house), so a tax on landscaping is less likely to result in businesses leaving Arvada.
- Taxes and fees on goods or services that are less sensitive to price changes are also worth examining.
  - Example – restaurant sales are driven more by convenience and time constraints than price changes.

# Sales Tax Rates

- Arvada's sales tax rate is in the lower half of the metro area.
- Northglenn, Westminster, Broomfield, and Thornton all have sales tax rates that are at least 0.25% higher.
- Among Arvada's neighbors, only Wheatridge has a lower sales tax rate.

SELECTED DENVER METRO AREA CITIES Sales Tax Rates	
CITY	2007
Federal Heights	4.00%
Northglenn	4.00%
Westminster	3.85%
Aurora	3.75%
Broomfield	3.75%
Thornton	3.75%
Denver	3.62%
Boulder	3.56%
Cherry Hills Village	3.50%
Englewood	3.50%
Lafayette	3.50%
<b>Arvada</b>	<b>3.46%</b>
Town of Superior	3.46%
Louisville	3.38%
Longmont	3.28%
Golden	3.00%
Greenwood Village	3.00%
Lakewood	3.00%
Littleton	3.00%
Wheatridge	3.00%

# More on Sales Taxes

- Arvada generates relatively less sales tax than other communities.
- This is most likely attributable to:
  - Average household income levels;
  - The age and minimal density of existing retail in Arvada; and
  - Intense competition from surrounding communities.

# Sales Tax Revenue Per Capita

REVENUE ANALYSIS SELECTED DENVER METRO AREA CITIES Sales Tax per Capita per 1%			
CITY	2005	2006	2007
Greenwood Village	434	507	543
Denver	210	215	223
Town of Superior	n/a	218	213
Englewood	208	183	205
Boulder	172	176	200
Broomfield	203	198	191
Golden	182	182	180
Littleton	NA	n/a	166
Wheatridge	156	156	157
Longmont	n/a	n/a	136
Lakewood	87	132	129
Westminster	127	125	123
<b>Arvada</b>	<b>65</b>	<b>105</b>	<b>110</b>
Aurora	99	104	103
Thornton	104	102	95
Northglenn	89	89	94
Federal Heights	86	87	92
Lafayette	76	87	89
Louisville	161	141	78
Cherry Hills Village	34	27	32

Source: Survey conducted by the City and County of Broomfield

# Property Taxes

- Arvada's property tax levy is in the bottom third of the metro area.
- Northglenn, Broomfield, and Thornton all have property tax levies that are at least 5.8 mills higher.
- Westminster and Wheatridge both have lower mill levies.

SELECTED DENVER METRO AREA CITIES Mill Levies	
CITY	2007
Denver	66.95
Golden	12.34
Lafayette	11.78
Northglenn	11.60
Broomfield	11.46
Aurora	10.87
Thornton	10.21
Boulder	9.89
Town of Superior	8.81
Englewood	8.17
Cherry Hills Village	7.30
Louisville	6.71
Littleton	6.66
Lakewood	4.71
<b>Arvada</b>	<b>4.31</b>
Westminster	3.65
Greenwood Village	2.93
Wheatridge	1.83
Federal Heights	0.68
Longmont	n/a

# More on Property Taxes

- A mill is a term used to describe property taxes.
- The owner of an average home (worth \$282,500) will pay \$23 annually in Arvada for each mill of property tax.
- Businesses pay property taxes at more than three times the rate of homeowners.
  - Therefore, a \$282,500 commercial property would pay \$82 per year for each mill of property tax.
  - A more typical small business property, valued at \$2 million, would pay \$725 per year for each mill of property tax.
- In Arvada, 1.0 mill of property tax generates just over \$1 million per year.
  - As with sales tax, this is relatively low compared to other cities.

