City of Aurora

Study of Revenues

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EXECUTIVE SUMMARY

Introduction

During the late 1990s, Aurora experienced strong revenue growth, due to a number of factors, including:

- Significant growth in the national and regional economies, resulting in, among other things, strong increases in personal income;
- Structural change in the regional economy toward knowledge-based jobs, in both professional services and technology industries;
- Rapid growth in retirement and personal investment accounts, reducing the perceived need to increase the level of retirement investment;
- Rapid appreciation in housing values; and
- Falling interest rates.

These factors built on each other, and fueled consumer spending, business investment, and governmental revenues and spending. The 2001 recession changed the fiscal landscape for many American cities and states, and public budgets went quickly from record surpluses to record shortfalls. The City experienced a sales tax revenue decline – Aurora relies on sales and use tax collections for approximately two-thirds of its general fund revenue -- and overall revenue growth was sluggish. However, the impact on its budget was partially offset by increased retail development (and redevelopment), residential development in the southeast portion of the City, and increased upper middle-income housing.

While positive revenue growth has returned, it is not expected to match the historically-high levels of the 1990s. The Aurora short-term fiscal picture has improved, but for a number of reasons the city's revenue stream is not expected to be as robust as the late 1990s. At the same time, there are significant demands for services both in the core city and in newly developing areas. In addition, long-term trends suggest that Aurora's (inflation-adjusted) per capita tax revenues are likely to steadily decline, limiting growth in current revenue sources to levels that will not be sufficient to meet anticipated service needs.

Given these circumstances, the City contracted with Public Financial Management, Inc. and New West Economics to examine its revenue and expenditure patterns in both the short and long term. The study was conducted to:

1. Inform the City's financial and budget decisions by providing information to better understand the relationship between revenues and expenditures in the short and long run.
2. Help the City determine whether its current revenue structure, given its expenditure needs, will result in about the same, better, or a worse financial position than exists at present.

To address these goals, the consultants constructed a 5-year projection model and assembled key data to prepare a longer run (5 to 20 years) revenue growth forecast. While the short-term model's revenue estimates are based on the current economy and projections of short-term changes, the long run model examines how broader changes will affect the City's revenue structure.

Five-Year Model

The five-year model is a simulation that compares anticipated service needs to reasonable economic and revenue assumptions. ***This simulation is not a budget forecast, as any projected gap between expenditures and revenues is not a budget deficit.*** The gap simply represents the difference between City of Aurora levels of service needs and anticipated revenues from current sources. As part of the modeling process, multiple scenarios were developed to give Aurora's appointed and elected officials a range of outcomes based on different revenue and spending assumptions.

Each scenario is based on a set of assumptions related to local and regional economic factors, local development patterns, and current fiscal conditions. For example, the baseline economic forecast uses current and forecasted economic conditions in Colorado and the metro area. By contrast, the optimistic revenue forecast incorporates stronger employment growth and its corresponding impact on the economy. Expenditure assumptions are based on differing sets of service, facility, and infrastructure needs as identified by the City.

Among the major cost increase factors that affect all of the scenarios are:

- Public Safety costs, including mandated Police staffing levels and the need for several additional fire stations;
- Transportation costs including staffing to maintain current infrastructure, major new projects, and major reconstruction programs;
- Other mandated costs, such as compensation increases (which are not currently keeping pace with inflation); gasoline, electricity, and water costs; and increased costs for City-funded health benefits.

Findings: Five-Year Outlook

The City will face budget challenges under each of the likely scenarios over the next five years. Even under the most optimistic scenario of regional economic and local revenue growth, the City's budget will be stretched to meet added compensation and benefit pressure which coincides with this growth. Each of the five-year model scenarios suggest significant adjustments will need to be made to close the gap between current sources of revenues and projected expenditure levels. The City's actual experience is likely to fall somewhere between the scenarios outlined below.

The most likely scenario, given current trends and expected needs, forecasts an annual gap of approximately $11 million in FY2007, which would grow to more than $35 million in FY2011. This scenario is based on current revenue trends and expenditure growth that includes:

1. Gradual restoration of funding for key City services
2. Funding for service needs in newly developing areas
3. Annual pay increases between 3 and 4 percent each year.
4. Gradual restoration of the General Fund transfer to the Capital Projects Fund to normal levels.

The gap falls to between $7 and $12 Million if the scenario above is varied according to the following:

1. The City funds only police staffing increases, other mandated costs, and a select few immediate service needs (namely Fire Stations 14 and 15 along with some Public Works and other staff)
2. No increase in capital funding
3. No additional fire services in newly developing areas
4. No funding to restore services cut in prior years
5. Pay increases that average 2 percent per year.

If the City were to experience a recession similar to the one experienced earlier this decade (a possibility discussed in several national economic forecasts), the gap in this scenario would rise to more than $30 million by 2011.

Under a more optimistic scenario in which sales tax revenues are projected to grow by an average of 6 to 9 percent per year through 2011 (a level that is highly unlikely to be achieved) the City would still face gaps of $12-$22 million per year under the following expenditure assumptions:

1. A restoration of budget cuts in most service areas
2. Providing compensation changes to keep up with local and regional wage and salary conditions
3. An increase in the capital transfer to the level required by ordinance
4. Providing services in newly-developing areas
5. Funding for operating costs associated with several FMP II projects.

All of these scenarios exclude the impact of funding capital needs in excess of the transfer required by ordinance (100 percent of all building materials and equipment use taxes plus 4 percent of all other GF revenue). Given the magnitude of the City's capital needs, the study included separate capital funding scenarios. The first option assumed that the City issued 15-year bonds for $50 million in Public Safety capital improvements and $50 million in transportation improvements. In this situation, the City would need to make annual debt-service payments totaling $9.2 million or approximately 3.52 mills. The second option assumed the City issued 20-year bonds to finance the entire $281 million revised estimate of the cost of the City's Facilities Master Plan, Phase II. In this situation, the City would need to make annual debt-service payments totaling $21.6 million or approximately 8.5 mills.

Many cities in Colorado and throughout the nation are struggling with similar challenges, although some factors are attributable to Aurora's economic and household characteristics. Aurora's decision to undertake this study before these issues become more difficult to resolve is commendable. It provides the City an opportunity to anticipate and understand the choices required to pro-actively deal with the situation.

Findings: Long-term Outlook

The community is developing and changing in a number of ways, and some of these changes can be examined to determine the impact on the long-term fiscal conditions of the City. These changes do, and will, have an impact on both the revenue and expenditure sides of the budget. However, this aspect of the study was primarily focused on how the revenue conditions would be impacted by the anticipated changes in the community.

Several long-term forecasts were completed to reflect the likely change in the economy and the household characteristics within the community. The focus of the longer-term view is to determine whether anticipated development, economic, and other factors will be sufficient to close the gap in the years beyond the five-year horizon

Based on the projections incorporated into the long-term model, growth in existing revenue sources over the next 25 years will not likely be sufficient to meet the projected baseline expenditure levels of the community.

The long-term model reflects the following key changes:

- Economic growth is expected to be steady into the long-term future, but at a much lower rate than was experienced in the 1990s.
- The senior population share will increase, resulting in a lower share of the population in the workforce;
- Mortgage borrowing rates will likely remain higher than rates of the last several years, resulting in the share of new owner-occupied households falling slightly;
- Household and personal income levels are expected to continue to rise, but at a slower rate; and
- Average household size is expected to continue to decline, due to population characteristics and community growth plans.

Given these generally accepted assumptions (about the state and the region), we completed several forecast models to examine the impacts on Aurora, and the impact on revenue available to support City programs and services. The long-term revenue forecast finds that:

- Revenue growth will slow even more than the overall economy due to expected changes in the mix of households in Aurora and the nature of Aurora's tax base;
- While Aurora can and will likely continue to encourage retail and commercial development, this development activity will not, by itself, be of sufficient scale to overcome the impacts of these economic and demographic conditions; and
- Changes in household characteristics in the community will likely have an impact on the demand and type of local government services and programs. These changes are projected to necessitate higher expenditure levels to meet service demands.

In combination, these changes will have a material impact on the City's future revenue and budgets. The projected changes in revenue can be associated with a decline in household spending. While there will be more households in 2030, changes in the types of households will result in a decline in average household spending. Per capita tax revenues (adjusted for inflation) are projected to decline steadily throughout the forecast period. Without changes to the current revenue system, the City is unlikely to be able to close the projected fiscal gap.

Closing the Gap

Structural fiscal gaps generally require concerted action, and our short and long-term models suggest that Aurora's case is no different. A successful outcome will likely require measures that address both expenditures and revenue. Any useful package of expenditure and revenue adjustments will include:

1. Decisions that materially affect expenditure patterns;
2. A continued focus on increasing the efficiency and effectiveness of existing programs and services;
3. Ensuring the appropriateness and a competitive rate for the taxes and fees imposed;
4. Selecting and adopting new revenue measures to appropriately broaden the sources of local revenues; and
5. Long-range economic development strategies that help accentuate positive economic and demographic trends.

No single solution is likely to cover the entire gap. However, a well-conceived package of solutions that addresses both expenditures and limitations of the City's revenue structure should be sufficient to keep the City on positive financial footing now and into the future.

The City has already overcome significant fiscal challenges, mostly through expenditure reductions and transferring costs to other funds. Over the last five years, the City implemented ongoing programmatic budget adjustments totaling approximately $32 million and eliminated more than 166 positions. These reductions have reduced General Fund spending for non-Public Safety services by more than 14 percent since 2002. During this same period, the City's population grew by more than 20,000, with attendant service demands. Given these factors, the City should carefully consider whether additional budget reductions are feasible or desirable. One tool to consider is the use of independent evaluations of service standards and operational practices for the largest components of the City's budget, such as Police and Public Works.

Aurora has a strong record of financial management, strong bond ratings, and has earned national recognition for its services. The City has maintained adequate fund balances and balanced its budgets through programmatic budget cuts, including staff reductions. Consequently, the City is well prepared to address the findings and opportunities identified in the study.

Charges for Services/Utilities. Among revenue options, charges for services are the second largest City revenue source, and nationally they are growing in importance. Driven by demand, they are appealing because of their market-based nature. The City of Aurora should investigate the appropriate use of utilities to provide services, which has been adopted in other large Colorado cities, including Colorado Springs for street lighting and Fort Collins for transportation services. This method is easy to administer – fees can be charged per parcel or per foot of frontage on the right-of-way of a public street and collected through current utility bills. Using this approach, the City could generate $4.5 million per year with a charge of roughly $6 per month for all current water utility customers.

The City should also ensure that inflation does not erode its fees and other charges by regularly indexing these charges. The City should also ensure that services, when appropriate, are billed at full cost, calculated to include all City costs, including capital, salary and benefit costs, and indirect costs.

Changes to the Tax Structure. Aurora should also pursue adjustments to the current tax structure. Fifty years ago, goods accounted for two-thirds of total consumption, and services were one-third. Today, nearly two thirds of consumer spending is for services. At the same time, the price of goods has fallen in many cases. This shift in consumer spending patterns has

had a direct impact on the fiscal condition of states and local communities. To add to this, most services are not subject to the sales tax. To be equitable, it would be logical to tax services in the same way as goods.

Likewise, it makes sense to apply similar levels of tax to different methods for delivering similar services. For example, cable televisions subscribers pay franchise fees, while satellite television subscribers do not; regular telephone line users pay an occupation tax while cellular phone subscribers do not.

Services consumed by non-residents could also be subject to higher excise tax rates, after carefully considering the impact of these taxes on business, consumer, and employment choices. The lodger's tax is an example of a source that captures revenue from non-residents. Taken together, it is likely that a package of changes to the City's tax structure could generate between an additional $5 and $10 million per year.

Changes to Development Related Charges. In many instances, the most critical need for City services is connected with new development. Many years ago, in recognition that services outside the City core are more costly to provide, the City adopted an ordinance that new development should not "create any additional cost or burden on the then-existing residents of the city to provide such public facilities… (Section 46-301 (B)." The City has various options for determining appropriate charges for services, facilities, and infrastructure provided in newly developing areas. These options include traditional impact fees, an excise tax, and new fees for services in these areas. Given the City's many prospects for new development, these tools may be critical to the overall health of the City's finances. Each of these options should be assessed based on the reasonableness of the charge for the services, the importance of the service, and the impact on the City as a whole. Such assessments should be conducted with the active participation of the development community.

As an example of the revenue potential associated with such measures, it is estimated that a $25 per month per dwelling unit excise tax in newly developing areas could generate approximately $700,000 per year based on the expected number of new homes and other dwellings that are built each year. As the number of new dwelling units expands each year, the revenue generated by such a tax would expand accordingly. This tax could provide an important source of operational revenue for ongoing services.

Grow the Existing Sales Tax Base. The City should also pursue strategies that will grow the existing revenue base. Given its heavy reliance on sales and use tax revenue, attracting new and retaining existing retail is an important strategy. Studies have shown that local residential employment and personal income growth have a moderate to strong correlation to sales tax activity and receipts. Consequently, the City should consider continuing to pursue strategies that attract and retain high wage employers and high value housing. At the same time, the City should continue to encourage local retail development that meets the needs and desires of the local and regional households. In all of these activities, the costs and benefits associated with these strategies and with specific development proposals should be carefully evaluated.

Other Alternatives. The City should pursue strategies that grow its fees and other non-tax revenues. Non-profit corporations, which consume City services like fire and police protection, street maintenance and snow removal, do not pay City property taxes that support these services.

Voluntary contributions should be considered to cover these costs, but absent voluntary contributions, charges for services can be pursued as well. Other options, such as advertising on City websites, have provided as much as $1 million a year to some cities.

There are a variety of other revenue sources that also bear investigation, and these are discussed in greater detail on the table in the Appendix as well as in the final report. Because there are literally thousands of variations on many of these revenue alternatives, we have provided a representative sampling from which other alternatives may be derived.

As the City evaluates all of these options for closing the projected gap, it should recognize the benefits of moving forward promptly before the issues become more problematic. In addition, the City should take great care to provide an effective program for public education and input to ensure the development of a community consensus to address these critical issues.

Connection between Fiscal and Development Policy and Decisions

As part of this structural revenue analysis, the consultants reviewed the current Aurora Fiscal Impact Model. This model is used to produce estimates of the revenues and expected expenditures related to new development proposals within the City. The summary results are part of the information provided to the City Council to aid in their consideration of these projects.

After reviewing the existing model, it is recommended that the City begin to develop or obtain a revised fiscal analysis tool. This is based on a review of the existing model data, structure, and the methodology and findings obtained in this study and report. As described earlier in this summary -- and elsewhere within the report -- this study suggests that the City will likely not grow out of the revenue and expenditure gap. As a result, a revised fiscal analysis tool should incorporate the varied spending patterns, planned development, and the underlying household characteristic changes anticipated in the region and local community.

The City, like many others in the Colorado and around the nation, can benefit from a more rigorous analysis of the outcomes from proposed significant development projects and the expected revenue and expenditures associated with this development. This new "Fiscal Analysis Note" should be an informational tool, focusing on the key outcomes and impacts from the proposed project and the cumulative development within the community. Additionally, a given development proposal (and the resulting Fiscal analysis Note), should be viewed in the context of the City's overall development strategy and plan.

CHAPTER ONE: INTRODUCTION

The City of Aurora (the City) is Colorado's third largest city and the second largest within the Denver Metropolitan Statistical Area (MSA). It has experienced steady population growth averaging 1.7% per year; its population is currently estimated at 309,000, and its general fund operating budget is approximately $215 million.

Population growth has continued during recent years, while a number of economic indicators have slowed, resulting in additional budget pressure in the state and many metro area communities. Despite population growth and household income, the City has faced consistent budget deficits, beginning in 2002. As a result, the City has reduced the majority of its city services, except public safety and its water utility functions, by an average of more than 15 percent since 2002. The City's existing five-year projections show continuing budgetary challenges.

As a consequence, the City commissioned this study, to determine whether current revenue sources and rates can sustain the current level of City services into the future or whether structural revenue changes and/or new revenue sources are needed. The study focused on long-term as well as short-term needs for the City to ensure that any recommended changes will be sustainable in the long run.

The City Described

Currently the third largest municipality in Colorado, the City was founded in 1891, and was incorporated on May 5, 1903, as the Town of Fletcher. In 1907, the Town Council changed the name to "Aurora." The Council-Manager form of government was adopted by the City in 1954. In 1961, the City became a Home Rule City by adopting its own Charter pursuant to Article XX of the Constitution of the State. In 1993, the City Charter was amended to provide for a full-time Mayor, beginning January 1, 1996.

The City's boundaries contain an area of more than 142 square miles, and are expanding generally to the northeast and southeast. Located on the plains east of the Rocky Mountains, the City comprises the eastern portion of the Denver metropolitan area, affording its residents short (approximately 15 minute) drives to Denver International Airport as well as the area's two major employment centers (downtown Denver and the Southeast Corridor). At an average altitude of 5,375 feet, the City has a semi-arid, four-season climate (32° average in winter; 70° in summer). This moderate, sunny climate (averaging 300 days of sun/year) enables the City to offer its residents an outdoor lifestyle with approximately 7,800 acres of parks and natural areas, seven public golf courses and numerous recreational programs.

The City enjoys a reasonable cost of living while offering a high quality lifestyle. For the past two years, the Consumer Price Index for the Denver Metropolitan Statistical Area, which includes the City, grew at a slower rate than the rest of the nation, up 2.8 percent last year and 0.9 percent the year before, compared to 3.4 percent and 1.9 percent, respectively, for the U.S. as a whole). The median family income in the City at the end of 2002 was $55,583, as estimated by the City's Planning Department.

Table 1 summarizes the population growth of the City and the metropolitan area.[1]

Table 1
Population

Year	City of Aurora	Denver/Aurora Regional Population	Aurora as % of Metropolitan Are
1970	74,974	1,106,384	6.8%
1980	158,588	1,428,836	11.1%
1990	222,103	1,622,980	13.7%
2000	276,393	2,109,282	13.1%
2005 Estimate	303,833	2,309,535	13.1%
2010 Projection	328,380	2,517,760	13.0%
2020 Projection	388,050	2,937,709	13.2%
2030 Projection	458,564	3,335,049	13.8%

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Table 2
Retail Sales and Effective Buying Income
1998 - 2002

	Per Capita Retail Sales			Median Household Effective Buying Income		
Year	City of Aurora	Denver MSA	State of Colorado	City of Aurora	Denver MSA	State of Colorado
1998	$12,571	$11,051	$11,105	$39,205	$39,275	$35,247
1999	14,043	14,786	14,033	40,007	41,581	37,335
2000	12,816	15,453	14,711	42,979	44,312	39,741
2001	13,562	15,345	14,560	47,398	49,109	44,050
2002	13,079	15,019	14,423	41,668	46,878	43,510

Source: *Sales and Marketing Management*: Survey of Buying Power, 1998–2002. Note: The method of calculating retail sales changed in 2000, affecting the per capita retail sales figures reported in the above table for the years 2000 and thereafter.

The City has benefited from several major infrastructure and transportation projects in recent years, including Denver International Airport, opened by the City and County of Denver in 1995, which is generating substantial development activity in the immediate area, including large office/industrial parks and a broad variety of commercial development. An average of one million square feet of new flex/industrial space has come online every year since 1997. The area

[1] Source: City of Aurora Planning Department; Clarion & Associates; Colorado Department of Local Affairs; Denver Regional Council of Governments; U.S. Census Bureau, State of Colorado Demographer's Office.

also includes seven hotels containing a total of 1,200 rooms at an average occupancy rate of 71.6 percent for 2002.

The E-470 toll highway ("E-470") traverses the eastern perimeter of the Denver metropolitan area, primarily in the eastern portion of the City. E-470 provides high-speed access from the southern metropolitan area, through the City, to Denver International Airport. The final portion of E-470, Segment IV, opened in January 2003 completing the 47-mile semi-circular beltway. With the completion of this segment, a beltway system, of which E-470 is a part, extends from C-470 south of the Denver Tech Center, through the City and the western edge of DIA, to Interstate 25 north of the Denver metropolitan area. E-470 is having a positive impact on development, resulting in new retail, commercial and residential growth in the City. Over 80,000 housing units are planned or under construction in the metropolitan area along the southeastern sections of E-470.

The City's commercial development includes twelve office and industrial parks. These parks vary in location from urban to suburban and offer a wide variety of multi-tenant, single -tenant and user-owned buildings, along with vacant land ready for development. The City has a commercial leasing and development market comprising nearly 8 million square feet of office space and 16 million square feet of industrial and flex space. In the retail sector, the 600,000 square-foot Pioneer Hills shopping center located in southeast Aurora opened in late 2002. Aurora City Place, a 500,000 square-foot urban-renewal sponsored retail project near City Hall, also opened in late 2002. In the far southeast area of the City, Saddlerock Marketplace opened with 350,000 square feet of retail space and was joined by a new super regional retail and entertainment center, Southlands, which opened in 2005 with large discounters, followed by entertainment, restaurants and lifestyle -oriented retailers opening through 2007. This retail space serves both City and non-City residents, resulting in significant imported sales tax revenue.

Historically, three active military bases (Fitzsimons Army Medical Center, Lowry Air Force Base and Buckley Air National Guard Base, renamed Buckley Air Force Base) played an integral role in the life of the City. In the mid-1990's, two of the bases were designated for closure and the City initially anticipated a significant negative impact from the loss of these economic and employment generators. Instead, just the opposite has occurred, as the two closed bases (Lowry and Fitzsimons) quickly became and remain national models for military base re-use. As these two bases are becoming part of the commercial and residential fabric of the area, the third base (Buckley) is increasing in importance as a military base to the Department of Defense.

The 577-acre former Fitzsimons Army Medical Center is now the site of the largest medical related redevelopment project in the nation. The workforce at Fitzsimons was expected to reach 5,000 by 2005, replacing the 4,000 civilian/military jobs lost when the U.S. Army closed Fitzsimons in 1999. Anchoring the redevelopment of Fitzsimons is the new 227-acre campus of the University of Colorado Health Sciences Center and University of Colorado Hospital (UCHSC/UCH) and an affiliated 160-acre research park for biotechnology and biomedical companies (Colorado Bioscience Park Aurora). The total redevelopment program for Fitzsimons calls for over 13 million square feet of new construction, representing a total capital outlay estimated at $4.3 billion. At build-out, as many as 32,000 employees are anticipated to be working at the site. While full project completion may take 20-30 years, the defined schedules

and programs of the major institutions developing at Fitzsimons show employment reaching 19,000 by 2010.

The relocation of UCHSC/UCH from its current location in Denver to the Fitzsimons campus is already well underway and expected to be substantially completed by 2007. This timetable became more certain with the State of Colorado's 2003 authorization of approximately $200 million of Certificates of Participation to fund the education components of the new UCHSC.

Approximately 3,000 employees are already located at Fitzsimons in facilities which include the renovated former main hospital building and the new 600,000 square-foot, $165 million Anschutz Centers for Advanced Medicine and Rocky Mountain Lion's Eye Institute.

Colorado Bioscience Park Aurora has been planned for an eventual build-out of over two million square feet and a work force of 4,000. The bioscience park's affiliation with the University of Colorado allows R&D companies locating at Fitzsimons special-consideration access to university services, core labs and other facilities. This university-affiliated bioscience research park is the first of its kind to open west of the Mississippi. It is modeled after several bioscience research parks successfully launched on the East Coast.

Buckley is one of the key components of the U.S. Space Command and the only major military installation in the Denver area. The base is one of the City's largest employers. The Department of Defense employs approximately 9,300 full-time military, part-time guard and reservists, civilian and contractual personnel at the base. It also provides support to 16,000 dependents and 22,000 retirees.

The U.S. Space Command has been consolidating substantial parts of its satellite operations at Buckley. Approximately one-third of all employees (military, civilian and contractual) on base are assigned to operations affiliated with these programs. Buckley's satellite technology focus has led a number of Fortune 500 companies to increase their presence in the area. Currently Lockheed, Raytheon and Northrop Grumman (formerly TRW Systems Integration) each employ more than 500 workers in nearby office parks. Raytheon is expanding their local office for work on a major multi-billion dollar contract, and Northrop Grumman completed a second building at their campus in late 2002.

It is estimated that the City has a resident labor force of more than 165,000 and that over 128,000 workers are employed in the City. Major employers include Buckley Air Force Base (with more than 9,000 Air Force, Marine, Navy, Department of Defense, Colorado National Guard, Army National Guard and Air Force Reserve employees); the Fitzsimons Campus (with approximately 3,000 combined public, private and not-for-profit sector workers), the City itself, with 2,634 employees, and two public school districts with more than 7,000 total employees. ADT Security Systems and Raytheon are two of the largest private employers, with approximately 3,400 employees combined. Other large employers with facilities in the City include Kaiser Permanente, King Soopers, HealthOne Medical Center of Aurora, Northrop Grumman (formerly TRW Systems Integration), Nelnet Group, Wagner Equipment Company and Lockheed Technical Operations. Tables 4 and 5 provide historical employment trends for the City as well as current unemployment data for the region and state.[2]

[2] Source: Colorado Department of Labor and Employment.

Table 3
Aurora Historical Employment Trends 1998 - 2002

Year	Aurora Labor Force	Aurora Residents Employed	Change in Employment	Annual Residents Unemployed	Aurora Unemployment Rate
1998	160,997	157,305	8,097	3,692	2.3%
1999	160,888	157,093	(212)	3,795	2.4%
2000	161,975	158,349	1,256	3,626	2.2%
2001	162,490	156,829	(1,520)	5,661	3.5%
2002	165,200	155,075	(1,754)	10,125	6.1%

Table 4
State and Metro Employment - 2002

	Aurora	Denver/Aurora Metropolitan Area	Colorado
Total Labor Force	165,200	1,215,905	2,437,413
Total Employed	155,075	1,144,284	2,297,565
Total Unemployed	10,125	71,657	139,848
Unemployment Rate	6.1%	5.9%	5.7%

The City's population has grown from 983 in 1920, to an estimated 291,843 in 2004. With over 80,000 new housing units planned or under construction along the southeastern sections of the new E-470 highway corridor in the metropolitan area, the City is projecting over 30,000 additional residents by 2010. E-470 is a major new toll way that traverses the eastern edge of both the developed portions of the City and the Denver metropolitan area generally from north to south. Its presence is expected to influence the patterns and level of growth in the area for the next 75-100 years. The City has sought to take advantage of this opportunity through strategic annexation, coordinated transportation planning, E-470 corridor land planning and zoning, and economic development policies. The Aurora Reservoir/E-470 area in the southeast corner of the City is ultimately expected to support a residential population of 70,000. Furthering a City goal of attracting more high quality residential development, new communities surrounding two City-owned championship golf courses and providing high-end homes are being constructed in this area. Additional golf course communities are planned in these areas by various developers as well as substantial high-quality development throughout the remainder of the southeast portion of the City.

This growth has brought significant private investment to the City, along with demand for more public services. If the development trend continues, it will likely require expenditures by the City on services and infrastructure necessary to support the new development.

National Trends

The past few years have been extremely challenging for U.S. cities as a whole, as a national recession, reduced federal and state funding support, increased spending pressures, and changes in the economy have put increasing pressure on city budgets and the services they provide.[3] The issues facing Aurora are best viewed within this context.

The 2001 national recession, while short-lived in the technical sense, had a significant revenue effect on all levels of government, particularly for those that rely on income and sales tax as their primary sources of revenue. Because a recession produces lower levels of income, consumption usually declines, which, in turn, reduces sales tax revenues. Nationally, constant dollar revenues declined for three successive years, from 2002 through 2004. This was a significantly greater impact on cities than in previous recessions. For example, revenues did not decline year-to-year during the 1990 to 1993 recession.[4] It is notable that negative fiscal conditions persisted well after the official end of the recession. A report by the National League of Cities summarized this situation by stating that "while economists announced the end of the economic recession two years ago, a fiscal recession continues in America's cities."[5]

City finances have been strained by changes in support from the federal and state governments. Over the past 20 years, federal aid to cities has declined, and federal funding priorities have increasingly focused on K-12 education. As a whole, this reduced support was primarily supplanted by state aid.[6] However, the 2001 recession created significant pressures on state budgets, with projected deficits that totaled approximately $190 billion over three years.[7] Faced

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[3] A number of studies in multiple states suggest that Aurora's challenges are not an isolated incident. For example, The Massachusetts Municipal Finance Task Force, a group of private sector, public sector, and academia experts and leaders led by John P. Hamill, Chairman of Sovereign Bank New England, released a report in September 2005. In discussing that report, Michael Widmer, President of the Massachusetts Taxpayers Foundation, and a member of the Task Force is quoted as say "We have a serious, long-term structural issue related to the financing of local government in Massachusetts." An article on the City Mayors website titled "Additional Revenue Sources are Hard to Find as U.S. Cities Face Increased Responsibilities" notes that "local revenue sources are failing increasingly to meet certain local needs. The fiscal challenges of American cities are basically structural. This is because local sources alone are insufficient and local government is further being burdened by unfunded mandates." The City of San Jose, CA, a growing city of nearly 1 million population, noted, in its presentation of its 2005-2006 budget that "While the City's overall financial position remains relatively stable, The City is facing the fourth year of General Fund budget reductions as a result of the economic downturn that has persisted since 2001. In recent years, the City has bridged these deficits by trimming rather than eliminating services. In this budget, however, significant service reductions were unavoidable." Other cities reporting significant budget issues include Mesa (AZ), St. Paul (MN), Minneapolis (MN), Tacoma (WA) and Fort Collins (CO).