# Property Tax Revenue Per Capita

REVENUE ANALYSIS SELECTED DENVER METRO AREA CITIES Property Tax per Capita per 1 Mill			
CITY	2005	2006	2007
Greenwood Village	47	48	62
Cherry Hills Village	45	45	54
Boulder	21	20	23
Denver	n/a	16	19
Broomfield	18	18	18
Englewood	14	14	16
Golden	18	16	16
Littleton	13	13	14
Town of Superior	n/a	14	14
Lafayette	13	13	14
Wheatridge	12	12	13
Longmont	n/a	n/a	12
Louisville	21	20	12
Lakewood	12	11	11
Westminster	11	11	11
<b>Arvada</b>	<b>10</b>	<b>10</b>	<b>10</b>
Thornton	7	7	8
Aurora	9	7	7
Northglenn	7	7	7
Federal Heights	5	4	4

Source: Survey conducted by the City and County of Broomfield

# Consultant Observations – Part III

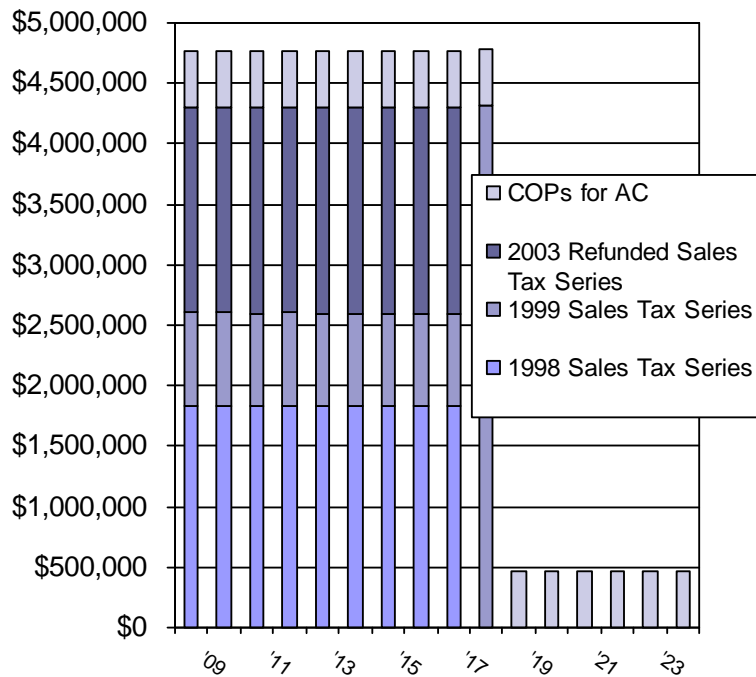
- Operating costs must also be taken into account.
  - The Finance Director indicates that the City is prepared to make the necessary adjustments in its budget to accommodate new capital priorities approved by Council and the voters.
  - However, maintaining capital investments can be expensive.
  - For example, hiring 12 staff to maintain the City's parks, open space, and trails - at an average salary of \$50,000 per year plus benefits - would cost roughly \$800,000 per year.



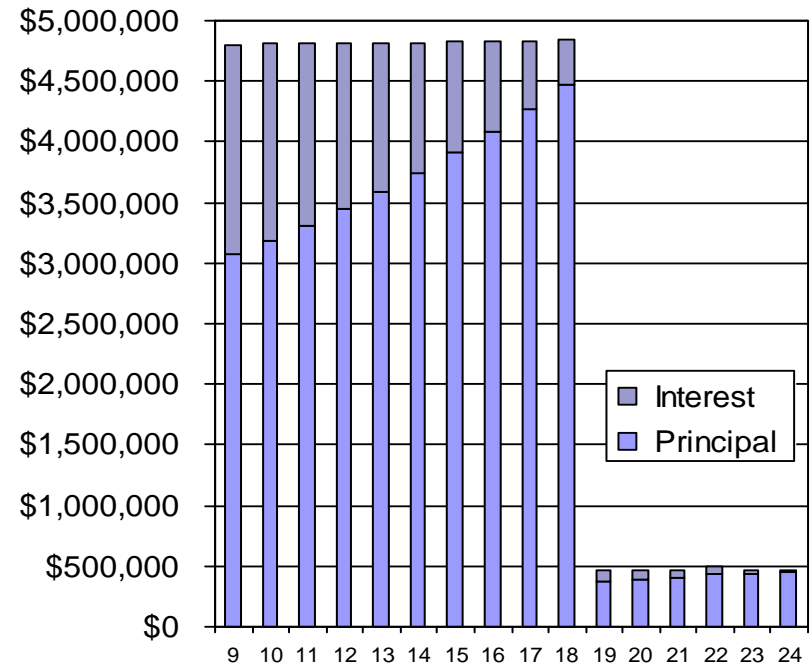
# Revenue Alternatives

# GENERAL GOVERNMENTAL DEBT SERVICE

## Total Debt Service by Issue



## Total Debt Service Principal and Interest



# Bond Issue Costs

- Issuing \$50 million in new bonds would cost roughly \$4.8 to \$5.4 million annually for 15 years.
- This is a hypothetical estimate based on recent interest rates and other financing costs.
  - If a property tax were assessed to cover this cost, the impact on an average home would be between \$108 and \$120 per year.
  - The impact on a business valued at \$2.0 million would be approximately \$3,445 to \$3,805 per year.
- A \$100 million bond issue would double these costs.