[4] Michael Pagano and Christopher Hoene, "Cities in Recession" American City and County Magazine, November 2004

[5] Michael Pagano and Christopher Hoene, "City Fiscal Conditions in 2004," National League of Cities Research Report on America's Cities, 2004, p. iii.

[6] Bruce Wallin, "Budgeting for Basics: The Changing Landscape of City Finances, The Brookings Institution, August 2005. Based on an examination of the finances of 162 cities from 1977 to 2000 and 54 cities from 2000 to 2004, the author found that federal aid dropped from 17.5 percent of city general revenue in 1977 to 5.4 percent in 2000.

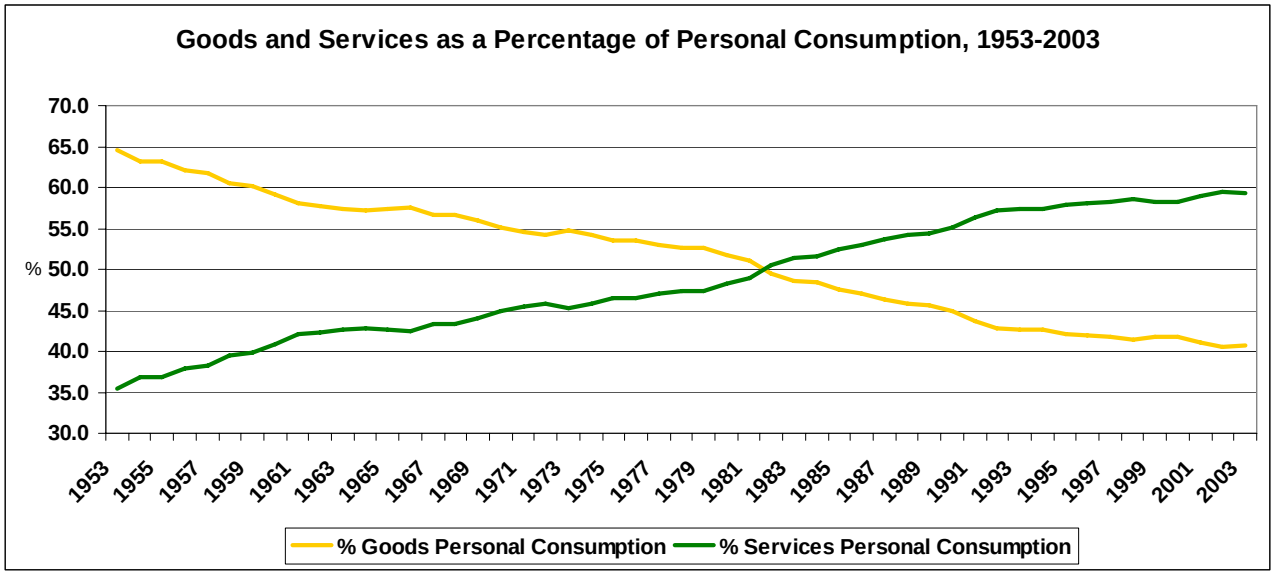
[7] Iris Lav and Andrew Brecher, "Passing Down the Deficit: Federal Policies Contribute to the Severity of the State Fiscal Crisis," Center on Budget and Policy Priorities, August 14, 2004, p.1.

with these budgetary pressures, many states reduced aid to cities – one survey found that 24 states reduced aid to cities from 2003 to 2004 by a total of $2.3 billion, or 9.2 percent.[8]

Changes in the economy have also had an impact on city finances. Over the past 50 years, the United States economy has gradually evolved from one focused on the purchase of goods to one where services predominate.

As the following graph indicates, nearly two-thirds of current consumption is services, nearly the reverse of the situation 50 years earlier.

Figure 1



Source: United States Bureau of Economic Analysis

This has an important impact on revenue collection, because most state and local sales tax systems do not tax services to the same degree as goods. In fact, actual sales tax collections as a share of personal income have been declining for many years, and this trend may continue in the future.[9]

While the revenue outlook has created significant challenges, there is also growing pressure on budgets related to expenditures. Some of the pressures are similar to those found in the private sector, including double-digit increases in health care and energy costs. Other pressures, including spending on homeland security and increased contributions for defined benefit pension plans, are mostly public sector concerns. Spending for public safety issues, which is a core service for cities, has been a priority as well.

State and Regional Trends

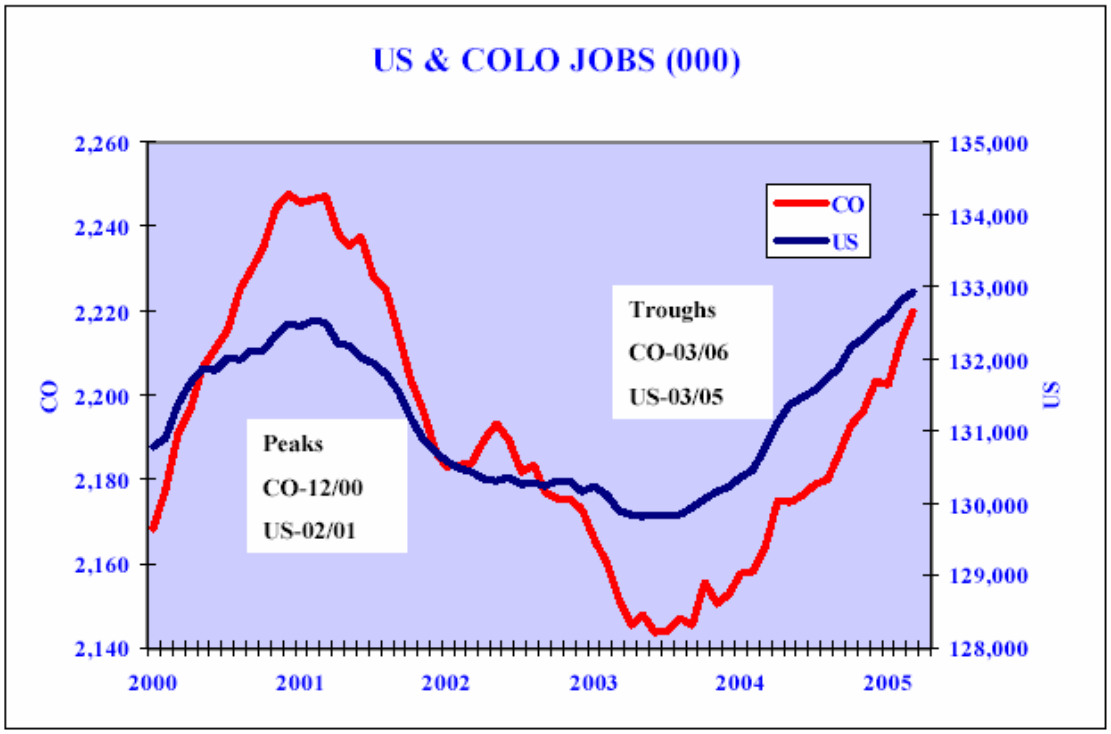
While cities across the nation have experienced significant pressures on both the revenue and expenditure fronts, cities in the Denver-Aurora MSA and the State of Colorado have also had to

[8] Christopher W. Hoene and Michael A. Pagano, *Fiscal Crisis Trickles Down as States Cut Aid to Cities*, National League of Cities, September 2003.
[9] William Fox, "Three Characteristics of Tax Structure have Contributed to the Current Fiscal Crisis," State Tax Notes, August 4, 2003, p. 379.

deal with issues related to Colorado's Taxpayer Bill of Rights (TABOR).[10] Indeed, these issues, coupled with the impacts from the recession, led Standard and Poors to lower the State of Colorado's appropriations ratings to AA- from AA in June 2002, and an additional period between November 2002 and January 2004 where the rating carried a negative outlook.[11] It is notable that no Colorado local government ratings were lowered in that same time period.[12]

Colorado struggled with job losses during the national recession, with most of its regions losing jobs between September 2001 and September 2003. In fact, the metropolitan Denver region sustained the greatest loss, of nearly 80,000 jobs (a 5 percent reduction in total jobs).[13] Of late, however, this trend has reversed, and Colorado job growth has outpaced the nation since recovery began:[14], with Colorado employment recently passing the pre-recession high.

Figure 2

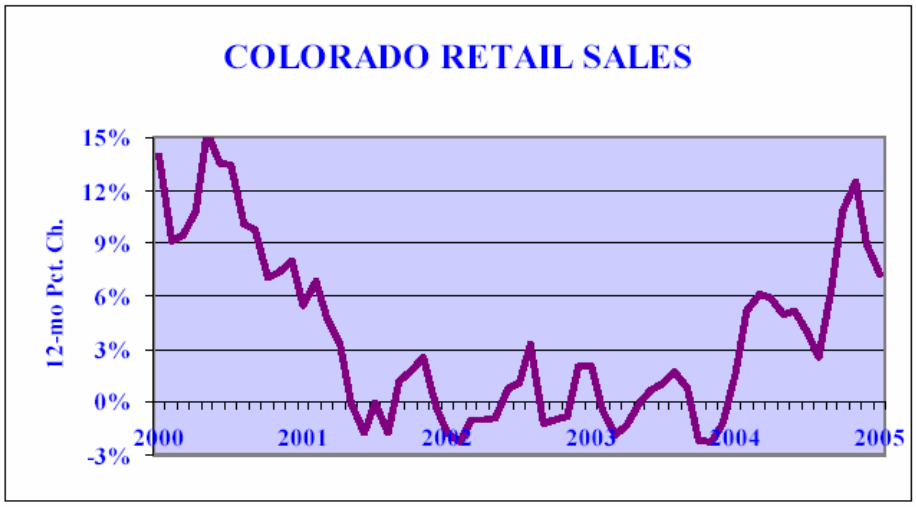


Both Adams and Arapahoe County are estimated to have gained jobs in the past year, with Adams County's 2005 employment estimated to have increased by 1,027 and Arapahoe's by 1,022.[15] Job growth has been coupled with above average personal income growth to help maintain reasonable rates of consumer spending.

[10] TABOR was enacted as a constitutional amendment in 1992 and generally limits growth in state and local revenues to inflation plus population growth rates. See the Appendix for a broader discussion of TABOR and its effect on state and local budgets.
[11] "State Review: Colorado," Standard and Poor's, January 30, 2006.
[12] "Research: Careful Management and Growth Key to Stability of Colorado Local Ratings," Standard and Poor's, February 8, 2005.
[13] Center for Business and Economic Forecasting, Inc., prepared for the Colorado Division of Local Government, May 12, 2005.
[14] Ibid.
[15] Denver Regional Council of Governments, November 29, 2005.

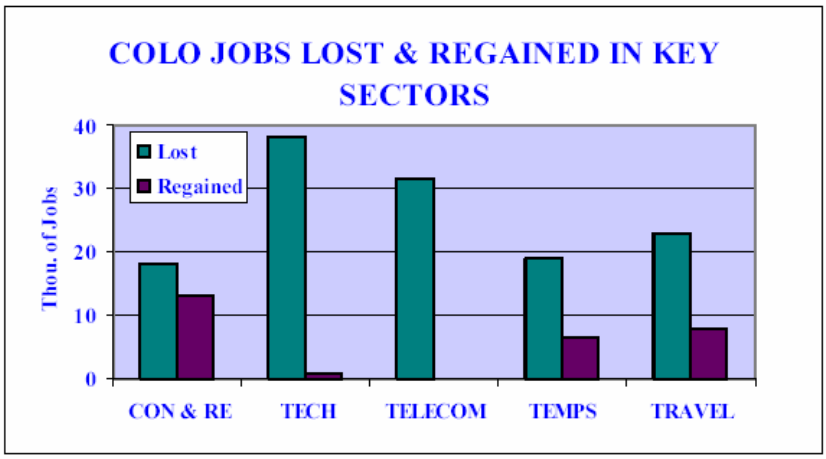
In fact, as the following chart shows, consumer spending rebounded in 2005 after three years of little or no growth:[16]

Figure 3



While the State's recovery is almost two years old, it is notable that some important sectors, such as telecommunications and technology, have not experienced a significant rebound.[17] In fact, the telecommunication industry continues to experience employment setbacks and market uncertainty. It is also likely that, in general, the mix of recovered jobs has a lower average wage compared to the jobs lost from the recession.

Figure 4



There are also concerns that the current recovery has been slower than after past downturns. It is also likely that any slowing of growth in the national economy will lead to a similar slowing of recovery in Colorado.

[16] Op cit., Center for Business and Economic Forecasting, Inc.
[17] Ibid.

In summary, while Colorado as a whole and the Metropolitan Denver region encountered several difficult years during and after the national recession, there are signs that there has been an improvement in the economy, with job and personal income growth above the national average. Colorado's cities have been able to cope during this difficult period, but it remains to be seen if the economic recovery will be sustainable in the coming years.

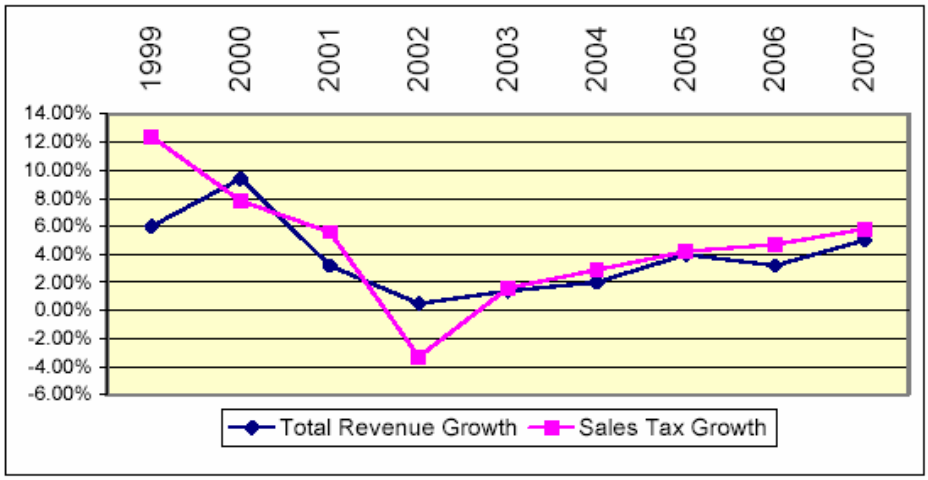
Budget and Management Trends

Aurora has a well-deserved reputation for strong management and financial practices. It enjoys strong credit ratings – AA from Standard and Poor's and a recent upgrade to Aa2 from Moody's Investors Services.[18] Standard and Poor's noted that in fiscal year 2006, "management has made reductions in the budget to nonpublic safety expenditures to offset increases in public safety costs and expects to maintain stable reserve levels." Standard and Poor's assessed the City's fiscal outlook as stable, reflecting the expectation that "management will be able to balance fund operations to maintain reserves at, or above, the City's reserve policy," as well as the City's "continued economic growth and diversification" and continued "successful management of its capital plan."

The City has received several awards reflecting excellence in management in services. Its comprehensive annual financial report has regularly received the Government Finance Officers Associations' award for excellence in financial reporting. This past year, Aurora's digital governance efforts led to it being ranked number four on the Center for Digital Governance's rankings of the top 10 digital cities in the country.[19]

As mentioned earlier, the City has experienced budget difficulties, largely resulting from the 2001 national recession and changes in demographics. The following chart details the reduced revenue collections beginning in 2001, which is expected to continue through 2007:[20]

Figure 5



[18] See "Aurora, Colorado," Standard and Poor's, February 28, 2006; "Positive Credit Trends in Most Municipal Sectors in 2005," Moody's Investors Services, January 2006.
[19] "2005 Digital Cities Survey," Center for Digital Governance, 2005. The top 10 list for large cities (over 250,000 population) was 1.Corpus Christi, TX; 2. Tampa, FL; 3. Los Angeles, CA; 4.-5 (tie) Aurora, CO and Tucson, AZ; 6. St. Paul, MN; 7. Wichita, KS; 8. Nashville, TN; 9. Colorado Springs, CO; 10. Mesa, AZ.
[20] "City of Aurora FY2006 Recommended Budget," City of Aurora, August 31, 2005, p. B-2.

The City has relied on budget reductions to deal with this reduced growth in revenues. General Fund spending in most departments has remained flat or, in several cases, declined since 2003. Only the Internal Services Department (up $2.3 million) and Police Department (up $8.9 million) show significant increases since 2003. The Internal Services Department increase replaced vehicles in the fleet, which was reduced in 2002 and 2003. The increase in the Police Department is primarily due to increases in uniformed staffing required by the mandate that the City employ two police officers for every 1,000 Aurora residents.[21]

Because personnel costs are a majority of City budget expenditures, it is no surprise that staffing levels in the General Fund and several other funds have declined each year since 2003. In the proposed FY2006 budget, the City will add 3.5 FTEs. This net increase is comprised of numerous increases and decreases, with the bulk of the increases coming in Police and Aurora Water staff.[22] The following details these staffing changes:[23]

Table 5
City Staffing by Fund

Fund	2003 Actual	2004 Actual	2005 Projection	2006 Proposed
Abatement Fund	1.00	1.00	1.00	1.00
Arapahoe County Open Space Fund (a)	0.00	0.00	2.75	8.10
Community Development Fund	26.00	29.00	29.00	31.30
Conservation Trust Fund	5.00	4.50	4.50	4.65
Cultural Services Fund (b)	18.00	18.00	18.00	16.00
Designated Revenues Fund	11.50	10.50	15.50	27.80
Development Review Fund	111.95	107.85	115.85	121.25
Enhanced E-911 Fund	0.00	0.00	0.00	5.00
Fleet Management Fund	40.00	40.00	40.00	38.34
General Fund	2,047.17	2,008.47	1,979.92	1,952.18
Gifts & Grants Fund	8.40	4.50	1.50	0.50
Golf Courses Fund	57.00	57.00	56.00	52.00
Print Shop Fund	8.00	5.00	4.00	2.50
Recreation Fund	72.80	69.30	68.30	63.20
Risk Management Fund	11.00	10.00	10.00	10.00
Wastewater Fund	104.75	111.75	123.07	126.73
Water Fund	180.25	192.25	205.93	218.27
Grand Total	**2,702.82**	**2,669.12**	**2,675.32**	**2,678.82**

(a) The Arapahoe County Open Space Fund was established in 2005.
(b) The Cultural Services Fund was established in 2003.

Throughout all of the budget challenges, the City has been able to maintain reserve funds in excess of 10.0 percent of general fund expenditures, less transfers for capital and debt service, expenditures for the two police officers per 1,000 population, and incentive payments.[24] This reserve level, according to the national credit rating agencies, is generally sufficient to withstand

[21] Ibid., p. B-3.
[22] Ibid., p. B-3.
[23] Ibid., p. B-14.
[24] Ibid., p. E-82

budget shocks related to unforeseen circumstances or a typical economic downturn. The following details the past performance and future projections for the City's Policy Reserve Fund:[25]

Table 6
Policy Reserve Fund Detail

	2004 Actual	2005 Projection	2006 Proposed	2007 Projected	2008 Projected	2009 Projected	2010 Projected
Long Range Plan							
Revenues	$ 507,496	$ 577,338	$ 724,000	$ 777,159	$ 806,528	$ 836,695	$ 867,812
Expenditures - Operating	119,488	163,075	28,616	42,919	52,375	58,754	61,545
Expenditures - Capital	-	-	-	-	-	-	-
Surplus / (Deficit)	**$ 388,008**	**$ 414,263**	**$ 695,384**	**$ 734,240**	**$ 754,153**	**$ 777,941**	**$ 806,267**
Beginning Funds Available	$ 17,931,317	$ 18,319,325	$ 18,733,588	$ 19,428,972	$ 20,163,212	$ 20,917,365	$ 21,695,306
Inc/(Dec) in Funds Available	388,008	414,263	695,384	734,240	754,153	777,941	806,267
Ending Funds Available	**$ 18,319,325**	**$ 18,733,588**	**$ 19,428,972**	**$ 20,163,212**	**$ 20,917,365**	**$ 21,695,306**	**$ 22,501,573**

* Expenditures exclude prior year's carryovers

The revenues for the Policy Reserve Fund are derived primarily from interest earnings and a transfer from the General Fund to maintain the 10.0 percent requirement. No transfer has been necessary because budget cuts reduced General Fund operating expenditures sufficiently to allow the City to meet the ten percent reserve requirement with interest earnings alone.

In summary, the City has faced significant challenges because of the national recession and changing demographics. The City has overcome these pressures by staff and other budget reductions and maintained adequate reserves at the same time. While strong management practices have allowed the City to face previous obstacles, there are concerns that City services may suffer if budget reductions persist in the future.

The Study

After five years of dealing with budgets with significantly reduced levels of general fund revenues, the City management and the City Council agreed that it would prove helpful to conduct a study to guide budget decision-making in the short and long term. The study was to determine if current budget conditions were likely to improve, deteriorate or stay about the same both in the short term (over the next five years) and in the longer term (from five to twenty years). The study primarily focused on revenue issues, both tax and charges for services, but expenditure trends, mostly related to maintaining current levels of service, were also examined. The study was to examine several scenarios of expenditure and revenue alternatives for consideration by the City.

There were two general objectives for the study:

1. Inform the City's financial and budget decisions by providing information to better understand the relationship between revenues and expenditures in the short and long run.
2. Help the City determine whether its current revenue structure, given its expenditure needs, will result in about the same, better, or a worse financial position than exists at present.

[25] Ibid.

The Study was jointly conducted by Public Financial Management, Inc. (PFM), and New West Economics Group (NWE). PFM is the nation's largest financial advisory firm for state and local governments. Its strategic consulting practice has conducted numerous revenue, expenditure and multi-year planning studies for local governments across the country, including the Cities of Austin TX, Jackson MS, Miami FL, Minneapolis MN, New Haven CT, Philadelphia PA, Pittsburgh PA, Providence RI, Washington DC, and Wilmington DE. NWE is a Denver-based firm with an extensive knowledge and background in understanding regional and local economic conditions and outcomes. NWE has developed a number of local, regional and state forecasts, estimates, and models.

CHAPTER TWO:
BASELINE ASSESSMENT AND MULTI-YEAR PROJECTION

Overview

In order to understand how the economic conditions described in the previous section affect the City of Aurora's future financial health, PFM built a multi-year financial projection model of the City's budget. The foundation of the model is electronic data on past financial results and the FY2006 adopted budget numbers provided by the City. This information has been supplemented by interviews with City officials and others to create a picture of the City's finances for the last several years. PFM, in conjunction with City staff and New West, has made certain assumptions about the future growth in various budget lines, as described below, and used these to project revenues, expenditures, and net operating balances from FY2007 through FY2011

The results under each set of assumptions, presented and described in this section, show that if no changes are made to current policies the City will experience a current and widening gap between revenues and expenditures over the next several years. While the results of PFM's baseline projection would change slightly with different assumptions, most of the major revenue and cost drivers in the City's budget are steady and slow to change, are published negotiated figures, or are well-established externally-driven trends (such as health benefits costs). As a result, PFM is confident that the general baseline trend shown here is accurate.

Summary of Findings

The results of PFM's baseline modeling show that the City of Aurora will be faced with significantly increasing budget gaps in each of the next five years. Furthermore, the gap exists under each set of assumptions, including both optimistic and pessimistic scenarios. While the City has been well-managed and has taken many steps to control costs and increase revenue, even more aggressive action to halt and reverse negative trends are necessary to ensure Aurora's long-term financial health.

As a result of a variety of factors, most City revenues have grown modestly in recent years with the limited exception of the sales tax and fines and forfeitures. At the same time, the City has faced the pressures of every local government – citizen expectations that current levels of service will be maintained or improved; employee expectations that wages will grow at least as fast as their cost of living; rapidly increasing costs for employee health care; and price inflation rates that generally exceed the growth rate of municipal revenues. The City also has the added pressures of addressing service needs in the newly developing areas as well as the service needs in the core city.

In Aurora, this situation is particularly acute because:

- The City faces considerable revenue restrictions stemming from the 1992 Taxpayer's Bill of Rights (TABOR). TABOR is a set of constitutional provisions Colorado voters adopted in 1992 to limit revenue growth for state and local governments in Colorado and to require that any tax increase in any state or local government (counties, cities, towns, school districts and special districts) must be approved by the voters of the affected government;
- The City is mandated to employ two police officers for every 1,000 residents. In a City projected to add 30,000 residents over the next five years, the expenditures related to this mandate will be significant;

- Sales tax revenues constitute over half of the City's total General Fund revenues. As sales tax revenues are largely influenced by economic conditions, this revenue source can lag expectations in times of economic downturns; and

- The City has already undertaken many traditional responses to fiscal pressure, including personnel reductions and service reductions.

As a result of these factors, expenditures in Aurora have exceeded revenues for some time, leaving the City with negative net operating balances for each year from 2001 to 2004 (with the exception of 2002). The City has been working on this issue, and with improved management, personnel and expenditure reductions, estimated year-end 2005 numbers are projecting a small positive net operating balance.

Although responsible, proactive steps taken by the City Manager and City Council in adopting and implementing the 2006 budget may result in a relatively small negative operating balance, the underlying imbalance continues. If left unaddressed, this trend will accelerate over the next five years and create a widening budget gap for the City. PFM's baseline (control scenario) model projects that if no corrective action is taken, expenditures will exceed revenues by up to $35.6 million in 2011; over 13.0 percent of projected revenue.

As with all governments facing financial challenges, the options for the City of Aurora are clear:

1. Increase revenues to pay for the growing cost of baseline services and any desired service enhancements, whether by growing the tax base, more effective collection of taxes and fees, or increasing taxes and fees.

2. Reduce expenditures by providing services more efficiently and at a lower cost, or by eliminating services.

3. Bring in more direct, indirect, and in-kind assistance from other sources, including the county, regional, state and federal governments or civic institutions.

This revenue study will provide a comprehensive set of options in the first of these three areas, designed to provide policymakers and the public with choices for creating long-term financial stability and (ultimately) growth.

The remainder of this section consists of a detailed baseline assessment and multi-year forecast.

Multi-Year Projection Methodology

Base Year

The projections in this baseline assessment draw primarily on the City of Aurora's budgeted FY2006 revenue and expenditure numbers, with some reference to historical results dating to FY2001. All information was provided by the City of Aurora's Office of Budget and Financial Planning. The FY2006 budgeted numbers (as opposed to FY2005 actual numbers) were selected as the base in order to reflect the substantial changes in budget priorities in FY2006 and future years and the effect of major revenue changes taking place in FY2006.

Based on discussions with the Budget Director and the Finance Director, some adjustments were made to the baseline to account for one-time events that will occur in FY2006, or to budget lines expected to undergo substantial alteration in future years (i.e. due to program termination, or expected changes in fund transfers).

Following the determination of a baseline budget in this manner, a series of growth assumptions were applied to develop a trend line forecast for revenue and expenditure items in Fiscal Years 2007-2011. In general, PFM has sought to use prudent, moderately conservative assumptions to balance the need for adjustments against the most likely outcome. This approach allows the City to benefit from more positive results rather than becoming dependent on them to maintain fiscal health.

Model Scenarios

The model incorporates revenue projections from three alternative economic forecasts. These revenue projections are for the six major taxes in Aurora, under each alternative forecast – control, optimistic, and pessimistic. These forecasts are linked to outcome variables from the official State of Colorado economic forecasts, completed by the Colorado Legislative Council and the Governor's Office of State Planning and Budget (OSPB). Both these forecasts are based on Moody's Economy.com national economic forecasts.

The control scenario is considered as the most likely of the three scenarios. However, after reviewing the state's forecast outcomes, New West believed that the numbers were slightly too optimistic for a control forecast. Therefore, based on this professional judgment, the revenue projections in the control forecast were slightly altered downward to match the revenue projections included in the City's 2006-2010 budget forecast. The optimistic revenue projections are based on the strongest five years of growth over the past fifteen years in the Colorado economy – 1992-1997; while the pessimistic revenue projections are based on the weakest five years of growth over the same period – 2000-2005.

Multiple scenarios have been developed to give the City a sense of the range of potential outcomes, using different revenue and spending assumptions. It is important to note that the five-year model is a simulation based on a reasonable (but not the only possible) set of assumptions. The projections are not budget forecasts and any forecast of a gap between revenues and expenditures is not a projected budget deficit. The City is required by its charter to submit a balance budget each year; therefore any gaps projected by the five-year model would not come to fruition.

While the bulk of this chapter will focus on the baseline (control scenario) forecast, assumptions in the alternative scenarios will also be discussed.

Revenues

Overview

Steady growth in the City's revenue is central to its long-term fiscal health, yet for several years many of its primary revenue streams have shown little real improvement. With inflationary pressures on the expenditure side of the budget that cannot be avoided without extensive service

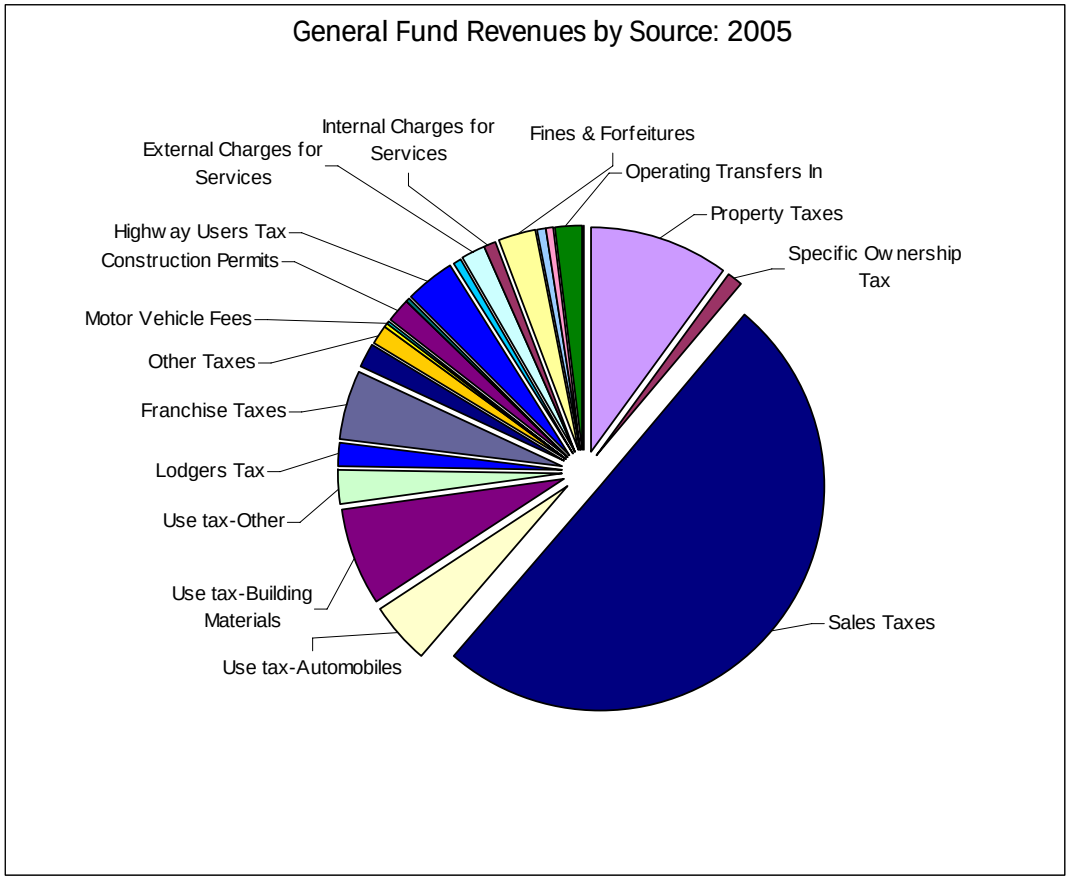
cuts, an increase in revenue – either from existing sources, new sources, or both – is a necessary component for the creation of a fiscally sustainable City government. This portion of the report examines recent and current trends in City revenues, as well as future revenue projections absent any corrective action or efforts to increase revenue.

Revenue Trends: Past, Present, and Future

This section highlights the City's recent revenue history and describes this report's baseline revenue forecast – the forecast of future revenue through 2011 under current trends and laws and assuming no change to the property tax millage rate or sales tax rate.

As shown in Figure 6, Sales Taxes constituted 50.2 percent of the city's 2005 General Fund revenues. At 9.9 percent of General Fund revenues, Property Taxes were the second largest source, and Building Materials Use Taxes, Automobile Use Taxes, and other Use Taxes together represented an additional 14.1 percent of revenues.

Figure 6



Detailed Revenue Projections – Control Forecast

With an overall average annual growth rate of 2.7 percent from 2001 to 2005, total revenue growth in the General Fund has been relatively constant over the last several years after seeing negative growth in 2002. Much of that growth, however, has been focused in just a few categories:

- Fines and Forfeitures
- Building Materials Use Tax
- Intergovernmental Revenues
- Property Taxes
- County Road and Bridge Taxes

In the 2007-2011 period under the control scenario, it is expected that fines and forfeitures will grow steadily at 3.0 percent per year, while building materials use tax revenue is expected to grow as new development in the City continues. Property taxes are also expected to grow modestly, as are county road and bridge taxes. Therefore, over the five-year period the major revenue drivers of the past several years are not expected to continue to support robust overall revenue growth.

The first table on the following pages, Table 7, summarizes the dollar increases expected under the control scenario for the 2007-2011 period. The second table, Table 8, indicates the percentage increase (or decrease) on the previous year for each revenue item or category. The dynamics of individual revenue types will be described in greater detail in the pages that follow the revenue projection tables.

The baseline revenue projections anticipate a decrease in overall revenue of -0.7 percent in FY2006, driven by expected decreases in the building materials use taxes and other minor taxes. Then, growth is projected to increase to 4.9 percent in FY2007; 4.4 percent in 2008; 4.3 percent in 2009; 4.0 percent in 2010; and 4.5 percent in 2011 (in contrast, the forecast projects average annual growth of 6.9 percent in expenditures). City revenues are projected to grow at a lower rate than expenditures in each and every one of the next five years; Aurora is facing a major challenge as its costs are already beginning to outstrip the natural growth of its limited revenue sources.

Tables 7-8
(see following pages)

City of Aurora, Colorado, Five-Year Projections Model

Summary for the General Fund Fund

	HISTORICAL DATA						PROJECTED DATA				
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	actual_01	actual_02	actual_03	actual_04	project_05	proj_06	proj_07	proj_08	proj_09	proj_10	proj_11
REVENUES	**Actual**	**Actual**	**Actual**	**Actual**	**Actual**	**Budget**					
Taxes											
Property Taxes	$ 18,385,046	$ 19,956,490	$ 23,130,489	$ 21,222,403	$ 21,976,407	$ 22,656,619	$ 23,472,257	$ 24,997,954	$ 26,147,860	$ 27,193,774	$ 27,982,394
Specific Ownership Tax	$ 2,528,839	$ 3,059,798	$ 2,812,810	$ 2,704,313	$ 2,653,039	$ 2,798,964	$ 2,896,928	$ 2,998,320	$ 3,103,261	$ 3,211,876	$ 3,324,291
Sales Taxes	$ 104,932,227	$ 101,446,505	$ 103,058,917	$ 106,072,264	$ 111,556,185	$ 115,706,567	$ 122,417,548	$ 128,048,755	$ 133,810,949	$ 139,163,387	$ 146,121,556
Use Tax-Automobiles	$ 11,438,367	$ 11,469,004	$ 10,948,898	$ 10,215,872	$ 10,284,541	$ 10,869,483	$ 11,499,913	$ 12,028,909	$ 12,570,210	$ 13,073,018	$ 13,504,428
Use Tax-Building Materials	$ 7,567,316	$ 10,236,467	$ 8,614,854	$ 11,934,377	$ 14,972,652	$ 11,503,302	$ 12,251,017	$ 13,059,584	$ 14,012,933	$ 15,077,916	$ 16,525,396
Use Tax-Other	$ 5,712,606	$ 6,779,113	$ 4,653,301	$ 4,733,592	$ 6,040,007	$ 5,700,457	$ 5,979,779	$ 6,272,789	$ 6,586,428	$ 6,922,336	$ 7,261,530
Lodgers Tax	$ 3,505,950	$ 3,216,942	$ 3,058,814	$ 3,124,781	$ 3,329,246	$ 3,206,109	$ 3,270,231	$ 3,335,636	$ 3,402,349	$ 3,470,395	$ 3,539,803
Franchise Taxes	$ 10,117,112	$ 8,777,936	$ 10,183,684	$ 10,606,170	$ 11,224,526	$ 10,779,141	$ 11,091,736	$ 11,413,396	$ 11,732,972	$ 12,061,495	$ 12,399,217
Occupational Privilege Tax	$ 3,657,773	$ 3,824,913	$ 3,669,473	$ 3,733,332	$ 3,898,581	$ 3,916,659	$ 3,994,992	$ 4,074,892	$ 4,156,390	$ 4,239,518	$ 4,324,308
Other Taxes	$ 1,678,494	$ 1,370,608	$ 2,052,109	$ 2,657,452	$ 2,713,759	$ 2,550,459	$ 2,626,964	$ 2,718,907	$ 2,800,474	$ 2,884,488	$ 2,971,023
Total Taxes	$ 169,523,730	$ 170,137,776	$ 172,183,349	$ 177,004,556	$ 188,648,943	$ 189,687,760	$ 199,501,365	$ 208,949,142	$ 218,323,826	$ 227,298,203	$ 237,953,947
Intergovernmental											
Intergovernmental Revenues	$ 315,514	$ 249,242	$ 515,798	$ 382,637	$ 298,155	$ 282,784	$ 291,268	$ 300,006	$ 309,006	$ 318,276	$ 327,824
Cigarette Tax	$ 909,684	$ 877,578	$ 824,539	$ 859,687	$ 787,904	$ 742,500	$ 735,075	$ 727,724	$ 720,447	$ 713,243	$ 706,110
Highway Users Tax	$ 8,258,297	$ 8,355,617	$ 7,973,637	$ 7,974,829	$ 7,580,014	$ 8,214,073	$ 8,460,495	$ 8,714,310	$ 8,975,739	$ 9,245,012	$ 9,522,362
County Road And Bridge Tax	$ 1,091,076	$ 1,094,588	$ 1,154,067	$ 1,207,833	$ 1,253,894	$ 1,323,875	$ 1,396,688	$ 1,466,523	$ 1,539,849	$ 1,616,841	$ 1,697,683
Total Intergovernmental	$ 10,574,571	$ 10,577,025	$ 10,468,041	$ 10,424,986	$ 9,919,967	$ 10,563,232	$ 10,883,526	$ 11,208,562	$ 11,545,041	$ 11,893,371	$ 12,253,979
Licenses & Permits											
Business License And Permits	$ 816,732	$ 654,626	$ 672,160	$ 708,330	$ 675,672	$ 722,497	$ 736,947	$ 751,686	$ 766,720	$ 782,054	$ 797,695
Motor Vehicle Fees	$ 810,968	$ 813,435	$ 821,816	$ 795,203	$ 836,030	$ 910,359	$ 963,160	$ 1,007,465	$ 1,052,801	$ 1,094,913	$ 1,138,710
Construction Permits	$ 5,512,758	$ 1,548,918	$ 1,537,025	$ 2,009,151	$ 3,248,590	$ 2,153,716	$ 2,293,708	$ 2,445,092	$ 2,623,584	$ 2,822,976	$ 3,037,523
Total Licenses & Permits	$ 7,140,458	$ 3,016,979	$ 3,031,001	$ 3,512,684	$ 4,760,292	$ 3,786,572	$ 3,993,814	$ 4,204,243	$ 4,443,105	$ 4,699,943	$ 4,973,927
Charges for Services											
Fines & Forfeitures	$ 3,976,992	$ 4,117,734	$ 4,547,241	$ 4,492,855	$ 6,280,511	$ 6,530,773	$ 6,792,004	$ 7,063,684	$ 7,346,231	$ 7,640,081	$ 7,945,684
External Charges For Services	$ 3,747,966	$ 3,499,120	$ 3,155,174	$ 3,325,859	$ 3,680,867	$ 3,457,543	$ 3,561,269	$ 3,668,107	$ 3,778,151	$ 3,891,495	$ 4,008,240
Internal Charges For Services	$ 1,615,672	$ 2,196,734	$ 2,337,671	$ 2,274,966	$ 2,279,321	$ 2,012,955	$ 2,073,344	$ 2,135,544	$ 2,199,610	$ 2,265,599	$ 2,333,567
Investment Income	$ 2,394,712	$ 1,696,989	$ 1,582,887	$ 895,526	$ 1,052,039	$ 750,000	$ 772,500	$ 795,675	$ 819,545	$ 844,132	$ 869,456
Miscellaneous	$ 845,169	$ 838,411	$ 1,649,482	$ 918,800	$ 1,047,661	$ 742,082	$ 749,503	$ 756,998	$ 764,568	$ 772,214	$ 779,936
Total Charges for Services	$ 12,580,511	$ 12,348,988	$ 13,272,455	$ 11,908,006	$ 14,340,399	$ 13,493,353	$ 13,948,620	$ 14,420,008	$ 14,908,105	$ 15,413,520	$ 15,936,882
Operating Transfers In	$ 111,294	$ 1,389,500	$ 3,864,534	$ 6,011,235	$ 4,407,901	$ 2,950,590	$ 2,909,090	$ 2,679,840	$ 2,659,840	$ 2,659,840	$ 2,659,840
Revenue Adjustments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-Budget Items	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL REVENUES	**$ 199,930,564**	**$ 197,470,268**	**$ 202,819,380**	**$ 208,861,467**	**$ 222,077,502**	**$ 220,481,507**	**$ 231,236,415**	**$ 241,461,796**	**$ 251,879,917**	**$ 261,964,878**	**$ 273,778,575**

City of Aurora, Colorado, Five-Year Projections Model

Growth Rate Assumptions for the General Fund

						PROJECTED DATA				
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES	Actual	Actual	Actual	Actual	Budget					
Taxes										
Property Taxes	8.55%	15.90%	-8.25%	3.55%	3.10%	3.60%	6.50%	4.60%	4.00%	2.90%
Specific Ownership Tax	21.00%	-8.07%	-3.86%	-1.90%	5.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Sales Taxes	-3.32%	1.59%	2.92%	5.17%	3.72%	5.80%	4.60%	4.50%	4.00%	5.00%
Use Tax-Automobiles	0.27%	-4.53%	-6.69%	0.67%	5.69%	5.80%	4.60%	4.50%	4.00%	3.30%
Use Tax-Building Materials	35.27%	-15.84%	38.53%	25.46%	-23.17%	6.50%	6.60%	7.30%	7.60%	9.60%
Use Tax-Other	18.67%	-31.36%	1.73%	27.60%	-5.62%	4.90%	4.90%	5.00%	5.10%	4.90%
Lodgers Tax	-8.24%	-4.92%	2.16%	6.54%	-3.70%	2.00%	2.00%	2.00%	2.00%	2.00%
Franchise Taxes	-13.24%	16.01%	4.15%	5.83%	-3.97%	2.90%	2.90%	2.80%	2.80%	2.80%
Occupational Privilege Tax	4.57%	-4.06%	1.74%	4.43%	0.46%	2.00%	2.00%	2.00%	2.00%	2.00%
Other Taxes	-18.34%	49.72%	29.50%	2.12%	-6.02%	3.00%	3.50%	3.00%	3.00%	3.00%
Total Taxes	0.36%	1.20%	2.80%	6.58%	0.55%	5.17%	4.74%	4.49%	4.11%	4.69%
Intergovernmental										
Intergovernmental Revenues	-21.00%	106.95%	-25.82%	-22.08%	-5.16%	3.00%	3.00%	3.00%	3.00%	3.00%
Cigarette Tax	-3.53%	-6.04%	4.26%	-8.35%	-5.76%	-1.00%	-1.00%	-1.00%	-1.00%	-1.00%
Highway Users Tax	1.18%	-4.57%	0.01%	-4.95%	8.36%	3.00%	3.00%	3.00%	3.00%	3.00%
County Road And Bridge Tax	0.32%	5.43%	4.66%	3.81%	5.58%	5.50%	5.00%	5.00%	5.00%	5.00%
Total Intergovernmental	0.02%	-1.03%	-0.41%	-4.84%	6.48%	3.03%	2.99%	3.00%	3.02%	3.03%
Licenses & Permits										
Business License And Permits	-19.85%	2.68%	5.38%	-4.61%	6.93%	2.00%	2.00%	2.00%	2.00%	2.00%
Motor Vehicle Fees	0.30%	1.03%	-3.24%	5.13%	8.89%	5.80%	4.60%	4.50%	4.00%	4.00%
Construction Permits	-71.90%	-0.77%	30.72%	61.69%	-33.70%	6.50%	6.60%	7.30%	7.60%	7.60%
Total Licenses & Permits	-57.75%	0.46%	15.89%	35.52%	-20.46%	5.47%	5.27%	5.68%	5.78%	5.83%
Charges for Services										
Fines & Forfeitures	-6.64%	-9.83%	5.41%	10.67%	-6.07%	3.00%	3.00%	3.00%	3.00%	3.00%
External Charges For Services	35.96%	6.42%	-2.68%	0.19%	-11.69%	3.00%	3.00%	3.00%	3.00%	3.00%
Internal Charges For Services	-29.14%	-6.72%	-43.42%	17.48%	-28.71%	3.00%	3.00%	3.00%	3.00%	3.00%
Investment Income	-0.80%	96.74%	-44.30%	14.02%	-29.17%	1.00%	1.00%	1.00%	1.00%	1.00%
Miscellaneous	-1.84%	7.48%	-10.28%	20.43%	-5.91%	3.37%	3.38%	3.38%	3.39%	3.40%
Total Charges for Services	-1.84%	7.48%	-10.28%	20.43%	-5.91%	3.37%	3.38%	3.38%	3.39%	3.40%
Operating Transfers In	1148.49%	178.12%	55.55%	-26.67%	-33.06%	-1.41%	-7.88%	-0.75%	0.00%	0.00%
Revenue Adjustments	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Non-Budget Items	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TOTAL REVENUES	**-1.23%**	**2.71%**	**2.98%**	**6.33%**	**-0.72%**	**4.88%**	**4.42%**	**4.31%**	**4.00%**	**4.51%**

Tax Revenues
The City's tax revenues since FY2001 are shown below, in descending order from the largest revenue source as of FY2005. Several points are worth noting. First, revenue from the six largest taxes is expected to account for 80.0 percent of all General Fund revenues in FY2005:

1. Sales Taxes;
2. Property Taxes;
3. Building Materials Use Taxes;
4. Franchise Taxes;
5. Automobile Use Taxes;
6. Highway Users Taxes

Moreover, if revenues from charges for services and interfund transfers are excluded from the General Fund revenue totals, these six taxes generated 83.9 percent of City revenues in FY2005.

The following table shows the five-year revenue projections for these tax revenues in the control scenario.

Table 9
Five-Year Revenue Projections – Control Scenario

Control Forecast	2007	2008	2009	2010	2011
Sales Taxes	5.8%	4.6%	4.5%	4.0%	5.0%
Use tax-Automobiles	5.8%	4.6%	4.5%	4.0%	3.3%
Use tax-Building Materials	6.5%	6.6%	7.3%	7.6%	9.6%
Use tax-Other	4.9%	4.9%	5.0%	5.1%	4.9%
Franchise Taxes	2.9%	2.9%	2.8%	2.8%	2.8%
Property Taxes	3.6%	6.5%	4.6%	4.0%	2.9%

City Revenues Overview

- **Sales Taxes (FY2005: $111,556,185 – 50.2 percent of total GF revenues)**

Representing the largest operating revenue stream, this category is expected to see average annual growth of 4.8 percent over the next five years. The projected increases are primarily due to several new retail developments opening throughout the City, including the Aurora Mall and the Southlands retail developments.

- **Property Taxes (FY2005: $21,976,407 – 9.9 percent of total GF revenues)**

The second largest source of General Fund revenue, property taxes are expected to increase by an average annual rate of 4.3 percent over the next five years, after an expected increase in 2006 due to a reassessment of property values. While actual home values are expected to increase only slightly, the 2006 increases will in large part be due to increased numbers of housing permits and new businesses. Any property valuation increases in the next five years will most likely be moderate, as the City will be required to stay within the mandated limits set forth in the Taxpayer's Bill of Rights (TABOR).

- **Building Materials Use Taxes (FY2005: $14,972,652 – 6.7 percent of total GF revenues)**

This revenue category accounted for 6.7 percent of total General Fund revenues in 2005, and it is the primary revenue source for capital-related expenditures. After strong growth in 2004 and 2005 stemming from the strong housing market, revenues are projected to drop significantly in 2006 as the housing slowdown continues. With new development likely to continue over the next five years, however, the average annual growth rate for this revenue source is projected to be approximately 7.5 percent.

- **Franchise Taxes (FY2005: $11,224,526 – 5.1 percent of total GF revenues)**

Franchise taxes are collected from telephone, natural gas, electric, and cable TV franchises in the City. These franchise fees are the sixth largest revenue source for the City and are projected to increase by an average of 2.8 percent over the next five years.

- **Automobile Use Taxes (FY2005: $10,284,541 – 4.6 percent of total GF revenues)**

After increased summer sales in 2005, revenues from this tax are projected to continue to grow as the economy continues its recovery. This category is expected to see varying increases over the next from years, from a high projection of 5.8 percent growth in 2008 to a low projection of 3.3 percent growth in 2011.

- **Highway Users Taxes (FY2005: $7,580,014 – 3.4 percent of total GF revenues)**

A steady revenue source over the past several years, revenue from this tax is expected to increase at a conservative 3.0 percent in each of the next five years.

- **Fines and Forfeitures (FY2005: $6,280,511 – 2.8 percent of total GF revenues)**

Consistent with historical trends, revenue from Fines and Forfeits is projected to increase at a rate of 3.0 percent in each of the next five years.

- **Other Use Taxes (FY2005: $6,040,007 – 2.7 percent of total GF revenues)**

Use tax on equipment other than building materials and automobiles has also remained a steady source of revenue for the City over the past several years, after a dramatic decrease in 2003 and a slight decrease in 2005. Revenue is projected to increase by an average of 5.0 percent over the next five years.

- **Operating Transfers In (FY2005: $4,407,901 – 2.0 percent of total GF revenues)**

Representing the ninth largest source of General Fund revenue, operating transfers in relay monies from other City funds to cover General Fund operating costs. Most transfers to the General Fund are projected to increase at less than the rate of inflation over the next five years.

- **Occupational Privilege Taxes (FY2005: $3,898,581 – 1.8 percent of total GF revenues)**

At the current rate of $4.00 per month, revenue from this tax has essentially remained close to flat over the past five years. Based on this historical trend, this category of revenue is projected to grow at a conservative 2.0 percent in each of the next five years.

- **External Charges for Services (FY2005: $3,680,867 – 1.7 percent of total GF revenues)**

Reflecting erratic historical average increases in this revenue category and prior year fee adjustments, most categories of External Charges for Services are projected to increase by 3.0 percent per year to account for inflation and expected increases in population. Charges in this category include Court Fees, Library Fees, Police Fees, and other General Administrative Fees.

- **Lodger's Taxes (FY2005: $3,329,246 – 1.5 percent of total GF revenues)**

As a tax burden generally not borne by residents of the City, this category of revenues has seen sluggish growth in the past five years. Consistent with historical trends, increases of 2.0 percent are projected for each of the next five years.

- **Construction Permits (FY2005: $3,248,590 – 1.5 percent of total GF revenues)**

As a growing City, revenue growth from building and utility permits was particularly strong in 2004 and 2005, but is expected to drop off slightly in 2006. Based on future growth expectations, revenue from these sources is projected to see strong growth over the next five years, averaging 7.1 percent per year.

- **Other Taxes (FY2005: $2,713,759 – 1.2 percent of total GF revenues)**

This category primarily captures revenue generated by tax audits. Other minor sources include interest on property taxes and penalties and interest on other taxes. These revenue sources are projected to increase by an average of 3.10 percent over the next five years.

- **Specific Ownership Taxes (FY2005: $2,653,039 – 1.2 percent of total GF revenues)**

Projected increases for this category are consistently set at 3.5 percent for each of the next five years.

- **Internal Charges for Services (FY2005: $2,279,321 – 1.0 percent of total GF revenues)**

The primary revenue sources in this category are reimbursements to the General Fund for administrative and operating expenses. As revenues have decreased slightly over the past few years, the model assumes a conservative increase in this revenue category of 3.0 percent in each of the out years.

- **All Other Revenues (FY2005: $5,951,355 – 2.7 percent of total GF revenues)**

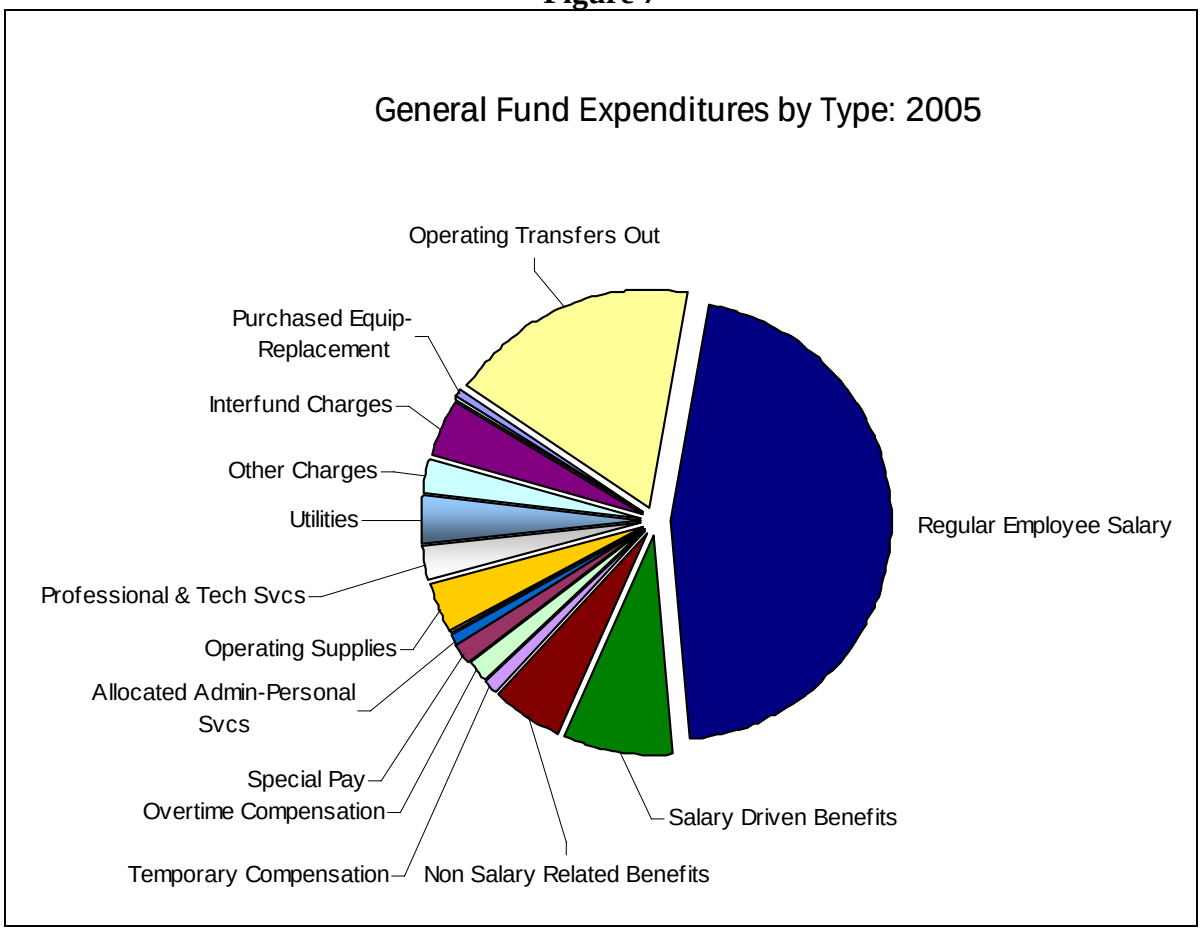
Other City revenues include insurance recoveries, motor vehicle fees, cigarette taxes, investment income, business licenses and permits, and intergovernmental revenues. These are all minor sources of revenue which individually generate less than 1.0 percent of total General Fund revenues. Five year projections vary by type of revenue.

Expenditure Overview

Expenditure Trends

Aurora's total expenditures have grown over the last five years, and have seen very erratic expenditure patterns at the same time. The major cost drivers have been wages, health insurance, and mandated police personnel increases. This section highlights the City's major expenditures and cost drivers, and provides a baseline expenditure projection – the forecast of future expenditures through 2011 under current trends, and applicable laws.

Figure 7



- **Regular Employee Salary (FY2005: $103,106,447 – 46.8 percent of total GF expenditures)**

As illustrated in the preceding chart, over 46 percent of Aurora's General Fund budget is disbursed to city personnel, through full- and part-time salary expenditures. Annual leave, sick time allowance, and holiday pay expenditures are also included in this category of spend. Costs in this category are expected to increase significantly in the next five years due to annual wage increases as well as the addition of police officers and fire personnel that are needed in the growing City. Other employee benefit expenditures such as health and life insurance are represented by the salary and non-salary driven benefits expenditures, which together account for 13.4 percent of the General Fund budget.

- **Operating Transfers Out (FY2005: $41,317,891 – 18.7 percent of total GF expenditures)**

This category also includes general fund transfers to various other City funds including the Capital Projects, Community Development, Cultural Services, Debt Service, Designated Revenue, Fleet Management, Policy Reserve, Recreation, Risk Management, and TABOR Reserve funds. Projections for transfers vary by fund.

- **Salary Driven Benefits (FY2005: $18,143,638 – 8.2 percent of total GF expenditures)**

Included in this category are expenditures for employee benefits such as life insurance, disability, and pensions. This category will continue to grow over the next five years as additional employees are added to City payrolls.