\*Note – these figures exclude any associated operating costs.

# Revenue Options Requiring a Citywide Vote

<u>Item</u>	<u>Estimated Annual Revenue</u>
Increase the City property tax by 5.4 mills (Matches cost of a \$50 m bond issue)	\$5.4 million
Increase City sales tax rate by 0.29% (Would match rate for several nearby cities)	\$3.5 million
Increase the City lodger's tax	minimal
Sales or excise tax on services	TBD

\*Note annual revenue is in current dollars

# Other Likely Revenue Options

- **Transportation maintenance fees**
  - Evaluated in at least four Colorado municipalities.
  - Implemented in Loveland.
  - Has a broad base and low rates relative to other options.
    - If implemented in Aurora, an average home would pay \$80 per year and a retail site would pay \$265 per 1,000 sq ft
  - Upheld by the courts as a fee – does not require voter approval.
- **Public improvement fees (PIFs).**
  - Used for new development or redevelopment.
  - Acts like a sales tax.
  - Can be made temporary.
  - Requires an agreement with the developer.

# Special Districts I

## ■ GIDs, BIDs, and SIDs

- The underlying premise for using such districts to finance infrastructure is the same: Establish a geographic boundary to define the area served by a particular improvement and then assess a mill levy to all property owners in that area.
- The legal arrangement for each type of district vary except that a vote of the residents in the affected area is required in nearly all cases.
  - **General Improvement Districts (GID)** have broader powers, including the ability to levy other fees & taxes as well as a property tax.
  - **Business Improvement District (BID)**
  - **Special Improvement Districts (SID)** have the power to issue assessments (exactions) to pay for the cost of improvements – the exactions do not require a vote, but any bonds issued by an SID do require voter approval.

# Special Districts II

## ■ Urban Renewal and TIF's

- Urban Renewal Authorities (URAs) can be designated when specific conditions of blight are found to exist.
  - State law sets the standard for determining “blight.”
- Tax Increment Financing Districts (TIFs) can be used as a mechanism to fund public infrastructure in an URA.
  - TIFs rely on the incremental additional revenue generated by the redevelopment to finance the infrastructure costs.
  - Those revenues include city, county, and school district revenues – primarily sales taxes and property taxes.
- URAs may also issue debt backed by the revenue from a TIF.

## ■ Metropolitan Districts

- Are generally intended as financing tools for specific developments and are not likely applicable to these projects.
- Metro districts may have a role in financing road improvements.

# Other Capital Revenue Options

- **Adopt or increase impact fees or excise taxes** for the infrastructure costs related to new development.
- **Increase fee for use of right of way or increase sales tax on gas and electric sales.**
  - Right of way fee is part of negotiations for franchise agreement.
- **Non-profit payments in lieu of taxes (PILOTs).**
  - Negotiated payments to offset the cost of serving hospitals, churches, schools, and universities.
- **Securitize existing revenue stream**
  - Involves issuing debt backed by existing City revenue.
  - Reduces annual revenue available for other needs.
- **Public-private partnerships and other market-based revenue opportunities**

# Options Not Recommended

Based on criteria described earlier:

- Local income, payroll, and real estate transfer taxes which are constitutionally prohibited.
- Occupational privilege taxes which tend to discourage employers from locating in a City – especially if surrounding communities do not have such a tax.
  - Only Aurora, Denver, Glendale, and Greenwood Village have an OPT.
- Taxes on Internet access – prohibited by federal law.
- Local gas tax, local tax on insurance premiums, and vehicle impact fees require a change in State law.
- Asset sales – generally show an unfavorable long-term cost/benefit.
- Any source not likely to generate substantial revenue (more than \$250,000 per year) – e.g. parking taxes and fees.