- **Non-Salary Related Benefits (FY2005: $11,473,652 – 5.2 percent of total GF expenditures)**

This category includes expenditures for health and dental insurance for all active employees as well as health insurance for retirees. Consistent with the significant increases in health care costs in the recent years and expectations for those trends to continue, this category is projected to increase by an average of 10.0 percent per year over the next five years.

- **Interfund Charges (FY2005: $9,054,218 – 4.1 percent of total GF expenditures)**

Expenditures included in this category are internal service charges for Risk Management, Fleet Management, Fuel, Building Maintenance, and Vehicle Repair. Charges are projected to increase by 10.0 percent in each of the next five years.

- **Operating Supplies (FY2005: $8,429,289 – 3.8 percent of total GF expenditures)**

This category includes expenses for general office supplies as well as computer equipment. Projected increases over the next five years are a combination of both expected inflation and population growth.

- **Utilities (FY2005: $8,118,220 – 3.7 percent of total GF expenditures)**

Following significant increases in the cost of natural gas and electricity over the past few years, this cost category is projected to grow at an average rate of 10.8 percent per year for each of the next five years.

- **Other Charges (FY2005: $5,725,226 – 2.6 percent of total GF expenditures)**

The other charges category includes a variety of expenditure types including, but not limited to costs for postage/shipping, advertising, business meetings, dues and subscriptions, printing, and repair and maintenance. Five year projections vary by type of expenditure.

- **Purchased Professional and Technical Services (FY2005: $5,658,431 – 2.6 percent of total GF expenditures)**

In recent years, financial strain on the City has forced expenditure cuts in this category. The trend is expected to continue, therefore, no projected increases have been built into the baseline for the next five years.

- **Overtime Compensation (FY2005: $3,656,036 – 1.7 percent of total GF expenditures)**

Costs for overtime have been somewhat erratic over the past several years. Over the next five years, overtime costs are expected to increase as the City continues to grow into newly developing areas.

- **Special Pay (FY2005: $3,338,054 – 1.5 percent of total GF expenditures)**

This category includes expenditures for other types of pay including (but not limited to) car allowances, clothing and shoe allowances, tool and equipment allowances, shift differentials, and longevity payments. This category of expenditures has increased and decreased erratically over

the past several years and is thus projected to increase at an average annual rate of 3.6 percent in each of the next five years.

- **Temporary Compensation (FY2005: $2,458,911 – 1.1 percent of total GF expenditures)**

Due to budget constraints, the City has been reducing expenditures on temporary compensation over the past several years. Over the next five years, expenditures in this category are projected to increase by an average annual rate of 3.6 percent each year.

- **Other Expenditures (FY2005: $3,346 – 0.0 percent of total GF expenditures)**

Other City expenditures include equipment replacement, debt principal, resale supplies, new equipment, new vehicles, and allocated administrative personal services. Together, these categories accounted for 0.0 percent of General Fund expenditures in 2005. Five year projections vary by type of expenditure.

Expenditure Assumptions – Service Needs

For the purposes addressing service needs in each scenario, PFM has worked closely with City staff to determine which costs for services should be incorporated into the five year model projections under the different revenue forecasts. For the baseline scenario, expenditure growth includes:

5. Gradual restoration of funding for key City services
6. Funding for service needs in newly developing areas
7. Annual pay increases between 3 and 4 percent each year.
8. Gradual restoration of the General Fund transfer to the Capital Projects Fund to normal levels.

Operating costs for the majority of the FMPII projects were included as were expenditures for other service needs such as additional court and legal staff and additional street lighting.

Detailed Expenditure Projections – Control Scenario

As illustrated in the pages that follow, total expenditure growth in the General Fund averaged 2.1 percent per year in for the past five years, before a projected increase of 0.7 percent in 2006 driven primarily by increased wages and benefits. After FY2006 budget expenditures were adjusted in the model for one-time costs and budget program decisions, each item is forecast to cost annual amounts approximating the dollar amounts in the first table that follows. The second projections table indicates the percentage increase (or decrease) on the previous year for each expenditure item or category.

The baseline expenditure projections forecast continued rapid growth in overall expenditures. Growth is driven largely by wages; health benefits; and pension costs. Annual increases in employee salaries of 9.1 percent in FY2007 are projected, before leveling off at 7.6 percent in 2008; 5.7 percent in 2009; 5.1 percent in 2010; and 4.9 percent in 2011. Such growth factors compare with an average annual growth in city revenues of 4.4 percent over the same five year period.

Table 10

City of Aurora, Colorado, Five-Year Projections Model

Summary for the General Fund Fund

	HISTORICAL DATA						PROJECTED DATA				
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EXPENDITURES	Actual	Actual	Actual	Actual	Actual	Budget					
Personal Services											
Regular Employee Salary	$ 91,073,265	$ 91,935,388	$ 98,097,996	$ 102,299,542	$ 103,106,447	$ 109,408,955	$ 119,450,209	$ 128,560,823	$ 135,830,300	$ 142,733,681	$ 149,269,367
Salary Driven Benefits	$ 11,559,011	$ 11,451,163	$ 13,268,310	$ 13,838,804	$ 18,143,638	$ 18,923,184	$ 19,680,111	$ 20,827,316	$ 21,441,335	$ 22,073,775	$ 22,942,326
Non Salary Related Benefits	$ 8,505,233	$ 9,436,297	$ 10,473,127	$ 11,001,503	$ 11,473,652	$ 12,796,739	$ 14,332,348	$ 16,052,229	$ 17,657,452	$ 19,070,049	$ 20,595,652
Temporary Compensation	$ 2,527,373	$ 2,421,261	$ 2,602,841	$ 2,456,593	$ 2,458,911	$ 1,652,941	$ 1,719,059	$ 1,787,821	$ 1,841,456	$ 1,896,699	$ 1,972,567
Overtime Compensation	$ 3,436,384	$ 2,753,764	$ 3,166,878	$ 3,164,184	$ 3,656,036	$ 3,443,870	$ 3,621,625	$ 3,766,490	$ 3,884,884	$ 4,033,099	$ 4,248,517
Special Pay	$ 3,943,462	$ 3,516,055	$ 3,149,952	$ 3,685,093	$ 3,338,054	$ 3,010,328	$ 3,130,741	$ 3,255,971	$ 3,353,650	$ 3,454,259	$ 3,592,430
Allocated Admin-Personal Svcs	$ (1,073,165)	$ (883,355)	$ (834,900)	$ (1,040,000)	$ (1,966,754)	$ (2,050,408)	$ (2,132,424)	$ (2,217,721)	$ (2,284,253)	$ (2,352,781)	$ (2,446,892)
Total Personal Services	$ 119,971,563	$ 120,630,573	$ 129,924,204	$ 135,405,719	$ 140,209,984	$ 147,185,609	$ 159,801,669	$ 172,032,928	$ 181,724,825	$ 190,908,782	$ 200,173,968
Supplies and Services											
Resale Supplies	$ 25,062	$ 20,830	$ 3,132	$ -	$ 237,824	$ 256,300	$ 256,300	$ 256,300	$ 256,300	$ 256,300	$ 256,300
Operating Supplies	$ 8,592,717	$ 7,569,328	$ 9,115,084	$ 8,612,146	$ 8,429,289	$ 7,664,629	$ 7,971,214	$ 8,290,063	$ 8,638,245	$ 9,001,052	$ 9,379,096
Purchased Professional & Tech	$ 5,630,496	$ 5,514,437	$ 5,225,905	$ 5,337,613	$ 5,658,431	$ 4,695,866	$ 4,695,866	$ 4,695,866	$ 4,695,866	$ 4,695,866	$ 4,695,866
Utilities	$ 5,482,467	$ 5,781,621	$ 6,507,828	$ 7,408,675	$ 8,118,220	$ 9,482,964	$ 10,544,660	$ 11,599,126	$ 12,802,739	$ 14,213,163	$ 15,832,307
Other Charges	$ 7,804,693	$ 7,091,311	$ 6,810,671	$ 6,846,080	$ 5,725,226	$ 5,818,849	$ 6,285,144	$ 6,649,738	$ 7,030,064	$ 7,568,672	$ 7,805,111
One-Time Budget Items	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Supplies and Services	$ 27,535,435	$ 25,977,527	$ 27,662,620	$ 28,204,514	$ 28,168,990	$ 27,918,608	$ 29,753,185	$ 31,491,093	$ 33,423,215	$ 35,735,053	$ 37,968,681
Interfund Charges	$ 8,236,280	$ 7,763,139	$ 8,044,883	$ 8,598,389	$ 9,054,218	$ 9,565,927	$ 10,522,520	$ 11,574,772	$ 12,732,249	$ 14,005,474	$ 15,406,021
Debt Related											
Debt Principal Capital Lease	$ 570,507	$ 519,071	$ 392,361	$ 381,242	$ 262,164	$ 775,206	$ 775,206	$ 775,206	$ 775,206	$ 775,206	$ 775,206
Debt Interest-Capital Lease	$ 103,566	$ 59,002	$ 29,391	$ 26,989	$ 44,086	$ 49,120	$ 49,120	$ 49,120	$ 49,120	$ 49,120	$ 49,120
Debt Service-Fiscal Charges	$ -	$ 27,169	$ (27,169)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Debt Related	$ 674,073	$ 605,242	$ 394,583	$ 408,231	$ 306,250	$ 824,326	$ 824,326	$ 824,326	$ 824,326	$ 824,326	$ 824,326
Capital Related											
Land Purchases	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Purchased Equip-New	$ 977,153	$ 394,000	$ 340,363	$ 267,410	$ 229,052	$ 391,200	$ 391,200	$ 391,200	$ 391,200	$ 391,200	$ 391,200
Purch-Vehicle New	$ -	$ 574,000	$ 26,739	$ 18,835	$ 162,258	$ 19,000	$ 19,000	$ 19,000	$ 19,000	$ 19,000	$ 19,000
Purchased Equip-Replacement	$ 3,487,717	$ 292,705	$ 1,110,928	$ 1,068,870	$ 1,039,882	$ 2,578,554	$ 2,578,554	$ 2,578,554	$ 2,578,554	$ 2,578,554	$ 2,578,554
Purch-Vehicle Replacement	$ -	$ 3,244,914	$ (12,332)	$ -	$ -	$ -	$ 1,000,000	$ 1,500,000	$ 2,000,000	$ 2,000,000	$ 3,000,000
Cip-Design Costs	$ -	$ -	$ 38	$ 1,430	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cip-Construction Costs	$ 690	$ -	$ -	$ 3,673	$ 350	$ -	$ -	$ -	$ -	$ -	$ -
Cip-Other Costs	$ 250	$ -	$ 511	$ 13,098	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contingency Budget	$ 41,915	$ (39,334)	$ (5,000)	$ (9,575)	$ (5,426)	$ 147,416	$ 147,416	$ 147,416	$ 147,416	$ 147,416	$ 147,416
Total Capital Related	$ 4,507,725	$ 4,466,285	$ 1,461,247	$ 1,363,741	$ 1,426,116	$ 3,136,170	$ 4,136,170	$ 4,636,170	$ 5,136,170	$ 5,136,170	$ 6,136,170
Transfers Out	$ 43,146,970	$ 34,279,524	$ 45,984,556	$ 38,398,256	$ 41,317,891	$ 33,401,277	$ 36,862,567	$ 39,535,715	$ 41,528,797	$ 44,371,134	$ 48,841,997
TOTAL EXPENDITURES	**$ 204,072,046**	**$ 193,722,290**	**$ 213,472,093**	**$ 212,378,850**	**$ 220,483,449**	**$ 222,031,917**	**$ 241,900,436**	**$ 260,095,004**	**$ 275,369,582**	**$ 290,980,938**	**$ 309,351,163**

Table 11

City of Aurora, Colorado, Five-Year Projections Model

Growth Rate Assumptions for the General Fund

	HISTORICAL DATA					PROJECTED DATA				
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EXPENDITURES	Actual	Actual	Actual	Projected	Budget					
Personal Services										
Regular Employee Salary	0.95%	6.70%	4.28%	0.79%	6.11%	9.18%	7.63%	5.65%	5.08%	4.58%
Salary Driven Benefits	-0.93%	15.87%	4.30%	31.11%	4.30%	4.00%	5.83%	2.95%	2.95%	3.93%
Non Salary Related Benefits	10.95%	10.99%	5.05%	4.29%	11.53%	12.00%	12.00%	10.00%	8.00%	8.00%
Temporary Compensation	-4.20%	7.50%	-5.62%	0.09%	-32.78%	4.00%	4.00%	3.00%	3.00%	4.00%
Overtime Compensation	-19.86%	15.00%	-0.09%	15.54%	-5.80%	5.16%	4.00%	3.14%	3.82%	5.34%
Special Pay	-10.84%	-10.41%	16.99%	-9.42%	-9.82%	4.00%	4.00%	3.00%	3.00%	4.00%
Allocated Admin-Personal Svcs	-17.69%	-5.49%	24.57%	89.11%	4.25%	4.00%	4.00%	3.00%	3.00%	4.00%
Total Personal Services	0.55%	7.70%	4.22%	3.55%	4.98%	8.57%	7.65%	5.63%	5.05%	4.85%
Supplies and Services										
Resale Supplies	-16.89%	-84.96%	-100.00%	0.00%	7.77%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Supplies	-11.91%	20.42%	-5.52%	-2.12%	-9.07%	4.00%	4.00%	4.20%	4.20%	4.20%
Purchased Professional & Tech	-2.06%	-5.23%	2.14%	6.01%	-17.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Utilities	5.46%	12.56%	13.84%	9.58%	16.81%	11.20%	10.00%	10.38%	11.02%	11.39%
Other Charges	-9.14%	-3.96%	0.52%	-16.37%	1.64%	8.01%	5.80%	5.72%	7.66%	3.12%
One-Time Budget Items	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Supplies and Services	-5.66%	6.49%	1.96%	-0.13%	-0.89%	6.57%	5.84%	6.14%	6.92%	6.25%
Interfund Charges	-5.74%	3.63%	6.88%	5.30%	5.65%	10.00%	10.00%	10.00%	10.00%	10.00%
Debt Related										
Debt Principal Capital Lease	-9.02%	-24.41%	-2.83%	-31.23%	195.70%	0.00%	0.00%	0.00%	0.00%	0.00%
Debt Interest-Capital Lease	-43.03%	-50.19%	-8.17%	63.35%	11.42%	0.00%	0.00%	0.00%	0.00%	0.00%
Debt Service-Fiscal Charges	0.00%	-200.00%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Debt Related	-10.21%	-34.81%	3.46%	-24.98%	169.17%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Related										
Land Purchases	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Purchased Equip-New	-59.68%	-13.61%	-21.43%	-14.34%	70.79%	0.00%	0.00%	0.00%	0.00%	0.00%
Purch-Vehicle New	0.00%	-95.34%	-29.56%	761.47%	-88.29%	0.00%	0.00%	0.00%	0.00%	0.00%
Purchased Equip-Replacement	-91.61%	279.54%	-3.79%	-2.71%	147.97%	0.00%	0.00%	0.00%	0.00%	0.00%
Purch-Vehicle Replacement	0.00%	-100.38%	-100.00%	0.00%	0.00%	0.00%	50.00%	33.33%	0.00%	50.00%
Cip-Design Costs	0.00%	0.00%	3663.16%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cip-Construction Costs	-100.00%	0.00%	0.00%	-90.47%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cip-Other Costs	-100.00%	0.00%	2463.21%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contingency Budget	-193.84%	-87.29%	91.50%	-43.33%	-2816.84%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Capital Related	-0.92%	-67.28%	-6.67%	4.57%	119.91%	31.89%	12.09%	10.78%	0.00%	19.47%
Transfers Out	-20.55%	34.15%	-16.50%	7.60%	-19.16%	10.36%	7.25%	5.04%	6.84%	10.08%
TOTAL EXPENDITURES	**-5.07%**	**10.19%**	**-0.51%**	**3.82%**	**0.70%**	**8.95%**	**7.52%**	**5.87%**	**5.67%**	**6.31%**

Fiscal Gap Projection

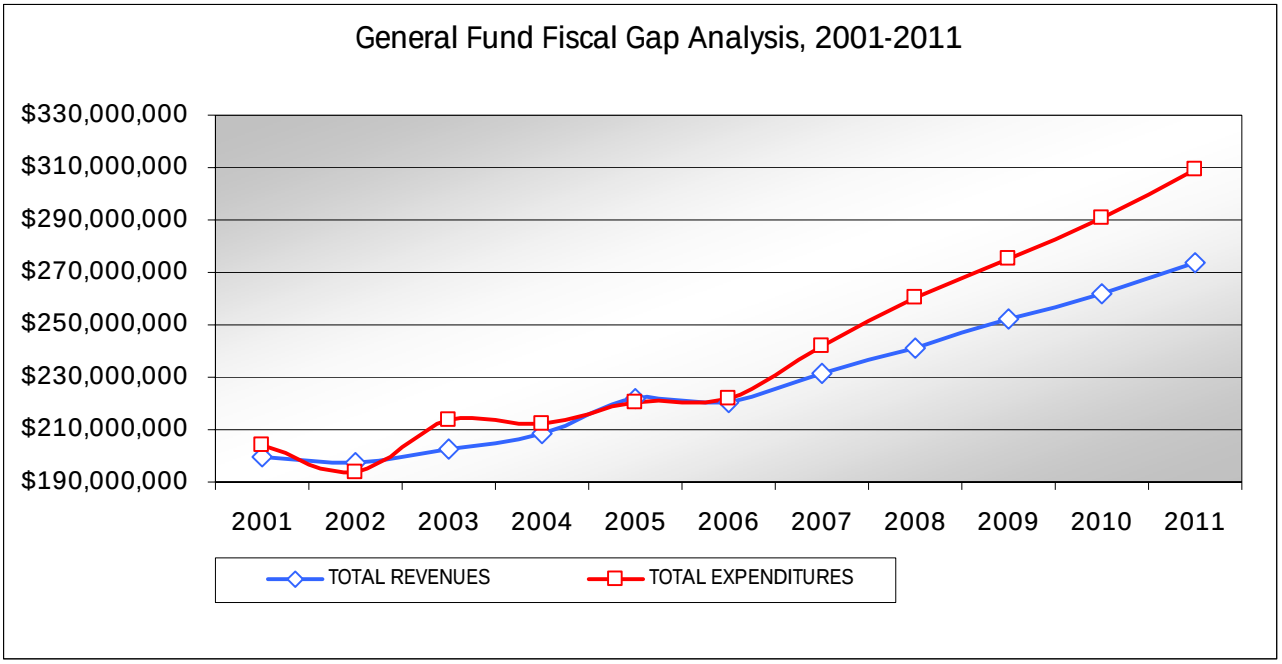
As shown in the table and chart below, given the divergent revenue and expenditure projections presented in the preceding pages, the financial projection model forecasts a series of annual budget gaps reaching $35.6 million by 2011 ***if no corrective action is taken***.

It is important to note that the City's goal should not be to reach an operating balance of zero, but to achieve a positive net operating balance that will allow the accumulation of a fund balance over a period of years. The City will be required to make major changes to its finances just to break even, however.

Table 12

BASELINE	2007	2008	2009	2010	2011
TOTAL REVENUES	$ 231,236,415	$ 241,461,796	$ 251,879,917	$ 261,964,878	$ 273,778,575
TOTAL EXPENDITURES	$ 241,900,436	$ 260,095,004	$ 275,369,582	$ 290,980,938	$ 309,351,163
BASELINE OPERATING BALANCE	$ (10,664,021)	$ (18,633,208)	$ (23,489,665)	$ (29,016,061)	$ (35,572,588)

Figure 8



Because the City administration and Council must by law submit a balanced budget each year, this fiscal projection is not tenable. To close this projected series of gaps and to build a strong structural foundation for Aurora's financial future, the following chapters will present numerous revenue proposals and initiatives that could raise City revenues over the course of the next five years.

Alternative Scenarios

As described earlier in this chapter, alternative scenarios were developed to show the City's projected revenues and expenditures under an optimistic forecast and under a pessimistic forecast. A second baseline scenario was developed to show trends using the baseline revenue projections and only mandated expenditures. Consistent with the results seen under the baseline scenario, a gap between projected expenditures and revenues also exists in each of these alternative scenarios. This section will discuss the revenue and expenditure assumptions in each of the alternative model scenarios.

Mandated Costs plus Minimal Additional Services Scenario

In this scenario, the revenue projections match the revenue projections of the baseline (control) scenario. However, only mandated expenditures have been included in the expenditure projections. Funding for additional services has largely been excluded in this scenario. This scenario differs from the baseline scenario according to the following:

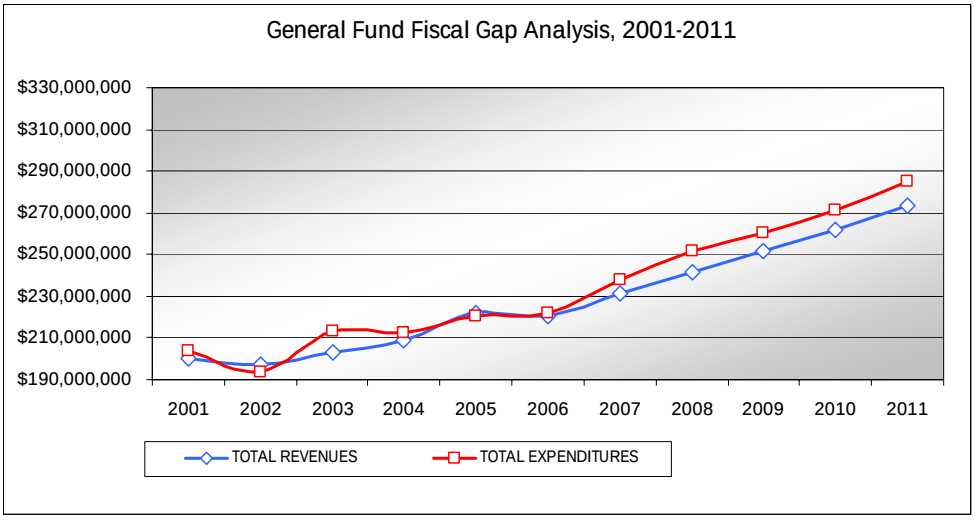
1. The City funds only police staffing increases, other mandated costs, and a select few immediate service needs (namely Fire Stations 14 and 15 along with some Public Works and other staff)
2. No increase in capital funding
3. No additional fire services in newly developing areas
4. No funding to restore services cut in prior years
5. Pay increases that average only 2 percent per year.

Under these assumptions, the gap between revenues and expenditures is projected to be $6.9 million by 2007 and increasing to $11.6 million by 2011.

Table 13
Fiscal Gap – Mandated Costs Scenario

BASELINE	2007	2008	2009	2010	2011
TOTAL REVENUES	$ 231,236,415	$ 241,461,796	$ 251,879,917	$ 261,964,878	$ 273,778,575
TOTAL EXPENDITURES	$ 237,920,647	$ 251,298,475	$ 260,247,068	$ 271,228,724	$ 285,351,160
BASELINE OPERATING BALANCE	$ (6,684,231)	$ (9,836,679)	$ (8,367,152)	$ (9,263,846)	$ (11,572,585)

Figure 9



Pessimistic Scenario

This forecast assumes that the City experiences an economic downturn similar to the one that occurred earlier in this decade. Many national economic forecasts suggest the potential for a "double dip" recession at between 25 percent and 33 percent, with the chance of a significant economic expansion at about 15 to 20 percent. Depending on various circumstances, it is possible that another recession could occur as early as next year. As a consequence, revenue projections are based off the five weakest years of growth in the Colorado economy in the last fifteen years – 2000-2005. The projected increases of the six major tax revenue sources are shown in the table below.

Table 14
Five Year Revenue Projections – Pessimistic Scenario

Pessimistic Forecast	2007	2008	2009	2010	2011
Sales Taxes	5.8%	-1.0%	0.0%	2.9%	5.2%
Use tax-Automobiles	2.1%	1.3%	-0.3%	0.8%	1.6%
Use tax-Building Materials	3.1%	4.9%	2.6%	4.6%	6.4%
Use tax-Other	4.9%	3.3%	2.6%	3.2%	3.7%
Franchise Taxes	1.6%	0.3%	0.2%	0.3%	0.4%
Property Taxes	3.2%	0.0%	1.8%	0.0%	1.8%

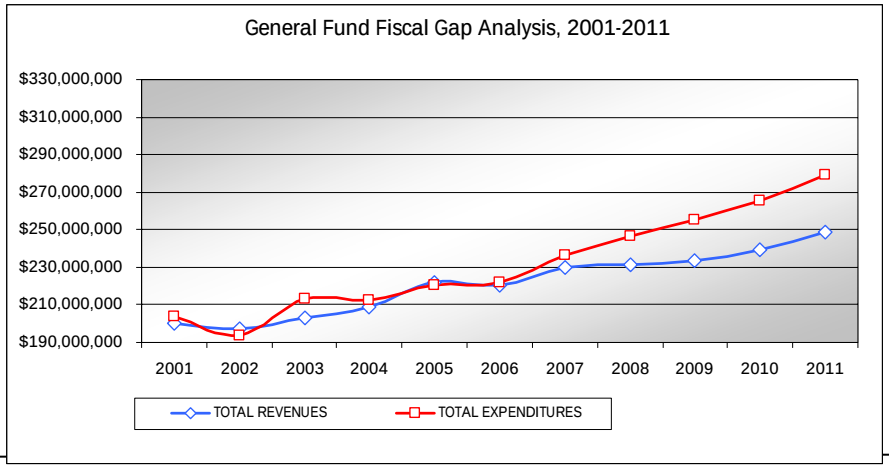
The expenditure projections in this scenario match those included in the previous scenario – only mandated costs are included. This reflects the assumption that the City would fund only its most critical needs in the event of an economic downturn.

Under these assumptions, the gap between revenues and expenditures starts at $6.3 million in 2007 and grows to $30.2 million by 2011.

Table 15
Fiscal Gap – Pessimistic Scenario

BASELINE	2007	2008	2009	2010	2011
TOTAL REVENUES	$ 230,212,377	$ 231,060,039	$ 233,331,379	$ 239,213,033	$ 248,958,827
TOTAL EXPENDITURES	$ 236,531,364	$ 246,797,234	$ 254,998,064	$ 265,537,456	$ 279,194,763
BASELINE OPERATING BALANCE	$ (6,318,987)	$ (15,737,195)	$ (21,666,685)	$ (26,324,423)	$ (30,235,936)

Figure 10



Optimistic Scenario

This forecast assumes that the City experiences an economic upturn similar to the one that occurred in the mid-late 1990s. This forecast should be considered extremely optimistic, and highly unlikely. This alternative scenario could more appropriately be viewed as the state and region following a sustained, steady economic recovery where Aurora significantly outpaces the region's development, economic, and retail growth. This scenario provides an upper boundary for the local revenue outcome, and assumes that most new retail and development activity within the region occurs within Aurora for the coming five years. Revenue projections are based off the five strongest years of growth in the Colorado economy in the last fifteen years – 1992-1997. The projected increases of the six major sources of tax revenue in this scenario are shown in the table below.

Table 16
Five Year Revenue Projections – Optimistic Scenario

Optimistic Forecast	2007	2008	2009	2010	2011
Sales Taxes	7.6%	6.2%	7.9%	8.6%	8.6%
Use tax-Automobiles	4.1%	4.5%	4.2%	4.5%	4.5%
Use tax-Building Materials	7.4%	12.8%	12.8%	12.2%	11.4%
Use tax-Other	6.4%	5.7%	5.9%	5.9%	5.8%
Franchise Taxes	4.2%	4.2%	4.1%	4.1%	4.0%
Property Taxes	3.3%	10.3%	3.8%	9.8%	4.0%

The expenditure assumptions in this scenario generally match those in the baseline scenario, but account for additional funding including:

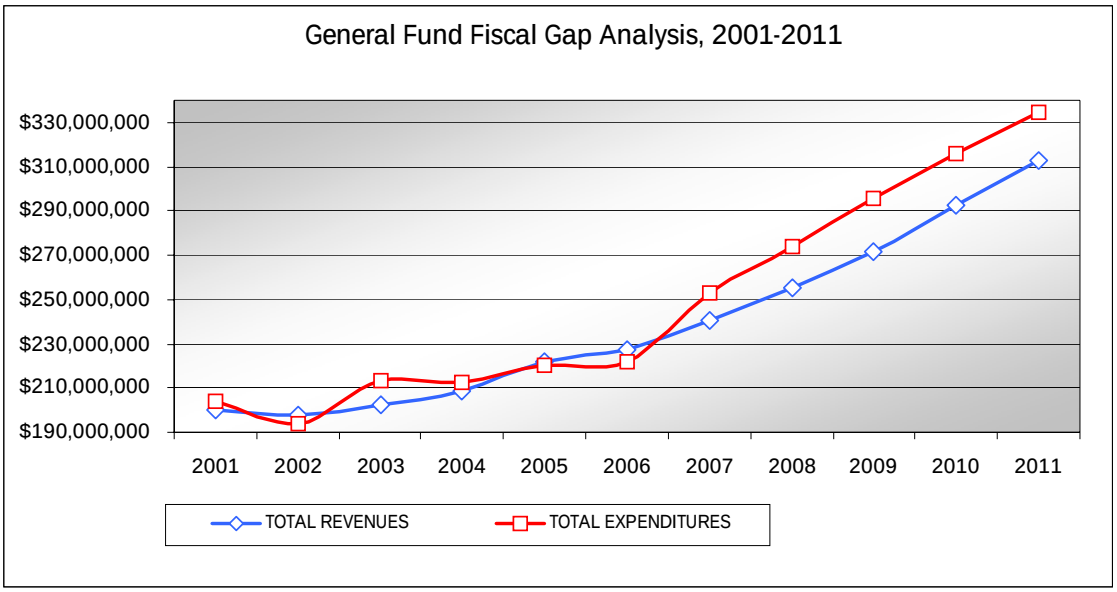
1. A restoration of budget cuts in most service areas
2. An increase in the capital transfer to the level required by ordinance
3. Providing services in newly-developing areas
4. Funding for operating costs associated with several FMP II projects.

Under these assumptions, the gap between revenues and expenditures starts at $12.5 million in 2007 and grows to $22.0 million by 2011.

Table 17
Fiscal Gap – Optimistic Scenario

BASELINE	2007	2008	2009	2010	2011
TOTAL REVENUES	$ 240,385,165	$ 255,077,409	$ 271,702,565	$ 292,225,951	$ 312,530,054
TOTAL EXPENDITURES	$ 252,911,728	$ 273,895,182	$ 295,649,345	$ 315,883,591	$ 334,539,153
BASELINE OPERATING BALANCE	$ (12,526,563)	$ (18,817,773)	$ (23,946,780)	$ (23,657,640)	$ (22,009,099)

Figure 11


General Fund Fiscal Gap Analysis, 2001-2011
$330,000,000
$310,000,000
$290,000,000
$270,000,000
$250,000,000
$230,000,000
$210,000,000
$190,000,000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
TOTAL REVENUES
TOTAL EXPENDITURES

CHAPTER THREE:
LONG TERM REVENUE TRENDS

The long-term revenue forecasts are designed to point out likely economic and household characteristic trends and their effects on Aurora's budget situation. They also suggest impacts of economic development strategies on tax collections. While the five–year forecasts are grounded in reasonably reliable statistical relationships among economic variables and tax collections, the longer-term projection is more speculative. It relies more heavily on community changes and behavioral patterns of different population groups.

The parameters in the model representing these factors were developed based on data trends and patterns, and several generally accepted assumptions and predictions. As a result, the longer-term forecast should be viewed as more suggestive and less definitive than the five-year forecast. However, the longer-term forecasts should serve as a useful guide to policy makers, and their general conclusions will likely prove valid barring a major unexpected change in economic or population trends.

Conclusions from the Long-term Forecasts

Three major conclusions can be drawn from the long-term forecasts. The long-term revenue forecast finds that:

- Revenue growth will slow even more than the overall economy due to expected changes in the mix of households in Aurora and the nature of Aurora's tax base;
- While Aurora will likely continue to encourage retail and commercial development, this development activity will not, by itself, be of sufficient scale to overcome the impacts of these economic and demographic conditions; and
- Changes in household characteristics in the community will likely have an impact on the demand and type of local government services and programs. These changes are projected to necessitate higher expenditure levels to meet service demands.

Forecast Description

Table 18 summarizes the control economic forecast for the Metro area and Aurora. The forecast through 2010 is the 5-year control forecast. After 2010, growth is expected to slow. It will be stronger than during the early years of the 21st century but less robust than that expected over the next five years and well short of the boom of the 1990s. The largest contributor to smaller economic gains is the aging of the population, which will mean slower growth in the work force. The household makeup will change dramatically with households over 65 increasing from less the 15 percent today to nearly a quarter by 2030. The increase in the share of population over 65 will be less, as older households overwhelmingly consist of one or two persons.

Table 18

SELECTED ECONOMIC VARIABLES

	2005	2010	2015	2020	2025	2030
Metro Denver						
Population (000)	2,639.8	2,863.9	3,100.5	3,336.1	3,562.4	3,775.6
Households (000)	1,042.5	1,143.6	1,252.8	1,360.4	1,456.5	1,543.9
Jobs (000)	1,300.0	1,463.5	1,565.1	1,710.1	1,847.6	1,968.4
Aurora						
Population(000)	303.8	330.3	359.0	390.3	424.3	461.2
Households(000)	115.9	127.4	140.2	153.8	167.6	182.2
Under 65	101.5	109.8	116.7	123.4	130.0	138.3
65 & Over	14.4	17.7	23.5	30.3	37.6	44.0
Low Income	9.7	10.8	12.4	14.0	15.8	17.5
Moderate Income	76.8	84.4	93.0	102.2	111.5	121.4
High Income	29.5	32.2	35.0	37.7	40.5	43.4
Jobs(000)	91.4	114.2	137.1	152.4	163.8	173.7
Production	18.5	18.5	20.1	21.9	23.8	25.9
Retail	15.9	27.2	38.4	40.1	42.0	43.8
Services	57.0	68.5	78.5	90.4	98.1	104.0

Table 19 shows the Control forecast for Aurora tax receipts including sales tax and in all other taxes since 1990. Figure 13 illustrates the recent and forecast deceleration in Aurora's tax base.

The 1990s were a period of very strong growth for the nation, the state of Colorado and Aurora brought about by a confluence of events not likely to be repeated. The past five years reflect the "bust" which followed the 1990s "boom". Recovery is now underway and is expected to continue. However, growth in tax receipts falls well short of that experienced during the 1990s. Further slowing is expected over the next 20 years. Several developments account for this. First, economic growth is slower as noted above. Second, older households spend less on items in the sales tax base than do younger ones. With Aurora's heavy reliance on sales and use taxes, this will reduce the city's receipts. In addition, as real incomes rise, households spend a greater share of income on service items not in the sales tax base.

Table 19

AURORA TAX RECEIPTS ($Mil.)

	2005	2010	2015	2020	2025	2030
Sales Tax	$111.6	$140.0	$171.0	$212.2	$260.9	$320.7
Ann Pct Ch.		4.7%	4.1%	4.4%	4.2%	4.2%
Auto Use Tax	$10.3	$10.9	$15.0	$18.6	$22.8	$28.1
Ann Pct Ch.		1.1%	6.6%	4.4%	4.2%	4.2%
Building Materials Use Tax	$15.0	$16.3	$21.3	$24.5	$28.9	$34.0
Ann Pct Ch.		1.7%	5.6%	2.8%	3.4%	3.3%
Equipment Use Tax	$6.0	$8.2	$9.4	$10.4	$11.2	$12.0
Ann Pct Ch.		6.2%	3.0%	1.9%	1.5%	1.4%
Franchise Tax	$11.2	$12.4	$15.5	$19.6	$24.8	$31.3
Ann Pct Ch.		2.1%	4.5%	4.8%	4.8%	4.8%
Property Tax	$22.0	$27.0	$36.4	$47.5	$60.1	$74.5
Ann Pct Ch.		4.2%	6.2%	5.5%	4.8%	4.4%
Other Taxes	$12.1	$13.8	$15.7	$17.9	$20.3	$23.1
Ann Pct Ch.		2.6%	2.6%	2.6%	2.6%	2.6%
Total Taxes	$188.2	$228.5	$284.4	$350.6	$429.1	$523.8
Ann Pct Ch.		4.0%	4.5%	4.3%	4.1%	4.1%
Total Taxes in $2005	$188.2	$198.9	$214.2	$227.4	$240.1	$253.1
Ann Pct Ch.		1.1%	1.5%	1.2%	1.1%	1.1%
Per Capita Taxes in $2005	$619.3	$602.2	$596.6	$582.6	$565.9	$548.8
Ann Pct Ch.		-0.6%	-0.2%	-0.5%	-0.6%	-0.6%

Taxes in $2005 based on implicit deflator for state and local government expenditures.

Figure 12 shows Aurora tax collections adjusted for inflation and population growth. The deflator used here is for state and local government expenditures. The figure indicates the level of programs and services the city government can buy with tax collections. Per capita real tax collections are a very rough measure of the extent to which the city is able to maintain its current level of services with forecast tax collections if population growth is a reasonable indicator of the need for government services.

The results of the forecast suggest that Aurora's ability to pay for government services has declined since 2000 and is likely to continue in the long run. Real per capita receipts have fallen 12 percent since 2000 and are forecast to drop another 10 percent over the next 25 years. Along with slower growth and changing demographics, this is a result of differences in price increases for different items. The rate of inflation for the sales tax base, which is largely tangible products, will be less than that for the overall consumer spending, where services are becoming a larger share of the total, or for government expenditures, which are dominated by labor costs.

Figure 12

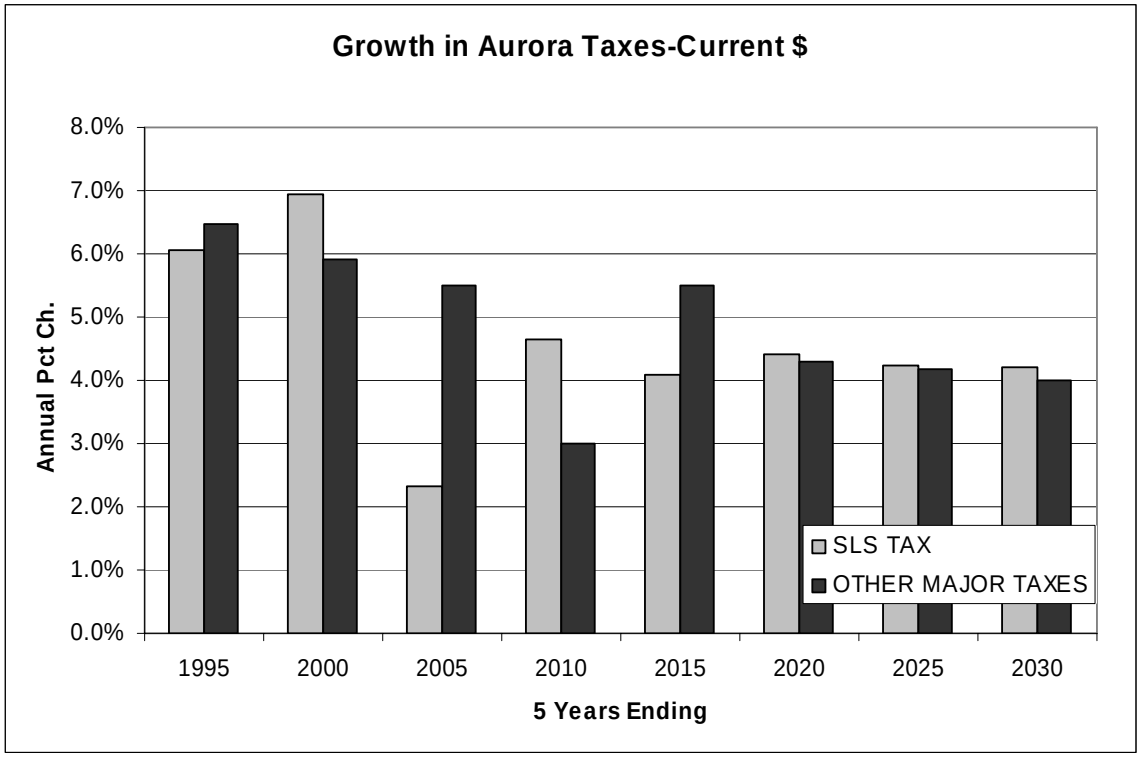
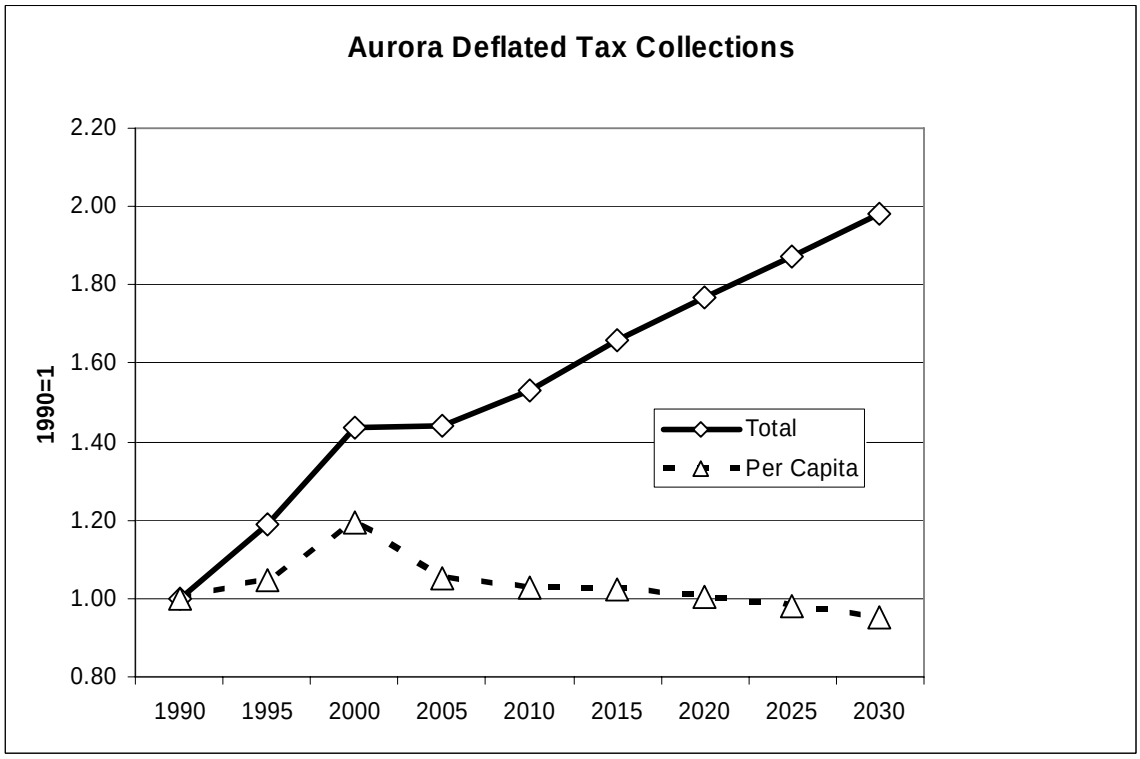


Figure 13



Alternatives

Three alternative economic scenarios were developed in addition to the Control (CON) forecast. They are: an Optimistic (OPT) forecast which calls for stronger real growth, a Pessimistic (PES) forecast with weaker growth and a Cyclical (CYC) forecast with several business cycles around a trend growth path close to that of the Control forecast.

Figure 14

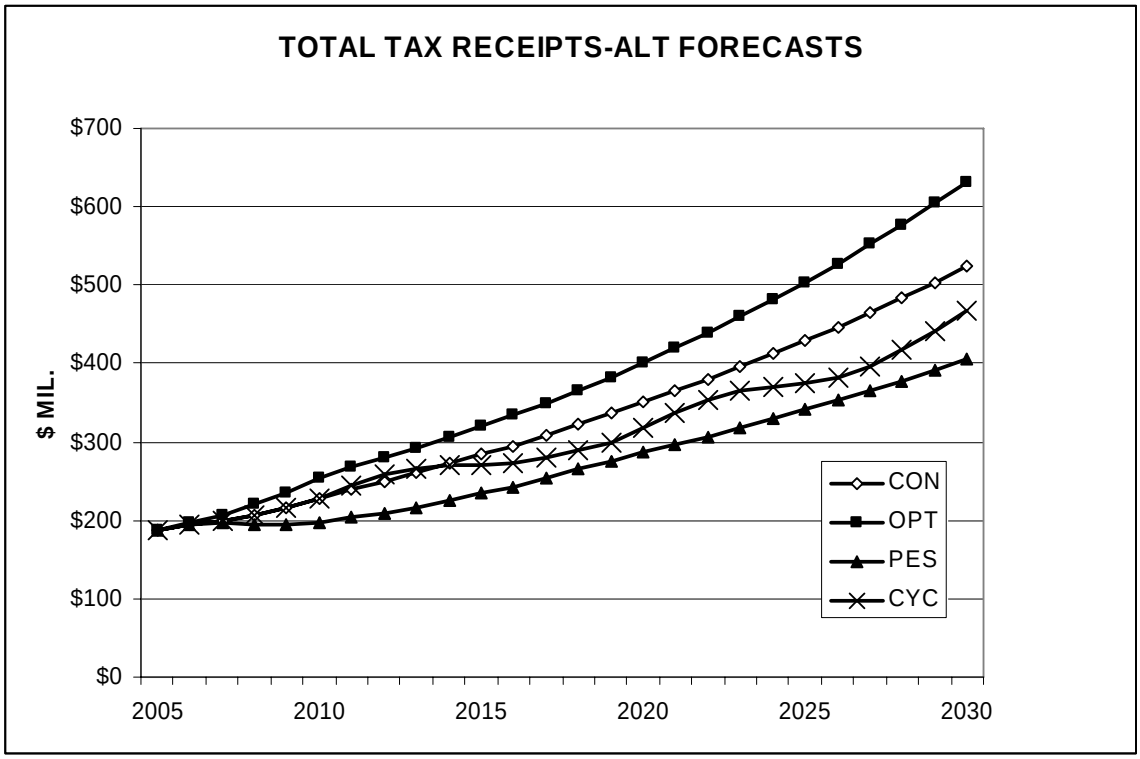


Figure 14 shows annual total tax receipts from the four alternative forecasts. Over the next 25 years, estimated tax receipts from the Control forecast total $8.4 billion. Receipts under the Optimistic scenario are $9.6 billion, or 15 percent higher than the Control, while those from the Pessimistic forecast fall to $6.9 billion, or 18 percent less. The range within the long-term forecast is an estimated plus or minus 16 percent from a control forecast.

Receipts from the Cycle forecast also fall short of the Control forecast, with anticipated receipts of $7.7 billion (slightly less than a 9 percent difference from the control forecast). While the receipts figures for the different forecasts could vary widely depending upon the types of alternative scenarios chosen, the results suggest that the city's revenue picture will vary widely with economic performance, a finding already apparent from the experiences of the 1990s and the past five years.

Along with the economic scenarios different development paths for the City of Aurora were examined. These were: (1) variations in the mix of households by income and age

which could be expected to result from different residential development strategies, (2) variations in Aurora's share of Metro employment in the production or services sectors, a possible outcome from economic development efforts, and (3) changes in the extent to which Aurora's retail sector captures sales from both resident and nonresident shoppers. The forecasts examine how changes in these factors might affect the city's tax collections.

Figure 15

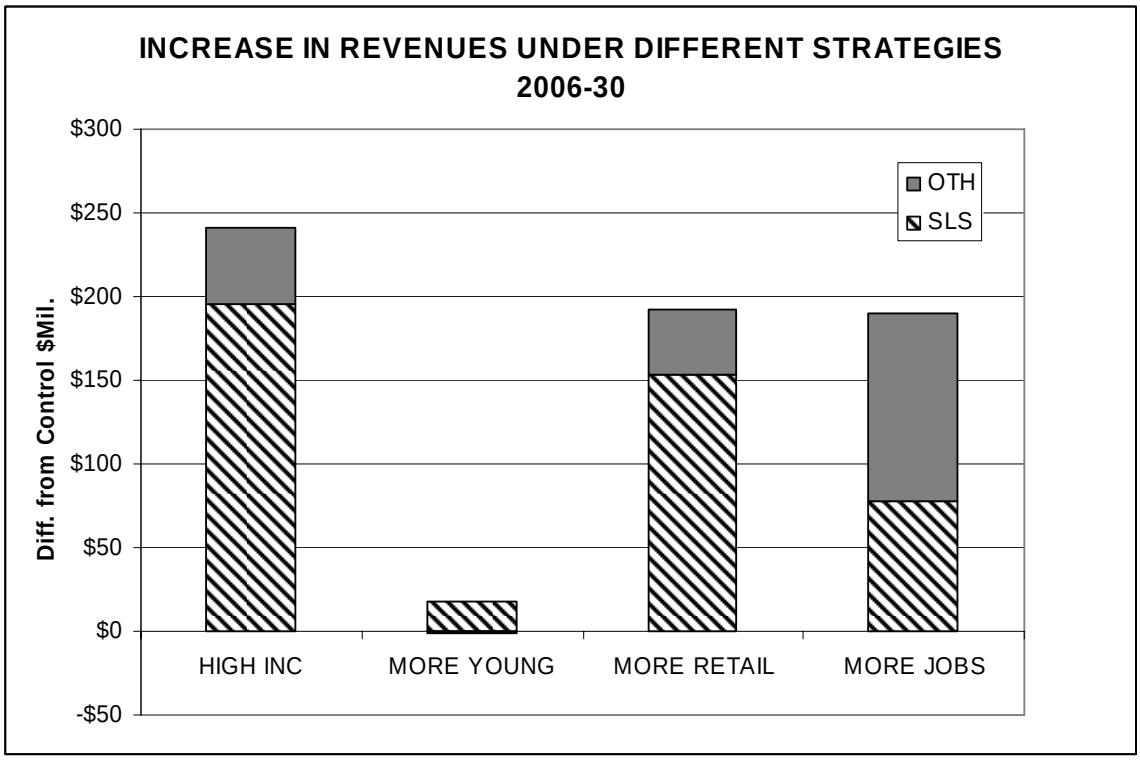


Figure 15 shows the impact over 30 years of different development patterns. In the alternative forecasts shown in Figure 14, the economic environment of the Control forecast was varied either by changing the mix of households by age or income, or by increasing job growth in Aurora relative to that in other parts of the Metro area. The bars in the Chart show the increase in receipts from sales tax and other tax sources over a 30-year period compared to those from the Control alternative. During the 30-year period, the Control forecast sales tax revenues amount to approximately $5 billion, and receipts from other sources total $3.4 billion. Each bar shows the effects of that change alone with all other parameters the same as in the Control forecast.

The first bar labeled "HIGH INC" shows the effects of more high-income households. The number of high-income households was increased by 13,000, or about 35%. The increase was assumed to occur steadily between 2011 and 2030 and was offset by equal reductions in low- and moderate-income households. The "MORE YOUNG" bar shows the results of roughly 11,000 more households under 65 and an equal reduction of those over 65. The "MORE RETAIL" scenario shows the effects of a 10,000 increase in retail employment and an assumed equivalent effect on the Aurora's ability to capture sales.

Finally, the "MORE JOBS" bar shows the effects of 9,000 additional production jobs and 13,000 more service jobs. The differences in receipts should not be taken as suggesting which development patterns should be pursued, because they do not consider differences in the costs of achieving each alternative development scenario. However, it does provide a glimpse at the general type of revenue impact for each alternative policy approach.

Methodology

Economic Forecasts

The Control forecast is based on forecasts for Metro Denver and Aurora prepared by the Denver Regional Council of Governments (DRCOG) and the Colorado Demographer's Office (CDO). The alternative forecasts incorporate different economic scenarios. The Pessimistic forecast calls for approximately 1% less annual real growth than the Control forecast. The Optimistic forecast projects 1% more annual real growth than the Control forecast. The spread between the Optimistic and Pessimistic forecasts is approximately the difference between the highest and lowest 10-year periods of real growth for the state of Colorado and the Denver Metro area. These two alternatives represent the likely real range of economic futures within the state and the Metro area.

The Cyclical forecast imposes a business cycle on the Control forecast. Measures of inflation, other than housing prices, are the same in all forecasts. All the alternative forecasts include variables for the economy and tax collections from the 5-year forecasts. The Control and Cyclical forecast are equivalent to the 5-year Control forecast through 2010, while the Optimistic and Pessimistic forecasts are the same as the 5-year Optimistic and Pessimistic forecasts. All forecasts used the same values for all inflation measures.

Household and Expenditure Patterns

Several of the tax items were forecast based on expenditure patterns of different classes of households and the forecast changes in the household mix in Aurora. Expenditure patterns for six different household groups were estimated based on Bureau of Labor Statistics (BLS) consumer expenditure surveys. The groups were low (under $15,000 in 2004), moderate ($15,000 to $70,000) and high (over $70,000) income households with each income group divided into those under age 65 and those 65 years of age and over. The expenditure patterns in 2004 were based on BLS surveys of consumer expenditures. Expenditures for each group were projected based on the change in real income, the estimated increase in expenditures as income increased and inflation.

Households by age were projected based on forecasts for the CDO and the population forecasts described below. Over the forecast period it was assumed that then income distribution within each age group did not change. Real incomes were allowed grow within each income group over the forecast period.

Population and Jobs

Control forecast job values were based on the forecasts for Metro Denver and Aurora from CDO and the DRCOG, as were population figures for Metro Denver. Aurora population projections were obtained from the Aurora Planning Office. Jobs within the three industry groups--production, retail and services—were estimated based on their historical relationship to overall job growth. Generally, Aurora's job growth after 2010 was assumed to be at the same rate as that of Metro Denver.

Tax forecasts

Sales tax receipts were estimated separately for three different payer groups: Aurora residents, nonresident shoppers (assumed to be other Metro Denver residents), and Aurora businesses. For both resident and nonresident shoppers, expenditures on taxable items by various classes of households were estimated based on BLS consumer expenditure surveys and projected changes in the number of households in each group.

The change in expenditures on taxable sales as real incomes grew was based on cross-section data from the BLS surveys. Households under 65 were estimated to increase outlays on items in the sales tax base by $.52 for every dollar increase in real income, while those 65 and over showed a $.68 increase. The sales tax figures were converted to current dollars using deflators for consumer expenditures on durable and nondurable goods, weighted by each category's share of taxable expenditures. Sales tax paid by businesses was based on Aurora jobs. Auto Use tax was estimated in a manner similar to that for sales tax except nonresident shoppers were excluded.

Property taxes were estimated by forecasting values of the various classes of property. Residential property values were based on projections of Aurora household growth and the home-ownership and rental-payment patterns of different classes of household. Nonresidential property was based on Aurora employment. The residential assessment rate (the ratio of assessed value to actual value) was assumed to decline at the same rate as in 2000-10 reflecting the "Gallagher Amendment." The mill levy was assumed to remain constant.

Building materials use tax forecasts were based on growth in households, for residential construction, and Aurora jobs, for nonresidential construction. Equipment use tax forecasts were based on Aurora jobs. Franchise tax receipts were estimated based on population and inflation. "Other taxes" were assumed to grow at the same rate as forecast over the 2005-2010 period. Any impacts of TABOR or other statutory or constitutional limitations on Aurora's ability to spend revenue collected were not considered.

In general, better information was available for making estimates of taxes paid by resident or nonresident households than for those paid by businesses. Business taxes include portions of sales, auto use and property taxes and building materials use tax due to nonresidential construction. Businesses pay all of the equipment use tax. In preparing the tax forecasts, estimates of such parameters and the share of these taxes paid by

business and the relative tax payments by different types of business were often made based on informed judgments with limited “hard-data” support.

CHAPTER FOUR:
REVENUE AND
BUDGET ALTERNATIVES

The development of the 5-year model required estimates of revenue and expenditure patterns, and the long-term forecast focused exclusively on revenue growth varied by alternative patterns of community development and change. Based on these projected outcomes, the study focused on providing guidance on revenue ideas and alternatives to deal with the projected gap between revenues and expenditures. As noted previously, the primary methods for balancing the City budget in the years following the 2001 national recession focused on spending reductions. These included general budget reductions of over $32 million, elimination of 130 positions, and funding reductions for non-public safety services of 14.6 percent.[26] Given this level of reduction, it is likely that further reductions would require a focus on levels of service provided by the City.

Overview: Expenditure Options

As noted in the previous section, there are significant expenditure cost drivers that are likely to persist in the future. Government in general and local government in particular is a labor intensive industry, and over 48 percent of general fund expenditures go for regular employee salaries. When benefits are included, the total (including benefits, overtime and special pay) grows to nearly two-thirds of the general fund budget.

Direct Expenditure Reductions and Efficiency Gains

Businesses in nearly every industry are feeling the pressure from health insurance and pension benefits, and the City is no exception. Besides these issues, as the City continues to grow, it must dedicate resources to fulfill the mandate to employ two police officers per 1,000 population.

As noted previously, the City has generally balanced its budget as revenues growth has declined through reductions in expenditures. While this continues to be an option, there are concerns that further reductions in areas including parks and recreation, library and other services will not allow the City to provide levels of service commensurate with other large cities in the region.

There may be opportunities for further study of service levels and efficiency in major areas of the budget, for example, Public Works and police and fire protection. The City has done a commendable job of seeking opportunities for co-locating facilities, outsourcing, fleet management, and shared services, but there may be additional opportunities. Several large cities have undertaken detailed reviews of these budget areas and achieved significant savings.[27]

Bonding for Capital Needs

A significant portion of the identified gap is based on the assumption that the City will use cash funding for capital projects. Given the City's overall financial position, it

[26] City of Aurora budget documents

[27] PFM has conducted studies in each of these areas, which have identified significant cost saving or revenue generating opportunities, for clients including the Cities of Pittsburgh, Philadelphia, Louisville, Washington DC, Minneapolis, Miami, and Nassau County (NY).

should consider funding all or a portion of these identified capital needs through one or more bond issues. Bonding allows the City to spread the costs of the projects over their useful life. This is economically efficient, as it may allow for a greater number of actual users of the infrastructure to share in its cost. Further, because inflation in the construction industry is running ahead of inflation for the economy as a whole, getting the projects underway and completed in less time than would be done with a pay-as-you-go approach can reduce overall project costs, even when the borrowing costs are included.

The City's current debt load is an average three percent of market value, and roughly $2,350 per capita. Roughly 50 percent of the City's debt, including enterprise revenue debt, will be retired within the next 10 years.[28]

According to City policy, transfers out of the general fund for capital projects are based on all revenues received from the use tax and four percent of general fund revenues. These annual transfers have averaged as much as 20 percent of general fund expenditures and transfers since FY2000. Given the importance of completing many of these capital projects and other competing general fund needs, the City could reduce its gap by as much as $10 million a year over the next five years by not paying cash and continuing its policy of transferring all of the use tax and four percent of its general fund expenditures to capital projects.

Overview: Revenue Options

Policy Options Affecting Existing Revenue Base

As discussed in the long range forecast, the City should continue to pursue opportunities that will grow its existing revenue base. Given the reliance on the sales tax, the City should pursue strategies that grow its retail base. There are several new malls and shopping areas being developed, and these will help restore more regular revenue growth to the City.

As also mentioned in the long-range forecast, over time, changes to Aurora's household characteristics may reduce real City revenues. The City should continue to develop policies that stem some of these possible future losses. Attracting additional high-income residents and shoppers is a logical strategy, which can be accomplished by focusing on high-end housing and the services and amenities valued by these residents.

Tax Policy

It is important to recognize at the outset that every tax has some negative impact on the economy. By increasing the cost for a purchased good or service, taxes change market behavior, generally resulting in a reduction in demand. The result of this market behavior, the "deadweight loss" from taxation, must be balanced against the value of the goods and services that government delivers through use of those tax revenues.

[28] "Aurora, Colorado," Standard and Poor's, February 2, 2006.

As revenue alternatives are analyzed and considered, the economic impact of these choices should and will be assessed. Generally, there is a preference for smaller, incremental changes in taxes as opposed to large, sweeping changes, particularly where they involve use of a new tax. One reason for favoring incremental changes is that they are less likely to result in significant changes in market patterns. With larger changes, there is a greater possibility that specific businesses or industries will be negatively impacted by the market response to a particular tax. Along the same lines, there generally is a preference for broad use of several tax methods as opposed to extensive use of only one or two taxes that may prove to be particularly burdensome to specific businesses or industries.[29]

City revenue structures are unique to a particular community and are often driven by state and local laws and ordinance, history, and local and regional issues, including competition and intergovernmental relationships. In Colorado, they are also impacted by TABOR, which establishes specific requirements for amounts of revenue that may be raised and approval by voters for changes in the revenue structure.

Section One: General Principles of Tax Policy

There are widely diverging opinions on what constitutes good tax policy, and in many instances, politics and self-interest enter into the discussion. Various resources are available that look at the issues surrounding taxation in a relatively neutral fashion. The National Conference of State Legislatures has published one frequently cited list of "Principles of a High-Quality State Revenue System." While the focus is on state revenues, it is a useful guide to taxation in general. Their principles are:[30]

1. A high-quality revenue system comprises elements that are complementary, including the finances of both state and local governments.
2. A high-quality revenue system produces revenue in a reliable manner. Reliability involves stability, certainty and sufficiency.
3. A high-quality revenue system relies on a balanced variety of revenue sources.
4. A high-quality revenue system treats individuals equitably. Minimum requirements of an equitable system are that it imposes similar tax burdens on people in similar circumstances, that it minimizes regressivity, and that it minimizes taxes on low-income individuals.
5. A high-quality revenue system facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.

[29] Bland, Op. Cit., p.33.
[30] National Conference of State Legislatures, "Principles of a High-Quality State Revenue System, Fourth Edition, June 2001.

6. A high-quality revenue system promotes fair, efficient and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly.
7. A high-quality revenue system is responsive to interstate and international economic competition.
8. A high-quality revenue system minimizes its involvement in spending decisions and makes any such involvement explicit.
9. A high-quality revenue system is accountable to taxpayers.

The American Institute of Certified Public Accountants has published a Tax Policy Concept Statement that outlines their guiding principles for good tax policy. In many respects, it mirrors the NCSL principles:[31]

1. **Equity and fairness**. Similarly situated taxpayers should be taxed similarly.
2. **Certainty.** The tax rules should clearly specify when the tax is to be paid, how it is to be paid, and how the amount to be paid is to be determined.
3. **Convenience of Payment**. A tax should be due at a time or in a manner that is most likely to be convenient for the taxpayer.
4. **Economy in Collection**. The costs to collect a tax should be kept to a minimum for both the government and taxpayers.
5. **Simplicity**. The tax law should be simple so that taxpayers understand the rules and can comply with them correctly and in a cost-efficient manner.
6. **Neutrality.** The effect of the tax law on a taxpayer's decisions as to how to carry out a particular transaction or whether to engage in a transaction should be kept to a minimum.
7. **Economic Growth and Efficiency**. The tax system should not impede or reduce the productive capacity of the economy.
8. **Transparency and Visibility**. Taxpayers should know that a tax exists and how and when it is imposed upon them and others.
9. **Minimum Tax Gap**. A tax should be structured to minimize noncompliance.
10. **Appropriate Government Revenues**. The tax system should enable the government to determine how much tax revenue will likely be collected and when.

It is also useful to compare principles among groups with difference general views on tax policy. The Tax Foundation, generally considered a conservative tax think tank, lists the following as its "Ten Principles of Sound Tax Policy:"[32]

1. Transparency is a must
2. Be neutral
3. Maintain a broad base

[31] "Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals," American Institute of Certified Public Accountants, 2001, p. 9-10.
[32] The Tax Foundation, "Ten Principles of Sound Tax Policy,: http://www.taxfoundation.org

4. Keep it simple
5. Stability matters
6. No retroactivity
7. Keep tax burdens low
8. Don't inhibit trade
9. Ensure an open process
10. State and local taxes matter.

The Institute on Taxation and Economic Policy, generally considered a liberal think tank, has published their own assessment. They identify the following as the building blocks of a sound tax system:[33]

1. Maintain vertical equity (tax systems should not be regressive)
2. Maintain horizontal equity (taxpayers in similar circumstances should pay similar amounts of tax)
3. Adequacy (raises enough funds to sustain the level of services demanded by citizens)
4. Simplicity
5. Exportability (individuals and businesses from other locations that enjoy public services should help pay for them)
6. Neutrality (tax system should stay out of the way of economic decisions.

Finally, Robert Bland identifies the three criteria that should guide local government revenue policy making. These fall into three broad categories, which he refers to as "the pillars of support for a sound local economy:"[34]

1. Equity (the fair distribution of both the tax burden and the benefits from public services
2. Neutrality (provide the least interference by taxes in the marketplace)
3. Effective administration (take into account the cost to government to administer the tax or cost to taxpayers to comply with the tax)

While there is some variation in the terminology, there are some clear principles that emerge where there is close to complete agreement. These principles are:

1. The system should minimize interference by taxes in market decisions
2. The system should be reliable, stable, and sufficient
3. The system should be simple, allow for compliance and easy administration
4. The system should be equitable
5. The system should have a balanced variety of sources/broad base

In particular, there was remarkably similar discussion and belief in the value of the first principle. It is also notable that the original City of Aurora Request for Proposal required

[33] The Institute on Taxation and Economic Policy, "Tax Principles: Building Blocks of a Sound System," p. 1-2.
[34] Robert L. Bland, "A Revenue Guide for Local Government Second Edition, ICMA, 2005, p. 21

that "the impact of current revenue streams and revenue enhancements on citizens, businesses, and developers must be addressed."[35] This will be an important area of focus when analyzing specific options.

Because Bland's analysis focuses specifically on local revenue systems, he identifies some useful areas where local revenue structures may be somewhat different from federal or state systems. In this analysis, he reaches the following conclusions, which will be assessed in the revenue recommendations in the next chapter:[36]

- When in doubt, use benefits based levies
- Broad-based taxes and a flat rate are less distorting to the local economy
- Consumption and income-based taxes should be assessed on potential for border-city effects
- Avoid imposing corporate income taxes or gross receipts taxes on business sales
- Any tax on business should be widely used in the State or region
- Taxes on the less mobile components of production (land, buildings, equipment) have the least detrimental effect on markets
- Eliminate nuisance taxes that have low revenue yields and high administrative and/or compliance costs
- Excise taxes, especially "sin" taxes and those borne by nonresidents usually arouse the least opposition

Section Two: Taxes in Colorado and the United States

Colorado's tax system is different in many respects from the nation as a whole, and this has important implications for comparisons of Colorado cities' revenues and expenditures with other cities around the country. While in most states, the majority of state and local revenue is collected at the state level, the opposite is true for Colorado. In Colorado, 46 percent of revenue is raised at the state level and 54 percent at the local level. The national average is 54.9 percent raised at the state level and 45.1 percent at the local level.[37]

Colorado is one of only five states where local revenue collections are greater than state revenue collections. While New York is only slightly behind Colorado for the lead in local revenue generation, it is notable that New York Counties share responsibility with the State for funding of Medicaid, which is one of the larger areas for expenditure by State governments across the Country.

Colorado also collects relatively little in State taxes as a share of personal income. In 2004, Colorado had the lowest state tax collections ($44.57) per $1,000 of personal income of all the 50 States. Colorado's tax burden has declined by $7.84 over the past

[35] City of Aurora, "R-1259 Study of City Revenues for the City of Aurora, Colorado," p.4
[36] Op cit., Bland, p.24-33.
[37] Federation of Tax Administrators, U.S. Census Bureau Census of Governments 2002. The compete listing for all states is found in the Appendix.

three years. Nationally, the average tax burden decreased by $2.94 over the past three years. Colorado's State tax burden was 30 percent below the national average ($63.70). The following indicates the State's ranking in selected state taxes:[38]

Table 20
Colorado's Rank in Selected State Taxes per $1,000 Income, 2003-04

	Colorado		National	
Tax	Rank	Tax	High	Low
Total Taxes	50	$44.57	$100.07	$44.57
Individual Income	27	$21.68	$41.65	$0.00
Sales/Use	44	$12.11	$49.40	$0.00
Corporate Income	42	$1.51	$15.74	$0.00
Gas	34	$3.81	$8.35	$0.76
Liquor/Tobacco	50	$0.61	$3.67	$0.61

By contrast, Colorado's local tax burden ranks as the 12th highest in the nation. Nationally, the largest single source of tax revenue for cities is the property tax. By contrast, Colorado cities are much more dependent on the sales tax:[39]

Table 21
National and Colorado Cities Source of Revenue

Source	U.S Percent	Colorado Percent
Intergovernmental revenue	25.2%	8.9%
Property taxes	17.3%	6.0%
Sales and gross receipts taxes	10.5%	27.9%
Other taxes	7.8%	3.5%
Current charges	15.4%	22.1%
Miscellaneous revenue	8.4%	11.9%
Utility and liquor store revenue	16.4%	19.5%
Employee retirement revenue	-1.0%	0.3%
Total	100.0%	100.0%

[38] Tom Dunn, "How Colorado Compares in State and Local Taxes," Colorado Legislative Council Staff Issue Brief, January 24, 2005, p. 1.
[39] U.S. Census Bureau, "2002 Census of Governments, Volume 4, Number 5, Government Finances, p. 174.

In fact, Colorado's local sales tax collection is among the highest in the country:[40]

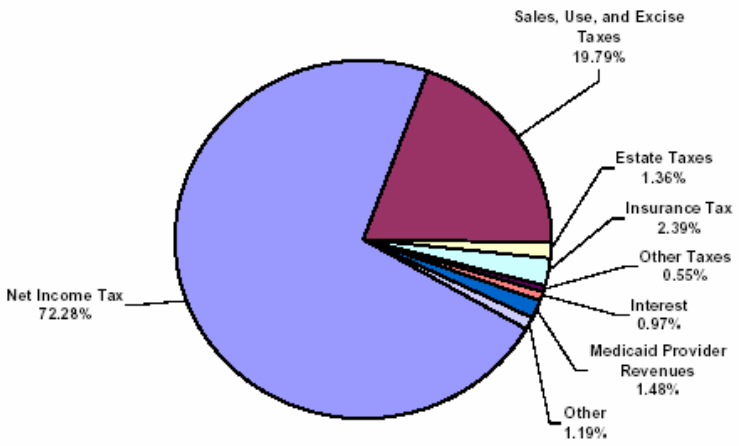
Table 22
Local Taxes as a Share of $1,000 Personal Income, 2001-02

	Colorado		National	
	Rank	Tax	High	Low
Total Taxes	12	$45.69	$67.19	$19.82
Sales/Use	2	$14.57	$22.74	$0.00
Property	30	$27.25	$53.10	$8.29

In general, the best way to assess a state and local tax system is to combine them, as the relationship between state and local revenues and expenditures varies widely from state to state. When viewed on a combined basis, Colorado still comes across as a low tax state, ranking 47th at a combined 9.1 percent of personal income. By contrast, the national average is10.4 percent:[41]

The State of Colorado's reliance on net income taxes is striking, making up nearly three-fourths of its general purpose revenues. When combined with sales, use, and excise taxes, these sources make up over 93 percent of general purpose revenues. The following illustrates this break down:[42]

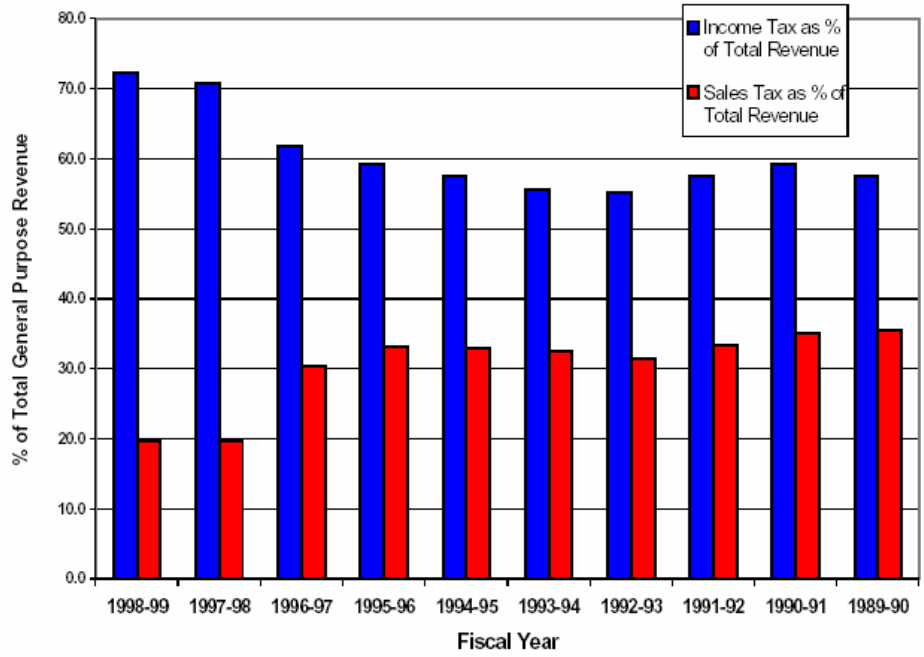
Figure 16
State General Purpose Revenue by Source, FY 2002



[40] Op. Cit., Dunn, p. 2.
[41] Op. Cit., Federation of Tax Administrators and U.S. Census Bureau Census of Governments
[42] Daphne Greenwood and Tom Brown, "An overview of Colorado's state and local tax structures," Center for Colorado Policy Studies, 2002.

Greater reliance on income tax – and a reduced reliance on sales tax revenues -- were particularly pronounced in Colorado during the 1990s:[43]

Figure 17
Colorado Sales and Income Tax as a Share of Total Revenue



When looking at the make-up of Colorado's revenue mix, combined state and local collections are generally similar to national averages, although general sales taxes are somewhat higher and selective sales taxes somewhat lower:[44]

Aurora and Comparable Cities

While Aurora's revenue structure is not dissimilar from other Colorado cities, there are some slight areas of variation. When looking at other cities in the region (specifically; Arvada, Centennial, Colorado Springs, Lakewood, and Westminster) and all Colorado cities as a whole, Aurora's property, sales tax, and employment occupation revenues tend to be higher, while its licenses, permits, and fees and intergovernmental revenue tends to be lower. The following table provides detail on various sources as a percent of municipal government revenues in 2002:[45]

[43] Ibid.
[44] Op Cit., Federation of Tax Administrators. The rankings for each State can be found in the appendix.
[45] Colorado Division of Local Government, April 27, 2005, p. 338.

Table 23
Municipal Government Revenue, FY2002

Revenue Source	Aurora Percent of Revenues	Arvada Percent of Revenues	Centennial Percent of Revenues	Colorado Springs Percent of Revenues	Lakewood Percent of Revenues	Westminster Percent of Revenues	All Colorado Cities Percent of Revenue
Property	10.1%	4.9%	29.4%	6.7%	6.9%	3.8%	8.0%
Specific Ownership	1.7%	0.6%	3.1%	1.0%	0.8%	0.5%	1.0%
Sales and Use	50.6%	46.3%	34.0%	49.5%	45.9%	55.3%	47.6%
Franchise	3.4%	4.0%	10.5%	0.6%	5.4%	3.1%	2.6%
Employment Occupation	1.5%	0.0%	0.0%	0.1%	0.0%	0.0%	0.4%
Other	1.3%	0.0%	2.8%	1.4%	0.8%	1.3%	2.6%
Licenses, Permits, Fees	3.4%	4.1%	5.4%	1.6%	2.3%	4.8%	5.2%
Intergovernmental	9.8%	12.6%	13.7%	18.2%	17.6%	13.5%	13.3%
Charges for Service	10.2%	14.3%	0.0%	8.3%	11.7%	10.5%	9.9%
Fines and Forfeits	1.9%	1.9%	0.0%	1.9%	1.9%	1.8%	1.5%
Msicellaneous	6.1%	11.2%	1.3%	3.5%	6.7%	5.4%	5.7%
Transfers from Enterprises	0.0%	0.0%	0.0%	7.2%	0.0%	0.0%	2.3%

In fact, Aurora's intergovernmental revenues, as a percentage of total revenues, were the lowest among these cities and also significantly lower than the average for all cities in Colorado. The following is the breakdown of the components of intergovernmental revenue:

Table 24
Municipal Intergovernmental Revenue, FY2002

Intergovernmental Revenue Source	Aurora Percent of Revenues	Arvada Percent of Revenues	Centennial Percent of Revenues	Colorado Springs Percent of Revenues	Lakewood Percent of Revenues	Westminster Percent of Revenues	All Colorado Cities Percent of Revenue
Highway Users Tax	33.1%	35.2%	47.4%	27.1%	26.6%	23.0%	22.2%
Cigarette Tax	3.4%	0.0%	7.0%	2.9%	2.9%	2.5%	2.7%
Motor Vehicle Reg. Fees	3.2%	4.5%	11.3%	2.5%	2.8%	2.5%	2.4%
Conservation Trust Fund	10.8%	5.4%	15.1%	7.2%	8.1%	5.8%	6.4%
Other Intergovernmental	49.5%	54.9%	19.1%	60.3%	59.5%	66.1%	66.2%

Overview of Major Revenue Alternatives

Section Three: Sales and Use Taxes

As noted previously, sales taxes are the predominant revenue generator for Colorado cities. While not to the same degree as Colorado, they have grown in utilization nationally as well. Nearly 6,500 cities now levy a general sales tax, and it is seen as the primary alternative to the property tax for diversifying the tax base, at both the state and local level. In fact, many property tax relief proposals rely on increasing the rate or scope of the sales tax to offset reductions in revenue from the property tax.[46]

Several benefits of the tax explain its popularity. First, it is collected in generally small increments throughout the year (by contrast, property taxes are usually paid in one or two large yearly payments). Second, it is a tax on consumption, and proponents argue that it has less negative economic impact than a tax on income. While the tax is more regressive than an income tax with multiple rates, most state and local governments that assess the tax exempt certain purchases -- usually food, drugs, and sometimes clothing – to reduce the regressivity of the tax.[47]

Every tax comes with its own set of difficult issues, and the sales tax is no exception. The sales tax tends to move roughly in tandem with the business cycle – but it often fluctuates the most at either extreme of the business cycle (growing faster during peaking periods, and declining more during downturns). This can create difficult mid-year budget challenges that more stable revenue sources, such as the property tax, tend to avoid. In fact, one expert on local government revenues suggests that, as a rule, cities and counties should keep property and sales taxes in relative scale - deriving no more than $1.00 in consumption-based tax revenue for every $1.00 in property tax revenue.[48]

The first local sales taxes were enacted in New York City in 1934 and New Orleans in 1936, when the Great Depression put pressure on local governments to diversify their revenue structure. California and Illinois authorized utilization of local sales tax in the 1940s, and Mississippi introduced local sales tax administered by the State in the next decade. In the 1960s, the number of states allowing local use more than doubled, from

[46] Most notable were the series of events in Michigan, where in 1993 approximately $7 billion of property tax generated school operating funds were replaced by a two percent increase in the state sales and use tax. In this instance, voters were given the option of either the increase in the sales tax or a 1.4% increase in the personal income tax, and chose the sales tax. Therefore, average statewide millage rates on all property declined by 18.45, or 33%. See "School Finance Reform in Michigan Proposal A: Retrospective," State of Michigan Department of Treasury, Office of Revenue and Tax Analysis, December 2002.

[47] Twenty-nine states exempt food purchased for home consumption. Four other states have a two-tiered tax structure and tax food at a lower rate. Probably the broadest exemptions are found in Connecticut, Massachusetts, Minnesota, and Rhode Island, which exempt all prescriptions, food purchased for home consumption, consumer utilities, clothing, and services. See Bland, Op Cit., p.109-112.

[48] Bland, Op Cit., p.108.

12 to 25.[49] Local use of the sales tax now tends to be concentrated in the South, Midwest, and West. There is very little utilization of local sales tax in the East, with the exception of counties in New York State.

Colorado is somewhat unique in that the authority to assess the tax locally is derived from home rule powers; this is also the basis for local sales taxes in Illinois and North Dakota. Alabama and Arizona rely on business licensing powers as authority for the tax. In other locations, the State enables the local government to collect the tax. In some instances, only one local governing authority can collect the tax (as is the case in six states where the County has the sole authority and another two where cities have the exclusive authority to collect the tax). The following provides a breakdown on local control over the tax:

Table 25
Breakdown of States with Local Control over Sales Tax

No local control	Local discretion over base	Local discretion over rates	Local administration
15	4	22	7

One of the advantages of the Colorado situation is the ability for local governments to control their use of the tax. While its widespread use would make it difficult for a state legislature to take an existing taxing power away from local governments, Legislatures do, on a fairly regular basis, exempt items from the sales tax. In the case of Colorado cities, that is a local, not a state, decision, which provides greater ability to maintain the local sales tax base – or even expand it. However, under the limits of Colorado's TABOR Amendment, any policy options with respect to the sales tax that ultimately result in a net revenue increase to the City are subject to an affirmative vote of the citizens. This includes base widening policy changes as well as rate increases.

The following detail the rates and participation in States with the most extensive local use of the sales tax:[50]

[49] Holley Ulbrich, "Local Revenue Diversification: Local Sales Taxes," Staff Report, Advisory Commission on Intergovernmental Relations, September 1989, p. 3.
[50] Bland, Op Cit., p. 109.

Table 26
Municipal Sales Taxes by State

State	Range in Rates	Most frequently used rate	Voter Approval	Participation (%)
Nearly all cities levy tax				
Arizona	1.40 - 3.50	2.00	no	90
Arkansas	0.50 - 3.50	1.00	yes	90
California	1.00	1.00	no	90
Colorado	1.00 - 4.50	3.00	yes	90
Illinois	0.25 - 1.50	1.00	no	90
New Mexico	0.50 - 2.4375	1.4375	optional	90
Oklahoma	0.50 - 5.00	3.00	yes	90
Texas	0.50 - 2.00	1.00	yes	90
Utah	1.00 - 3.10	1.00	yes	100
Virginia	1.00	1.00	no	100
Washington	0.5. - 2.10	1.00	no	100
Most cities levy tax				
Alabama	1.00 - 8.00	3.00	no	75
Alaska	1.00 - 6.00	4.00	no	80
Iowa	1.00	1.00	yes	74
Kansas	0.50 - 2.75	1.00	yes	86
Louisiana	1.00 - 3.00	1.00	yes	80
Missouri	0.50 - 2.625	1.00	yes	55
Nebraska	1.50	1.00	yes	34
North Dakota	1.00 - 2.50	1.00	yes	85
South Dakota	1.00 - 2.00	2.00	yes	68

One of the concerns of the sales tax, which has been previously discussed, is that consumption has been rising slower than the growth in the purchase of services. There are several reasons for this trend. First, as noted above, State Legislatures have frequently exempted items from the sales tax. In some instances, this has been done to make the tax less regressive – for example, over a period of 5 years the State of Iowa eliminated the sales tax on residential utilities. In other cases, exemptions have been granted for specific items or industries. In some instances, this has been pursued for tax policy reasons, in particular to avoid "layering" by charging sales tax on inputs into manufacturing processes. In other cases, it has been less based on policy and more based on the ability of certain types of businesses or industry to gain exemptions through the political process.

Changes in the economy have also affected the sales tax base. As noted previously, the increased consumption of services as opposed to goods has narrowed the tax base.[51] Additionally, relative prices have generally been falling for goods, while rising faster for services.

[51] See the discussion of taxation of services in the Chapter on specific revenue options for a fuller discussion of this issue.

Internet sales have also had an impact, although in some instances this effect may be overstated.[52] When considering these factors, Eugene Steuerle, Co-Director of the Tax Policy Center at the Urban Institute concluded that the sales tax is "not viable in the long run as a source of revenue" because of the inability to tax inter-jurisdictional sales.[53]

A common local concern about the local sales tax is that it will hurt local retail sales. This issue is more pronounced in Colorado where there is a variety of differing local rates, which affords consumers the opportunity to seek out lower rates, particularly on large purchases. Previous studies suggest that the impact is marginal where the differences in rates are low (less than 1 percent) but increases as the difference grows.[54] In a recent analysis of the imposition of a 1 percent sales tax by the City of Atlanta, the Fiscal Research Center at Georgia State University indicated that studies found anywhere from no effect to a 7 percent effect from a 1 percentage point difference in sales tax rates. They concluded that the estimates cluster around a 5 percent reduction for a 1-percentage point increase in tax differential.[55]

Specific Revenue Options – Sales Tax

Local governments in Colorado place great reliance on the sales tax to fund government services. As consumers choose to purchase more services and fewer goods, it is important that the revenue system evolve to reflect these choices.

In some instances, services that are exempt from sales tax may be substituted for goods that are subject to sales tax. For example, a consumer may choose to rent a movie rather than purchase it, or a homeowner may choose to use a lawn service rather than purchase fertilizer and other chemicals and apply them. In other cases, similar services may be taxed differently. For example, home phone line connections are subject to a franchise tax, while cellular phone connections are not subject to the same tax .

Sales Tax Rate Increase

Aurora's current sales tax rate is 3.75 percent. Given the heavy reliance on the sales tax as a source of revenue, rounding the rate off to 4.0 percent is an obvious method for maintaining sales tax collections in light of base erosion because of the increasing role of services and e-commerce in the local and national economy.

[52] See the discussion on taxation of e-commerce in the Chapter on specific revenue options for a fuller discussion of this issue.
[53] "The Impact of Federal Fiscal Policy on State and Local Fiscal Crises: Roundtable Proceedings," National League of Cities Research Report on America's Cities, 2003, p. 11.
[54] John Due and John Mikesell, "Sales Taxation: State and Local Structure and Administration, 1994.
[55] John Mathews, David L. Sjoquist and William J. Smith, "Estimated 1% Sales Tax Revenue to the City of Atlanta Policy Memorandum," Fiscal Research Center, Andrew Young School of Policy Studies, Georgia State University, August 11, 2004, p. 3.

Possible Additional Revenue Generation

Current projections indicate that the 3.75% sales and use tax will generate an additional $9.6 million before adjusting for adverse effects from consumer mobility. The following are the current sales tax rates for surrounding communities:

Table 27
City Sales Tax Rates

City	Rate
Arvada	3.46%
Brighton	3.75%
Centennial	2.50%
Cherry Hills Village	3.50%
Denver	3.50%
Englewood	3.50%
Lakewood	3.00%
Littleton	3.00%
Wheatridge	3.00%

Of course, the City rates alone are not the true point of comparison. Consumers paying sales tax in these cities will also pay state and county sales taxes, as well as, in many instances, regional transportation district and other special district sales tax. The better comparison includes these taxes as well. This is complicated by the fact that several of the Cities in Table 26 are located in more than one County, which creates variations in the rates within the City depending upon the County in which a retailer is located. The following table demonstrates the combined City, County, and other special district rate (the State rate is not included, as it is collected at the same 2.9% rate among all of the Cities):

Table 28
Combined City, County, Transportation and Other Special District Sales Tax Rate

City and County	Combined Rate	Local Improvement District
Aurora - Arrapahoe County	5.20%	
Aurora - Adams County	5.65%	
Aurora - Douglas County	5.95%	
Arvada - Jefferson County	5.16%	5.66%
Arvada - Adams County	5.36%	
Brighton - Weld County	3.75%	
Brighton - Adams County	5.65%	
Centennial - Arrapahoe County	3.95%	
Cherry Hills Village - Arrapahoe County	4.97%	
Denver - Denver County	4.70%	
Englewood - Arrapahoe County	4.95%	
Lakewood - Jefferson County	4.70%	5.13%
Wheat Ridge - Jefferson County	4.70%	5.20%

It is notable that there are some exceptions to the rates noted above. The local improvement district rates are charged only within a local improvement district within the Cities listed above. There are also special district rates included that do not comprise all of the Cities[56]

If the City were to increase its sales tax rate to 4.0%, the portion of Aurora in Douglas County would have the highest combined rate in the region, and the portion in Adams County would have the second highest rate. Most of the research suggests that differences below 1.0% are not particularly significant, but the City would also have to assess the inevitable publicity and news articles noting that it has the highest sales tax rate in the region.

Impact on Citizens/businesses/developers
To the extent that the tax is levied on goods that most citizens will continue to purchase even with the imposition of the tax, this is a tax that will, generally, be passed on to consumers. Should consumers halt purchases in response to the increase in the sales tax, the seller will bear the burden of the tax increase.

Tax Policy Evaluation

Equity
In general, the sales tax is considered to be a somewhat regressive tax, because lower income families spend a greater portion of their income on taxable sales (utilities, clothing, etc,). .

Reliability/Sufficiency
The sales tax is pro-cyclical and thus subject to downturns with the economy as a whole.

Ease of Adoption/Administration
The vehicle for collection of the tax is already in place. While some education will be necessary to inform businesses of their need to now collect sales tax, it should not be overly burdensome. Each extension to the sales tax base is subject to an affirmative vote of the citizens of Aurora under the provision of TABOR that requires voter approval for tax policy changes resulting in net revenue increases to the City.

Economic Efficiency
Any sales tax will have some deadweight loss associated with it, but the minor increase suggested here is hard to assess. The deadweight loss will increase with the decisions by consumers to halt purchases or to make their purchases elsewhere.

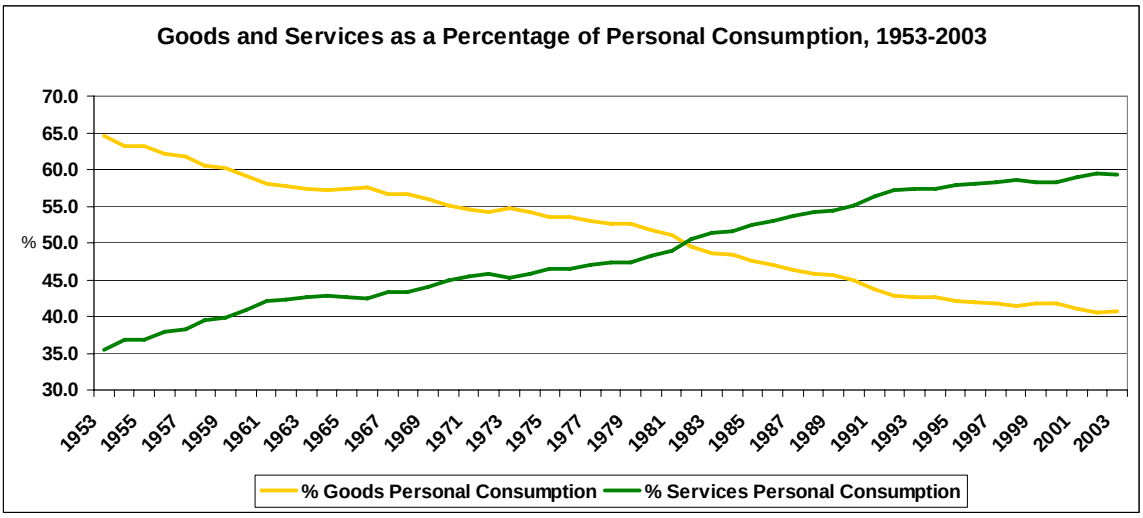
[56] For example, for the City of Aurora in Arapahoe County, the Regional Transportation District, which has a sales and use tax of 1.0%, the Scientific and Cultural Facilities District with a sales and use tax of .1%, and the Metropolitan Football Stadium District with a .1% sales and use tax, apply to that portion of Arapahoe county which is south of Interstate 70 and west of Picadilly Road to Jewell, and west of Gun Club Road to Quincy, and generally west of Monaghan Road, including Arapahoe Park and Aurora Reservoir. The best authority for these definitions is found on the State of Colorado Department of Revenue website at: http://www.taxview.state.co.us/QueryTaxrates.aspx?selected=1

Balanced or Broad-based
One of the concerns about the current sales tax is that the base is eroding and little has been done to address this fact. An increase in the rate does not address this concern. In fact, it contributes to a policy that is more likely to lead to economically inefficient market choices.

Sales Tax Expansion to Consumer Services

Most sales and use taxes were created at a time when most consumption was of tangible goods, and those goods were subject to the tax. In most instances, all tangible goods are subject to the tax unless specifically exempted. On the other hand, services have grown in their prevalence over the past 50 years, and they now are nearly two thirds of consumption in the United States as a whole. They have generally not been subject to the sales tax unless specifically enumerated in statute. The following reflects the growth in services as a share of consumption in the United States over the past 50 years:[57]

Figure 18
National Consumption of Goods and Services



Possible Additional Revenue Generation
Because there is little experience with taxation of services among cities in Colorado, there is little data to draw upon. In addition, across the nation, there is not an example of a city adopting a broad based sales tax on services independent of all other municipalities in its region, so the municipal cross border effects are largely unknown. However, there is greater state experience with taxation of various services. Some states, most notably South Dakota, New Mexico, and Hawaii, tax services broadly. In general, states with a

[57] United States Department of Commerce, Bureau of Economic Analysis.

broad tax on services have little or no income tax. Hawaii, given its isolated location, is a special case, because cross-border issues do not exist.

Among the States, Iowa has a policy of broadly applying the sales tax to services largely purchased by consumers but not applying the tax to services that are largely paid by businesses. Thus, Iowa taxes haircuts and pool maintenance but does not tax accounting or legal services.

There are strong arguments, both based on policy and pragmatism, for such an approach. First, businesses, at least in the long run, are relatively mobile and, if taxes become an important consideration, may change locations. It obviously is a two-edged proposition to levy at tax to increase revenue if it leads to a significant relocation of businesses out of the community or state. An argument can also be made that sales taxes on business services are more onerous on small businesses, as larger corporations can simply employ in-house accountants or lawyers and escape the tax. Finally, there are issues of tax layering – where a part of a process of creating a good or service are taxed as well as the final product – that are generally viewed as less desirable in terms of overall tax policy.

The pragmatic approach also recognizes that services provided by doctors, lawyers, accountants and real estate and other professionals have significant political power. Even if the tax were desirable, it is probably not going to make it through the political process.

Aurora does tax some services, including:

- Gas and electric
- Telecommunication and cable television services
- Most freight and delivery charges
- Damage waiver charges, as part of a renal or lease charge
- Recreational services (pool and billiards, golf, bowling, coin-operated amusement devices, skating, tennis)

The classes of services recommended for consideration for taxing are:

- Laundry and cleaning
- Photographic studios
- Beauty/barber shops
- Shoe repair shops
- Funeral homes
- Other personal services
- Building maintenance
- Automobile rental and storage
- Automobile repair and services
- Electrical repair
- Watch jewelry repair
- Furniture repair
- Miscellaneous repair
- Other services

This exempts the following services groups:

- Fire, insurance, real estate and leasing
- Employment agencies
- Other business services
- Business services
- Health services
- Legal services
- Educational services
- Social services
- Membership Organizations
- Engineering and Management Services

For purposes of making an estimate of possible revenue generation, we compared the percentage of sales tax collected on services in the State of Iowa, adjusting for services already taxed in Aurora and items exempted from tax in Iowa (most notably utilities, which are actually the largest component of sales tax collected in the City). We then compared that to the total amount of sales tax collected in 2005 in Aurora, adjusted for projected increases in 2006. We then provided a 5% reduction to account for reduced consumption based on consumer mobility, and a 13% reduction to account for 10% of the total transferred to the Policy Reserve Fund and 3% transferred to the TABOR reserve fund. These calculations yield an annual increase of $4.8 million.

However, NWE approached the issue of levels of collection from another method, by comparing the per capita purchases of services at different income levels. By their calculations, the level of additional revenue likely from taxing services is in the $2-3 million range. In both instances, actual performance will depend upon the extent of the services subject to the tax.

Impact on Citizens/businesses/developers

In general, the imposition of a general services tax will likely generate more revenue and perhaps meet relatively less organized resistance when placed on services for which the consumer bears the burden of the tax. Most often, this will be the case for services that represent a small portion of the consumer's budget and ones for which the ease of convenience outweighs the cost of traveling to avoid the tax (services such as laundry services, video rentals, etc). In these cases, the consumer continues to pay for the good, even in light of the price increase due to the tax, consumption levels remain fairly steady, and the tax is collected. This tax will likely be productive without significantly affecting business activity in Aurora.

Cases when the seller is forced to bear the burden of the tax are cases in which the consumer is willing to travel or substitute to avoid the tax. These cases are generally less revenue productive over the long term because many sellers, over time, will choose to relocate outside the City to avoid the tax rather than allow the absorption of the tax to reduce their profits. Ultimately this may erode the commercial base in Aurora and not result in significant additional revenues for the City.

Burdens are important in this instance for another reason. As noted above, Aurora's imposition of general services taxes will be subject to a vote of its citizens. If the burden is shown to fall on particular, well-organized professional or citizens groups, there will likely be a stronger opposition to the vote

Tax Policy Evaluation

Under TABOR, "a tax policy change directly causing a net tax revenue gain to any district" is subject to an affirmative vote of the citizens of that district. Under that provision, the extension of the sales tax to services would be subject to a vote. Since some of the other revenue options discussed in this section will also be subject to a vote, it is imperative that the City strategically evaluates its potential for success at the ballot box for this revenue option in relationship to the others.

The structure of the vote on services will also be important. If the ballot language defines the service base narrowly and with specific services enumerated, then any future modification that results in increased revenue would require a subsequent vote. A more broadly worded ballot title would provide the City Council with latitude to add services at a later date, but might meet with increased citizen resistance. Given that Aurora would be the first municipality in the state to present to its voters a proposal for a broad based sales tax on services, the more narrowly worded and better defined ballot language might be advisable, even though it limits future flexibility.

Equity

As noted previously, equity is both horizontal and vertical. It can be argued that the sales tax is a consumption tax, and there is little reason (beyond historical accident, according to one commentator)[58] to treat consumption of services differently from consumption of goods. Furthermore, there is some evidence that suggests that the expansion of the sales tax to services, particularly if the service mix includes those that are disproportionately consumed by higher income households, would serve to reduce slightly, or at least not exacerbate, the regressivity of the sales tax[59]

Reliability/Sufficiency

Sales tax on services, as with sales tax in general, is pro-cyclical and thus subject to downturns with the economy as a whole. However, many of the consumer services subject to tax are for common small purchases that are probably not all that elastic. Because services continue to be a growing portion of overall purchases, adding tax to services should improve overall sufficiency by reducing some of the base erosion.

Ease of Adoption/Administration

At the City level, the vehicle for collection of the tax is already in place. Additionally, many service industries such as salons currently sell products that are subject to sales tax. These industries already have systems for collection and remittance of sales tax. Other

[58] Michael Mazerov, "Expanding Sales Taxation of Services: Options and Issues," Center on Budget and Policy Priorities, June 2003.
[59] Ibid.

service providers will have to establish such systems. While some education will be necessary to inform those businesses of their need to now collect sales tax, it should not be overly burdensome.

Economic Efficiency
Any sales tax will have some deadweight loss associated with it, but given that most of these are fairly routine and small purchases, the reduction in economic activity shouldn't be large.

Balanced or Broad-based
The extension of the sales tax to services fits with good tax policy of establishing the broadest possible base and lowest possible rate.

Differential Sales Tax Rate Increase

The State of Colorado allows home rule cities to determine their own sales tax base and rates. Several cities have established differential rates for certain items. The City may wish to adopt a similar policy, particularly as it relates to the City of Denver. Denver has a higher rate for prepared food and rental cars.

Possible Additional Revenue Generation
According to revenue data from the City, by NAICS code, prepared food subject to sales tax totaled $13.2 million in 2005, reflecting 6.3 percent growth over the previous year. Based on growth of 6.0 percent in 2006, it is estimated that each one-quarter of one percent increase in the sales tax rate would generate approximately $924,000. The City of Denver has a 3.5 percent general sales tax rate but charges 4 percent for food and liquor for immediate consumption. It is likely that any increase of less than 1 percent will not lead to significant border effects.

Impact on Citizens/businesses/developers
This would mostly be limited to the particular business or industry subjected to the higher rate. In general, these are applied to businesses or industries with limited substitution.

Tax Policy Evaluation

Equity
It depends on its application, but, in Denver's case, application to relatively high end services (restaurants and rental cars) should be reasonable.

Reliability/Sufficiency
These should have the same patterns as the general sales tax.

Ease of Adoption/Administration
The vehicle for collection of the tax is already in place. Under TABOR, approval of these differential rates would be subject to an affirmative vote of Aurora's citizens.

Economic Efficiency
Any sales tax will have some deadweight loss associated with it, but the minor increase suggested here on differential services such as meals eaten out and rental cars likely will lead to little or no behavioral change among consumers and thus little deadweight loss.

Balanced or Broad-based
One of the concerns about the current sales tax is that the base is eroding and little has been done to address this fact. An increase in the rate for specific items does not address this concern.

Section Four: Excise Taxes

Excise taxes are levies on specific products or services at rates that are specific to each particular product or service. Cities in 48 states levy excise taxes – only Connecticut and New Hampshire report no reliance. As with general sales taxes, Colorado is an exception in that the power to levy the tax derives from home rule powers (Illinois is another exception). In most states, the state legislature has to enact enabling legislation for the tax to be collected.

Among excise taxes, the most widely used are benefits-based taxes, which seek to recover a portion of the cost of public services from those who benefit from it. These include gross receipts taxes on utilities and hotel/motel lodger's taxes (which were discussed along with general and specific sales tax issues). Other excise taxes include "sin taxes" which are levied, in part, (at least in theory) to discourage consumption of certain types of goods, such as cigarettes and alcohol; and privilege taxes, which are levied to grant the privilege of conducting a certain type of business or transaction. Aurora has both a lodger's tax and an occupational business tax (the occupational privilege tax will be discussed as a business tax).

The following details municipal government's utilization of various types of excise taxes:[60]

[60] Bland, Op Cit., p. 125; Note that in Colorado motor fuel and alcoholic beverages taxes are state collected and locally shared. There is a local option to impose a cigarette tax, but the City would forfeit its state share while its retailers would still be legally liable to collect and remit it.

Table 29
Utilization of Excise Taxes, FY2002

Type of Excise Tax	Percentage of Total Excise Tax Revenue	Number of States where Municipalities Levy Tax
Public Utilities	61.6%	40
Hotel/motel occupancy	15.0%	37
Restaurant	4.0%	14
Motor fuels	2.2%	9
Alcoholic beverages	1.7%	8
Tobacco products	0.9%	19
Other	14.6%	
Total revenue (in millions)	$13,964.85	

Public utility excise fees are by far the largest category. Most states give cities the authority to regulate the use of their streets and highways, and cities impose a gross receipts tax on utilities to compensate for the utility's use of the city streets to locate their service lines. Charges are often set as a percentage of gross receipts, but in other instances, they are negotiated as a fixed fee. For cities in the 40 states where the taxes are levied, the revenue averages about 26 cents for every $1.00 in property taxes collected in 2001. In three states (Arkansas, Missouri and Oklahoma) these taxes raise nearly as much as the property tax, and in another 10, it raises at least one-third of the revenues generated by the property tax.[61] By contrast, Colorado raises just 4.2% of the revenues generated by the property tax through utility excise taxes.[62]

Besides the more common taxes on natural gas, electricity, telephone, water, and cable television, gross receipt taxes are also imposed in cities on taxicab companies, private solid-waste collection services, and fiber-optic telephone services.

Increase Lodger's Tax Rate

Among excise taxes currently collected in Aurora, the lodger's tax, often referred to as a hotel/motel occupancy tax, is the most prevalent nationally. Local governments in 44 states are authorized to use it; it is estimated that more than 90 percent of the largest U.S. cities now levy the tax.[63] This is understandable, as it allows the city to, in essence, bill tourists and other travelers for provision of public services from which they obtain some benefit (fire and police protection, snow removal, street maintenance, etc.). Because the

[61] Bland, Op Cit., p. 127. The ten states are Arizona, California, Florida, Illinois, Kansas, Nebraska, Nevada, Washington, West Virginia, and Wyoming.
[62] U.S. Census Bureau, "Table 2: Local Government Finances by type of Government and State: 2001-02." Colorado raised $2,497,254,000 in municipal government property taxes and $105,434,000 in excise taxes on public utilities.
[63] Bland, Op Cit., p. 129.

tax is generally not paid by city residents, it is also a politically easy tax to sell to the voting public.

Aurora's current lodger's tax (as known as a hotel/motel occupancy tax) rate is 8 percent. The City's proximity to the Denver International Airport, coupled with continued development of hotels and motels in the City, makes the lodging tax a useful source of revenue for the City.

Possible Additional Revenue Generation
The current projection is that for FY2006 the lodger's tax will generate $3.2 million. The City assumes that each 1 percent increase in the tax will generate an additional $0.4 million. The following are the lodger's tax rates for other Colorado cities:

Table 30
City Lodger's Tax Rates

City	Rate
Denver	10.75%
Durango	9.90%
Westminster	7.00%
Fort Collins	6.00%
Englewood	5.50%
Arvada	5.21%
Lakewood	5.00%
Colorado Springs	4.50%

It is likely that any increase that keeps Aurora's rate below that of Denver's will keep the City competitive. One of the advantages of the lodger's tax is that it is something of a hidden tax – room rates are calculated prior to imposition of the tax, and travel consumers are generally more concerned with location and amenities than local tax rates.

Impact on Citizens/businesses/developers
Lodger's taxes are generally well received in the general community – they seldom pay the Aurora tax and understand that it is a tool to export some of the City's tax burden. As long as the rates do not become exorbitant, most members of the business community are also receptive to their use. Not surprisingly, members of the travel, tourism, and hospitality industry may react negatively to any increase – they will view it as dampening tourism and travel by increasing costs. One common method for reducing industry opposition is to dedicate all or a portion of the revenue to marketing, tourism, or cultural and recreational programs, as these have the opportunity to make the City a more attractive travel and tourism destination.

Tax Policy Evaluation

Equity
Lodger's taxes are a small component of overall tax burden and tend to be borne by business travelers. They are not considered overly regressive. There is a strong argument that can be made for their use: those traveling to Aurora for business or vacation will use the City's infrastructure and services, including fire and police protection. While many of these travelers will also pay sales tax on purchases, some will not; the lodger's tax is a reasonable method for ensuring that the City receives some revenue to cover costs associated with their stay.

Reliability/Sufficiency
The lodger's tax, like other sales and excise taxes is pro-cyclical and thus subject to downturns with the economy as a whole.

Ease of Adoption/Administration
The vehicle for collection of this tax is already in place, so collection and compliance should not be unduly burdensome. To implement this increase, Aurora's citizens must approve the tax increase at an election. However, since the burden of this tax will largely be exported to non-citizens of Aurora, the chance of a successful election is relatively high.

Economic Efficiency
Any sales tax will have some deadweight loss associated with it, but the minor increase suggested here, coupled with the relatively inelastic demand for hotel rooms by business travelers, likely will result in little deadweight loss.

Balanced or Broad-based
This is an existing tax, so an increase in the rate does not assist in making the system more balanced or broad-based. Given the small amount of revenue the tax raises, it probably is not a major issue in any respect.

Increase Cell Phone Tax Rate

Over the past four years in the United States, landline phone usage has decreased by 30 million users, 6%, while cell phone subscribers have increased by more than 70 million.[64] Four percent of U.S. households have dropped landlines entirely in favor of cell phones, and a recent report suggested that the number could grow to 12 percent by 2006.[65]

[64] "Alexandria to Tax Cell Phone as Other Revenue Drops," Washington Post, June 16, 2005. The statistics quoted are from the Federal Communication Commission.
[65] Ibid., quoting a report by Cambridge-Massachusetts based Forrester Research Inc.

Nationally, cell phone revenue increased from $56 billion in 2000 to $102 billion in 2004. During that same time period, landline revenue declined from $228 billion to $197 billion.[66]

Traditional landlines have been subject to telecommunications taxes that cell phones have often escaped. Cities across the country, looking for ways to recoup the revenue lost from this decline, have begun taxing cell phone usage as a replacement mechanism.

Currently, cell phone service in Aurora is subject to the 3.75 percent City sales tax. However, unlike land-lines, they are not assessed an occupation tax.

It has been suggested that the "watershed event" in starting the new round of cell phone taxation was the State of Pennsylvania's adoption of a 5% cell phone tax in 2003.[67] Others have quickly followed suit. In Virginia, 39 cities have approved a tax. In California, which most extensively applies the charges, 160 local governments have a cell phone tax.

The following details cell phone tax rates for selected cities:

Table 31
City Cell Phone Tax Rates

City	Rate per month
Baltimore, MD	$3.50
Alexandria, VA	$3.00
Los Angeles, CA	10.00%
Independence, MO	9.08%
San Francisco, CA	7.50%
Columbia, MO	7.00%
Eugene, OR	2.00%

Possible Additional Revenue Generation

The revenue a new tax could generate would, of course, depend upon the established rate. Alexandria, Virginia, with an estimated July 2004 population of 128,206, is projected to raise approximately $1.7 million in FY2006. It is notable that in previous years, Alexandria relied on a 25 percent tax on local phone service, which brought in an average of $7.50 per phone line per month. However, the number of land lines in the city has dropped in the past two years from over 120,000 to about 113,000.

[66] Dennis Cauchon, USA Today, May 8, 2005, quoting statistics from the Telecommunications Industry Association.
[67] Ibid.

Portland, Oregon, with an estimated population of 529,121 in July 2004, considered establishing a 5 percent tax on revenues from wireless phones and land line services. In this case, the Portland tax would have decreased the current land line taxes from 7 percent to the unified rate of 5 percent. It was estimated that these changes would have added an additional $6 million in revenue for the city.

It is estimated that the cellular telephone penetration rate for the Denver, Colorado market is 70 percent. Based on household data for Aurora, this would total approximately 81,500 cellular phone subscribers. This total is probably low, as it would not include business subscribers and those households with multiple accounts.

Based on the conservative 81,500 number, doubling the current 3.75 percent tax, based on an average bill of $50 per month, would generate approximately $2.6 million in annual revenue. At this time, it is unlikely that the additional tax would significantly alter utilization of this service.

Impact on Citizens/businesses/developers
A cell phone tax will increase tax payments for many City residents. However, cities have found this to be an acceptable tax because telephone calls have traditionally been subject to federal, state, and local taxes. This aligns with the theory that an old tax is a good tax – few consumers will be shocked to see a local tax added to a phone bill. Additionally, as residents experience lower land-line phone charges due to reduced rates and usage, the absolute dollars of tax paid for land-line service will decline. In a sense, the cell tax would be a replacement tax rather than an additional burden.

Tax Policy Evaluation

Equity
Land-lines have traditionally been taxed, so taxing cellular phones is necessary for horizontal equity. It could also be argued that a differential tax rate is acceptable, as cellular phone usage has some significant negative consequences, including motor vehicle accidents attributable to cell phone use that does not exist with landlines.

Reliability/Sufficiency
The revenue associated with current charges for landlines are eroding, and this can help address that revenue loss. Telephone usage tends to be rather inelastic, so the tax revenue will likely not decline when the economy slows.

Ease of Adoption/Administration
Cellular phone providers are accustomed to billing for taxes, so there should not be significant issues associated with compliance or collection of the tax. However, under TABOR, this tax increase would be subject to a vote of Aurora's citizens.

Economic Efficiency
The taxes borne by cellular phone subscribers are significant. It does not appear to have significantly dampened demand in the market to date. However, there may be a point at

which tax rates – now nearly 20 percent on average – will lead to a reduction in utilization. However, the benefits of cellular phone service have so far outweighed the tax issues, and it is likely to be the case in the future, absent the development of alternate technologies.

Balanced or Broad-based
Given that landline tax collections are declining, this would be a method for preventing further erosion in the tax base.

Impose Tax on Satellite Television Transmission Service

Aurora, like most cities, charges a franchise fee to cable television providers for the ability to access City rights of way. This is an important source of revenue for the City – franchise fees in general make up nearly five percent of City general fund revenues.

Unlike cable television providers, satellite television transmission services are not subject to a franchise fee. While the method in which they deliver their service differs from cable television, there are obvious issues of horizontal equity, as the two services ultimately deliver generally the same content and features.

Utilization of satellite television continues to capture a larger share of the total market. As demand for this service grows, it makes sense to subject it to a level of revenue generation similar to that of cable television.

Possible Additional Revenue Generation
According to Nielson Media Research data, the percentage of the Denver television market purchasing cable or satellite television services is 84.7 percent, and of that cohort, 27.2 percent subscribe to satellite television. Based on 111,000 Aurora television households,[68] the number of Aurora satellite television subscriber households is approximately 25,600. According to the Nielson Media Research data, the average satellite television bill is slightly under $50 a month. With a 3.75 percent monthly tax, a $50 monthly bill would generate a yearly tax of $22.50, or approximately $575,000 a year.

Impact on Citizens/businesses/developers:
As the data above indicates, television subscription services are no longer a high end luxury. At the same time, it would be hard to classify them as a service that should be exempt from taxation along the lines of food or prescription drugs. This tax would most likely be less regressive than most other sales taxes. At a 3.75 percent rate, it is not likely to significantly impact on consumer choices.

Tax Policy Evaluation

[68] U.S. Census Bureau, American Survey of Cities, 2003.

Equity
As noted above, it can be argued that this is a horizontal equity issue, and satellite television should be assessed taxes similar to those of cable television subscribers.

Reliability/Sufficiency
While there may be some decrease in consumption during hard economic times, it is likely that utilization of satellite television will continue to grow, which should temper any declines based on the economy.

Ease of Adoption/Administration
There are concerns that there may not be sufficient information on subscribers to collect the tax absent a change in State law requiring release of information. In some respects, this is similar to the problems with collecting sales taxes owed on Internet purchases. While the consumer technically owes use tax on those purchases, the lack of available documentation on the purchases means the state and local governments have little practical opportunity to collect the tax from the average household. However, under TABOR, this tax increase would be subject to a vote of the citizens of the City.

Economic Efficiency
The imposition of this tax is not likely to materially impact decisions on purchase of satellite television services. If it does, it would just as likely lead to an increase in utilization of cable television, which is already subject to tax.

Balanced or Broad-based
This applies the tax to an additional service, which is a preferred approach to increasing the current rate on a declining base.

Impose a Local Insurance Premium Tax

Colorado Statute (Section 10-3-209, C.R.S.) requires insurance companies that conduct business in Colorado to pay a tax on the gross amount of all premiums collected or owed on insurance policies covering property or risks in the State. Insurance companies subject to the premium tax include insurers writing traditional policies for life, health, title, property and casualty coverage, non-traditional policies to protect against unusual risks or exposures, and bail bonds policies issued to individuals awaiting trial for criminal offenses.

The State premium tax rate is 1 percent for companies maintaining a home or regional office in Colorado and writing bail bonds, 2 percent for companies that do not have a home or regional office in Colorado, and 3 percent for surplus lines insurance companies. The rate was lowered from 2.25 percent to 2 percent several years ago.

For FY2006, the Colorado Office of State Planning and Budgeting March 2006 revenue estimate projects a total of $191.2 million revenue from Insurance Premium taxes.

In some states (Arizona and Florida are examples) all or a share of insurance premium collections are returned to local governments to cover costs associated with fire or public safety services. In these states, the argument can be made that the tax is something of a user fee, as strong local services in these areas should result in fewer insurance claims due to fire, theft, etc. This could also be applied in Colorado and my improve chances for passage, both with the legislature and voters.

There are not many examples of local governments that assess and collect insurance premium taxes. The State of Kentucky allows local governments to assess the tax. Research to date has not identified cities in other states utilizing the tax, and it is not mentioned in one of the standard references, Robert Bland's "A Revenue Guide for Local Government."

Possible Revenue Generation
The tax is assessed against the value of policies, some of which are issued for individuals and some are issued for household structures or items. It is difficult to make an exact calculation of possible revenue, but approaches based on Aurora's share of the State's population, its share of the State's households, or its share of household income (since higher income households will likely have higher insurance premiums) all are logical. The calculations based on Aurora's share of Colorado's population or households are 6.34 percent and 5.82 percent, respectively. Based on applying that percentage to the State's revenue collection, a local insurance premium tax equal to half of the State rate would yield approximately $5.6 to $6.1 million. Alternatively, simply adding back the 0.25 percent to get back to a combined rate of 2.25 percent for state and local tax would yield approximately $1.4 to $1.5 million.

Impact on Citizens/businesses/developers
These taxes are, in one form or another, passed along to consumers. While it is unlikely to impact consumer choice, it may impact on insurance companies' choice of location.

Most states assess a retaliatory tax – a tax applied to insurance companies domiciled in Colorado where that state's rate is lower than the rate in Colorado. Colorado's current rate is, using 2002 data, at the national median, and the trend is to reduce insurance premium taxes across the country. Raising the rate could affect business location decisions, although it is unclear as to whether there are insurance companies domiciled in Aurora

Tax Policy Evaluation

Equity
Because the tax is based on a percentage of the premium, and wealthier individuals tend to have larger insurance premiums, it is not a particularly regressive tax.

Reliability/Sufficiency
Insurance coverage is something of a necessity for most property owners, particularly for dwellings, motor vehicles, and other valuables. The need to procure insurance does not

change significantly with changes in the economy. Further, this is a stable and growing revenue source for the State.

Ease of Adoption/Administration
Some states impose premium taxes in lieu of other corporate or franchise taxes. The tax is currently collected in the State, and insurance companies generally use national tax databases for payment of these taxes, so administration and collection shouldn't be a big issue, but it would most likely require some upfront expense on the part of the City to implement.

Economic Efficiency
As noted above, because of the use of retaliatory taxes, it may impact on insurance companies' decisions on where to locate major facilities.

Balanced or Broad-based
This could be a method for expanding the scope of services subject to tax and thus broaden the revenue base.

Legal Issues
Colorado Statute currently prohibits local governments from assessing any additional charge in insurance premiums, which would seem to require a law change and an election. However, it would be possible to subject the policies to sales and use tax, which would have a similar effect while escaping the issues surrounding the premium tax. In fact, in *Security Life and Accident Company v. The City and County of Denver*, the Colorado Supreme Court, in 1972, held that the City's home rule authority to levy sales and use tax superseded the State statute providing that the state gross premiums tax shall constitute all taxes collectible against such companies.

Section Five: User Charges and Regulatory Fees

Service charges and fees are now the largest source of revenue for local governments. This has occurred for a variety of reasons, especially resistance to the property tax and concerns that many government services were provided to those who do not pay property taxes. These charges are also persuasive in the "if you want it, pay for it" taxing environment that currently exists throughout most of the country.

Government goods and services generally fall into three categories – public, private, and mixed. Public goods and services (such as street repair) generally benefit all citizens and cannot be sold in units. They are generally funded through general city tax revenues. Private goods and services, like water, sewer, and electric power are generally sold in units, and they function most closely like private markets.

Mixed goods are more problematic and often require the most analysis and discussion about appropriate pricing. Mixed goods are private goods that also have a public purpose – generally, there are positive externalities that arise from provision of these goods. A

common example is vaccinations for common diseases. While this generally benefits the person who is inoculated and can be sold as a unit, the community as a whole benefits if fewer outbreaks of the disease occur because of widespread vaccination – there is less productivity lost from illness, children learn more because of less missed school, etc. In these instances, it may be appropriate for a portion of the cost of mixed goods to be assumed by all taxpayers. The issue then becomes what is the appropriate level of public subsidy, and that is what makes these determinations more difficult than in the case of public or private goods.

In general, states allow local governments to operate business-like services (pools, golf courses, skating rinks, conference facilities, recreational programs) and recoup the cost of the services through fees to those who enjoy the services. In these cases, tension may arise over what is an appropriate charge for the service.

Besides fees for services, cities also generally have regulatory powers over the health, safety, and welfare of the community and issue licenses and permits to cover the cost of providing these services. Restaurant inspections, for example, are generally paid for through the cost of a license to operate a food establishment.

Local governments are also increasingly using special assessments and impact fees on new development to reflect the costs for local government associated with improvements to infrastructure and provision of services that mostly benefit residents of a particular area through increased services and property values.

Besides the political appeal of charges for services, there are strong arguments for their use. Charges build market forces into purchasing decisions and reduce the use of services that had previously been treated as "free goods." One study found, for example, that charging a fee for full cost of ambulance service in an urban California county would reduce emergency calls by one-third and raise an additional $4 million a year.[69] A number of cities have experienced a reduction in false alarms (and increased revenues) by instituting a fee for false fire and other alarms.

Charges also can slow the growth of local budgets by only providing revenue for services that are valued by the public. This provides a useful feedback mechanism to public managers – they must provide services that users wish to purchase, and because these purchases compete with services in the private sector, the local government is incented to provide its services at a competitive price and in an efficient manner.

Combined, service charges and utility charges make up nearly 42 percent of city government revenues. This is slightly larger than a decade earlier, while property taxes in the same period have declined.

The following table illustrates the role of user charges for municipal governments. Municipal governments receive 89 cents in fees and charges for every dollar in tax

[69] Anthony Pascal, "EBBF: A Guide to Installing Equitable Beneficiary-Based Finance in Local Government, RAND Corporation, June 1984, p. 16.

revenue. This percentage did not change between 1982 and 2002, which suggests that some of the move to greater charges has been moderated.

Table 32
User Charges as a Percentage Compared to Tax Revenues

Type of Charge	Percentage
All Charges	**89.1**
Current Charges	
Airports	4.7
Highways	1.0
Hospitals	5.2
Housing and Community Development	1.3
Parking	1.0
Parks and Recreation	2.8
Sea and port facilities	0.7
Sewerage	14.8
Solid Waste	4.7
Other	7.2
Total	**43.4**
Utilities	
Electric	22.4
Gas	3.8
Public Transit	2.3
Water	17.2
Total	**45.7**

As governments struggle with maintaining services amid resistance to tax increases, the range of services deemed worthy of cost recovery has grown. Public programs, including those in parks and recreation, certain police and public safety services, planning, economic development, public health and sanitation, and public transit, that have traditionally been funded with tax revenue are increasingly being subjected to cost recovery through fees. .

One of the key issues is the determination of what services will be priced at full versus partial cost. Among the pricing strategies are:[70]

- **Full cost and return on investment pricing.** Enterprise services should generally be priced at full cost, both direct and indirect costs. In some cases, a return on investment is legally justified. San Antonio, Texas, for example, has authority to transfer to its general fund 14 percent of the gross receipts of its city-owned utilities, and the Texas Supreme Court has ruled it reasonable.

[70] Bland, Op Cit., p. 173-174.

- **Partial-cost pricing.** As noted above, the key issues to be resolved are which services should be subsidized, and at what level. As discussed in relationship to vaccinations against disease, it is logical to subsidize when some benefit accrues to the entire community. It may also be warranted when seeking to stimulate demand for a service – again, logical when there is some long-term benefit to the community as a whole. Children's athletic programs may help children improve their health and lifestyle, for example, and a city may decide it warrants a level of subsidy. Services used primarily by low-income households may also warrant subsidization.

- **Competitive pricing.** This assesses charges by others providing similar services. Swimming pool fees may be fixed at rates of surrounding communities or the local YMCA.

The following details services for which local governments typically charge a fee. Each service listed contains an assessment of whether the price for the service should be set at full cost (F), full cost with a partial subsidy for some users, such as senior citizens, children, and nonprofit organizations (F)*, or with a fee set to partially recover costs of service provision. (P):[71]

Table 33
(see following page)

[71] Bland, Op Cit., p. 163

Services for Which Local Governments Commonly Charge a Fee

Recreation and Leisure Activities
Athletic fields (P)
Athletic leagues (F)*
Auditorium/civic center rental (F)
Boat harbors (F)
Concession rental (F)
Equipment rental (F)
Greens fees (F)
Law library (F)*
Parks (P)
Public library services (P)
Recreation center rental (F)
Recreation classes (F)*
Swimming pools (P)
Tennis courts (P)
Web-based data services (F)

Utility Services
Connection (F)
Drainage (F)
Lateral permits (F)
Pro rata connection (F)
Retail water service (F)
Retail wastewater service (F)
Septic tank dumping (F)
Tap permits (F)
Temporary use of meter or hydrant (F)
Wholesale water and wastewater (F)

Public Works
Abandoned-vehicle removal (F)
Barricades (F)
Curb and street cuts (F)
Maps (F)
Right-of-way Access (F)
Weed cutting (F)

Police protection
Accident and offense reports (F)
DWI processing (F)
False alarm call (F)
Funeral escorts (F)
Other special-occasion escorts (F)
Police services at special events (F)
Serving warrants (F)
Vehicle impoundment (F)

Planning and economic development
Annexation (F)
Development guide or manual (F)
Fairgrounds rental (F)
Historic landmark designation (P)
Maps (F)
Plat processing (F)
Zoning variance (F)

Sanitation and animal control
Animal holding (F)
Animal impoundment (P)
Carcass retrieval (P)
Euthanasia (F)
Landfill (P)
Large-item solid-waste pickup (F)
Litter abatement (P)
Rabies vaccination (P)
Solid-waste collection (F)
Street cleaning (P)

Health
Ambulance service (P)
Hospitals and nursing homes (F)*
Inoculations (P)
Mental health services (F)*

Transportation
Airport landing (F)
Bridge tolls (F)
Bus fares (P)
Hangar rentals (F)
Parking garages (F)*
Parking meters (F)*
Special-occasion bus rentals (P)

Miscellaneous
Advertising on public space (F)
Cemeteries (P)
Commodity sales (F)
Document search (F)
Election filing (F)
Farmers' market (P)
Meeting room rentals (F)
Photocopying records (F)
Public housing (F)
Vending machine space rental (F)
WIFI service (F)

Furthermore, the following are activities that are commonly regulated by local governments and partially or fully cost recovered through license or other regulating/permitting fees. [72]

Table 34
Activities Commonly Regulated by Local Governments

Animal regulation
Dog and cats (licenses)
Kennels (licenses)

Amusement and recreation
Bicycles (registration)
Billiard and pool halls (license)
Boats (license)
Camping (permit)
Carnivals and circuses (permit)
Coin-operated machines for entertainment (license)
Dance halls (license)
Massage parlors (permit)
Movie theaters (license)
Outdoor concerts (permit)
Parades (permit)

Building construction
Alarms (permit)
Billboards (permit)
Building (permit)
Building movers (license and permit)
Demolition (license and permit)
Electrical contractors (license and permit)
Elevator installation (permit)
Fence contractors (license and permit)
Grading (permit)
Heating contractors (license and permit)
Home repair (license)
Manufactured-housing installation (permit)
Plumbing contractors (license and permit)
Street excavating (permit)

Food service
Alcoholic beverage sales (license)
Food handlers (permit)
Restaurants (health permit)

Business and occupations
Bottled water (license)
Christmas tree sales (license)
Collection agency (license)
Dry-cleaning (license)
Distressed goods sales (license)
Electronic repair (license)
Flammable-liquid storage (permit)
Itinerant merchants (license)
Jewelry auction (permit)
Lawn sprinklers (license)
Motor vehicle repair (license)
Motor vehicle towing (license)
Parking lot (license)
Pawnbrokers (license)
Residential garage sales (permit)
Retail cigarette dealers (license)
Rug and carpet cleaners (license)
Signs (permit)
Solid and liquid waste haulers (license)
Taxi and bus carriers (license)
Ticket brokers (license)
Tree service contractors (license)
Wood vendors (license)

Health care facilities and services
Ambulance drivers (license)
Hospital and convalescent home (license)
Private ambulance vehicles (permit)

Planning, zoning, and development
Barricades (permit)
Certificates of occupancy (fee)
Floodplain development (permit)
Plat approval (fee)
Waterway development (permit)
Zoning variance (fee)

Other
Charitable solicitation (permit)
Concealed weapons (permit)
Loudspeakers (permit)
Trash burning (permit)

[72] Bland, Op Cit., p. 164

An important issue with fees and other charges for services is the determination of the true costs associated with the service. While utilities and other enterprise funds regularly undertake this sort of exercise, it is less common for what have traditionally been tax-supported government services. A rigorous cost of service study that establishes the benchmark should be undertaken, with regular yearly adjustments tied to an inflation or price index.[73]

An accompanying challenge for local government is determining how much of a subsidy is economically justified when the city gains some benefit from the utilization of the service. In a study for the City of St. Paul, the following were identified as seven key questions and the weight given for each "yes" answer. The total score then suggests the percentage of cost that should be recovered through service charges.[74]

Table 35
A checklist for estimating the private benefits of merit services

Question	Weight	Question	Weight
1. Does consumption of the service generate minimal spillover effects on other members of the community?	25	5. Would imposition of beneficiary charges for the service lead to substantial revenues for the local government?	10
2. Is it possible to identify a specific beneficiary for this service?	20	6. Would benefit-based funding of this service result in enhanced efficiency?	10
3. Is the imposition of a beneficiary charge for this service statutorily and administratively feasible?	15	7. Would beneficiary charges for this servie have negligible effects on the local government's competitive position?	5
4. Would the imposition of beneficiary charges for this service evoke negligible political opposition?	15		

Clearly, these standards may vary from community to community. However, developing a standard approach with defensible calculations that are then applied consistently may limit some of the political pitfalls involved in making these decisions.

[73] See the discussion of annual changes to service charges in the chapter on specific revenue recommendations.
[74] Kevin Neels and Michael Caggiano, "The Entrepreneurial City: Innovations in Finance and Management for St. Paul," The RAND Corporation, October 1984, p. 13-14.

Along the same lines, with the growing use of fees comes the inevitable pushback from users. It makes sense for cities to adopt a fee revenue policy statement, including the assumptions related to subsidy and pricing.

Utility fees in Colorado

Unlike a tax, a special fee is not designed to raise revenues to pay for general government expenses. The fee pays for a specific government service and must be reasonably related to the overall cost of the service. While utility fees are most commonly assessed for services like water, wastewater and storm drainage, they have been used in other cities in Colorado for other services, including transportation and street lighting.

Given the compelling need that exists for these services within the community, it makes great sense to explore ways of spreading these charges throughout the community to all who benefit from them. There are several logical methods for assessing and collecting these fees, and in many respects this may be one of the easier ways for the City to revise its revenue structure in a sensible and incremental fashion. Because this is a charge for a specific service and not a tax for general governmental spending, it also does not require voter approval, which means that it is an option that could be built into budget planning with much greater certainty than most other options.

Impact Fees and Special Assessments

In many instances, the most critical need for City services are connected with new housing and commercial development. Charges to developers for on and off-site infrastructure to serve new developments are becoming increasingly popular in high-growth communities. A relatively new development, the first state impact fee statute was adopted in Arizona in 1982.[75] Impact and development fees have been authorized in at least 29 states have been used extensively in Arizona, California, Florida, Texas and Washington as well as Colorado. While they have garnered considerable attention in high growth areas, they are not a statistically significant revenue source. Impact fees and other property-related assessments (other than property taxes) are less than 1 percent of local revenues.[76]

Impact fees have been used to fund a variety of improvements and have also been established to cover the general costs of government – a recognition that increased population and new developments have an impact on the overall provision of government services.

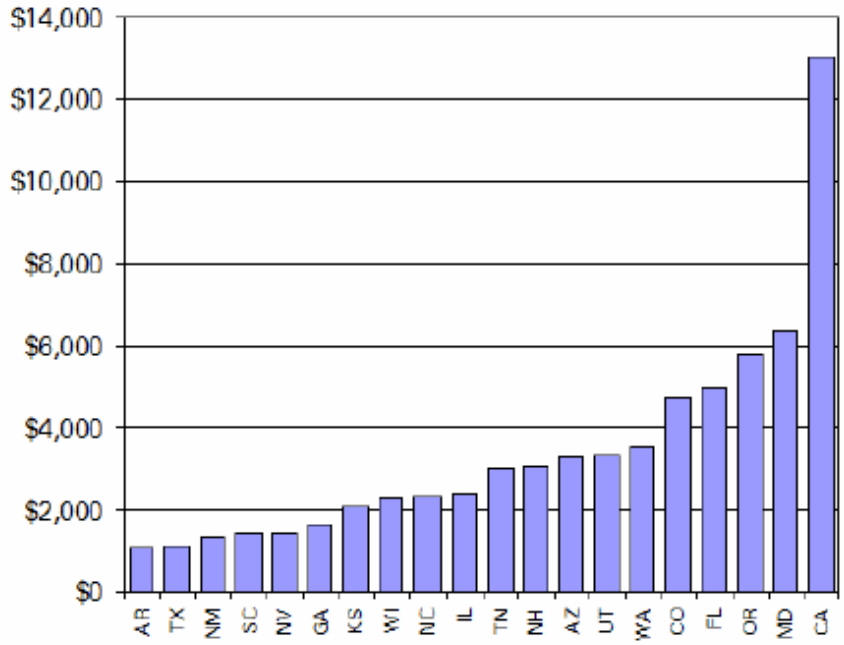
Because they are a relatively new phenomenon, getting up-to-date information on the extent of the use of impact fees is somewhat difficult. It is notable that impact fees

[75] The National Conference of State Legislatures, "The Appropriate Role of User Charges in State and Local Finance," July 29, 1999, p. 4.
[76] Ibid., p. 4.

generally vary depending on the type of development, varying by class from single and multi-family housing to retail, industrial and other commercial property.
A study prepared by Clancy Mullen, director of infrastructure finance with Duncan Associates in Austin, Texas, provides some useful information on the nature of impact fees, which are summarized below.[77]

The author notes that utility connection charges, which have been used by municipalities for a longer than other impact fees, are generally better accepted by the development community. As a result it makes sense to evaluate them separately. The following chart shows average non-utility impact fees for a single-family housing unit on a state-by-state basis:

Figure 19
Average Non-Utility Impact Fee per Single-Family Housing Unit



[77] Clancy Mullin, "2005 National Impact Fee Survey," Duncan and Associates, February 13, 2005. The survey was a not random sample of 245 jurisdictions and included fees with a multitude of names, including "capacity fees," "facility fees," "system development charges," and "capital recovery fees." The common characteristic of the fees are that they are charged only to new development, are standardized as opposed to ad hoc negotiated payments and are design to fund capital improvements needed to serve the new development. This also includes utility connection fees, fees charged in lieu of land dedication for parks and schools, and development taxes that only apply to new development and are earmarked for capital improvements. The author cites the case of Boulder, Colorado, where a nexus study was conducted and an ordinance adopted that included earmarking of funds for specific types of capital facilities and credit against the charges where the developer made improvements. In this case, there is no real difference between the fee and the tax.

There are other available surveys of impact fees. The National Association of Realtors, which opposes the use of impact fees, prepared a summary of single-family home impact fees in 2002, which can be accessed at https://www.realtor.org/libweb.nsf/pages/fg805

As the author notes, impact fees in California are atypical. However, even excluding California, Colorado's fees are higher on average than most states. It is conceivable that the state by state discrepancy can be explained by ability to pay issues. The median household income of the six states with the highest fees yields an average ranking of 15th in the nation, while the median household income of the six states with the lowest fees averages 35th.[78]

The following represents the national average for impact fees in the survey for 2005:

Table 36
National Average Impact Fees, 2005

Facility	No of Juris-dictions	Single-Family (unit)	Multi-Family (unit)	Retail (1000 sf)	Office (1,000 sf)	Industry (1000 sf)
Roads	191	$2,027	$1,375	$3,782	$2,400	$1,406
Drain	47	$1,246	$688	$876	$660	$855
Parks	159	$1,862	$1,444	$628	$674	$492
Library	55	$362	$275	$0		
Fire	97	$330	$265	$289	$265	$174
Police	72	$300	$266	$401	$282	$162
Gen Govt	48	$697	$545	$416	$402	$308
Schools	97	$3,025	$1,728	$333	$333	$333
Other	40	$2,080	$1,762	$2,659	$1,872	$1,590
Avg. Non-Utility Fee	234	$5,237	$2,441	$3,121	$3,025	$2,033
Water	123	$2,670	$1,330	$512	$485	$474
Sewer	129	$2,519	$1,437	$550	$465	$454
Avg. Total Fee	245	$7,669	$4,792	$4,544	$3,195	$2,247

As noted above, California's impact fees are significantly higher than those in the rest of the country – over twice those of the state with the next highest average fees. The following table adjusts the averages by excluding California jurisdictions:

[78] 2003 median household income, from the Economic Research Service, United States Department of Agriculture.

Table 37
National Average Impact Fees, Excluding California, 2005

Facility	No of Juris-dictions	Single-Family (unit)	Multi-Family (unit)	Retail (1000 sf)	Office (1,000 sf)	Industry (1000 sf)
Roads	156	$1,602	$1,080	$3,058	$1,832	$1,108
Drain	23	$846	$505	$726	$553	$692
Parks	127	$1,107	$869	$427	$325	$336
Library	43	$273	$210	n/a	n/a	n/a
Fire	79	$273	$210	$286	$271	$182
Police	58	$169	$136	$295	$183	$100
Gen Govt	30	$281	$236	$324	$284	$184
Schools	86	$2,867	$1,687	n/a	n/a	n/a
Other	26	$330	$159	$362	$300	$305
Avg. Non-Utility Fee	195	$3,675	$2,441	$3,121	$1,938	$1,259
Water	97	$2,015	$909	$373	$371	$351
Sewer	100	$1,922	$1,007	$426	$352	$321
Avg. Total Fee	206	$5,361	$3,204	$3,159	$2,107	$1,445

It is notable that most jurisdictions adjust the impact fees to the types of services that are necessary to support the new development. For example, the impact fees are not assessed against commercial developments for libraries, and they are significantly smaller for parks. On the other hand, retail developments are charged significantly more than other types of development for roads, which is understandable given the amount of traffic they can be expected to generate.

Impact fees have generated considerable legal action, and beyond state-level cases, the U.S. Supreme Court has weighed in on federal constitutional issues relating to impact fees. In an Oregon impact fee case, *Dolan v. City of Tigard*, the Court established specific guidelines on the use of impact fees. It required that impact fees be "roughly proportional" to development impacts, and must meet a three-part "rational nexus" test:

- The need for the proposed capital improvements
- That the development's share of the project costs are proportional to its share of the fees paid
- That the projects funded with the fees will benefit the development

There has been considerable research into the effect of impact fees on housing prices. Several studies have found evidence that impact fees increase the price for new homes within a community, and sometimes by more than the dollar amount of the fee.[79] In these

[79] See Brett Baden and Don Coursey, "An Examination of the Effects of Impact Fees on Chicago's Suburbs," Harris Graduate School of Pubic Policy Studies Working Paper 99.20, University of Chicago, 2002; Charles J. Delaney and Marc T. Smith, "Pricing Implications of Development Extractions on Existing Housing Stock," Growth and Change, 20: 1-12; Marla Dresch and Steven M. Sheffrin, "Who Pays

instances, the rise in home prices depends upon how much value the homebuyer places in the local services that are funded by the fees. There also is some evidence that the price of existing homes and land will increase.[80] As with new homes this is largely dependent on whether existing homeowners and buyers value the services provided that were paid for by impact fees on new homes.

However, other researchers believe that the cost of impact fees is not necessarily borne solely – or even mostly – by the homebuyer. They note that impact fees often vary widely between communities in a region and there often is considerable choice among similar types of housing within a region. Given that homebuyers are generally very cost conscious, given the size of the investment, there usually are available substitutes in communities with lower or no impact fee. In that case, developers and builders will have little opportunity to shift the fee's cost to the buyer.

In that case, it has been suggested that in the short term after adoption of a fee, builders will likely bear the cost and spread it among their inventory of housing, by either accepting lower profit margins or cutting their costs. In the long run, the impact fee will typically be part of the calculation a developer will make when purchasing undeveloped land – he or she will make their bid by figuring the eventual purchase prices of the houses to be built on the land and then subtract all hard and soft costs (now including the impact fees) plus the targeted rate of return on the investment.[81]

Special Assessments

Special assessments, levies on property owners for the increased property values created by public improvements, are typically used for street improvements, including curbs, gutters, sidewalks, storm drainage, and street lighting. More recently, assessments have been used to finance the construction of recreational facilities and off-street parking.

Specific Revenue Options:

Utilize Additional Metro Districts for Services

Title 32 of the Colorado Revised Statutes authorizes the creation of special districts, and they have become a common tool for financing the public infrastructure portion of large developments. These metropolitan districts are a form of local government and have the power to impose an additional property tax within the district to pay for improvements as well as to provide basic services within the district. These can include such things as

for Development Fees and Exactions?," Public Policy Institute of California, 1997; Keith R. Ihlanfeldt and Timothy M. Shaughnessy, "An Empirical Investigation of the Effects of Impact Fees on Housing and Land Markets," Lincoln Institute of Land Conference Paper, 2002.

[80] See Ihlanfeldt and Shaughnessy and also Dresch and Sheffrin.

[81] See generally Arthur C. Nelson and Mitch Moody, "Paying for Prosperity: Impact Fees and Job Growth," The Brookings Institution Center on Urban and Metropolitan Policy, June 2003.

maintaining streets and lighting, landscaping, and providing and maintaining parks and recreational facilities.

Metropolitan districts must provide the inhabitants of the district any two or more of the following services:[82]

- Fire protection
- Mosquito control
- Parks and recreation
- Safety protection
- Sanitation
- Solid waste disposal facilities or collection and transportation of solid waste
- Street improvement
- Television relay and translation
- Transportation
- Water

The district is created by the voters who own property within the district. Prior to the election creating the district, a detailed service plan for a district must be approved by the host local government. Metro districts are governed by a 5 member board, and the board is elected by qualified electors within the district. The districts can issue debt. The district has perpetual life and can only be dissolved by ordinance, and only when all District debt has been retired.

There is widespread use of Metro districts within the Denver MSA. As an example, four Metro districts comprise the entirety of the local government in Highlands Ranch, a city of a population of approximately 86,000 in Douglas County. The municipal services provided by Metro districts in Highlands Ranch are:

- Construction of major roadways
- Installation and maintenance of landscaping adjacent to major roadways
- Installation of traffic signals and street lights on major roadways
- Construction and maintenance of parks, open space and trail systems
- Providing youth and adult outdoor recreation and sports programming
- Management and maintenance of extensive non-urban areas
- Construction of storm drainage facilities
- Emergency and fire protection services through a contract with the City of Littleton
- Water and wastewater services through a contract with Centennial Water and Sanitation District

The City of Aurora has developed a Metro District Model Service Plan, which updated its previous plan. Incorporated within the Plan are specific goals of the City Council:

[82] Colorado Revised Statutes, Section 31-103-10.

1. The maximum tax rate for debt service with the Districts would be 50 mills, adjusted for requirements of the Gallagher Amendment.
2. The maximum time for debt service taxes on a residential property is 40 years, and there is no time limit for commercial properties
3. There is only a low risk that tax rate and time period for taxes will be exceeded
4. Disclosure is made to prospective land purchasers as to their financial obligations should a Metro District be created that includes their property
5. The purpose and the size of the District is limited
6. An approved development plan must exist prior to District revenue generation for debt service or issuance of debt
7. Facility fees for non-district residents must be addressed
8. Regulation is minimized but ensures compliance with Council goals

The new policy also addresses regional infrastructure financing. It requires that regional infrastructure taxes must be levied beginning with the first levy year of the tax for debt service for internal infrastructure. Internal infrastructure comprises transportation and street projects but expressly prohibits their use for water or sanitary sewer services (presumably because the City has planned for residential and commercial utilization and has built future capacity into its system to address that potential).

Under the plan, the regional infrastructure financing would be supported by the following mill levies:

Residential development:

- 1 mill 1^{st} 20 years
- 5 mills $21^{st} – 40^{th}$ years (approximately)
- 50 mills $41^{st} – 50^{th}$ years (approximately)

Commercial development:

- 1 mill 1^{st} 20 years
- 1.5 mills $21^{st} – 40^{th}$ years (approximately)
- 20 mills $41^{st} – 50^{th}$ years (approximately)

It is notable that the Plan levels would not fully fund regional infrastructure; this would simply be another tool for developing an overall funding approach. The City envisions that authority would be vested in the City with the option to join at 30-49% voting participation or with the City based on an inter-governmental agreement between the District and the City. If neither of these approaches has been settled upon after 2 years from the creation of the District, the City would control the funds.

Under the Plan, the District could operate park and recreation improvements and mosquito abatement without an inter-governmental agreement. Provision of fire protection services, TV services and golf courses or operation and maintenance of any

public improvements would require an inter-governmental agreement. The District could also agree to contract with the City for certain operating services.

In general, the Plan seeks to strike a balance that would allow for districts to provide financing for basic infrastructure but for the City to be able to determine whether other, more substantial services would adversely impact the City as a whole. There is genuine concern about the "Balkanization" of the City should Metro Districts become the common provider of park, recreation, and other services.

Possible Additional Revenue Generation
Metro Districts could become the vehicle for delivering a variety of the FMP II projects, including both their construction and subsequent operation. Of course, this requires a service plan that meets the City's Plan requirements and a subsequent election within the District.

From a City planning perspective, Metro Districts have the potential to deal with some of the immediately pressing concerns as it relates, for example, to construction and staffing of fire stations. However, the City Model Service Plan expressly requires that fire protection services would require an intergovernmental agreement.

Impact on Citizens/businesses/developer
Tiebout's hypothesis about public finance is that people "vote with their feet" by moving to communities that provide the services that they want at a reasonable cost.[83] The prevalence and popularity of metro districts would suggest that the residents within the district value the services they provide. Because a metro district requires a vote of the property owners within the district, there is a strong case to be made that at least a majority of those within a district will have a favorable impression from the district's creation. Developers have also tended to favor their use.

It should be noted that the overall good of the City may not be served by widespread creation of districts to provide services that are otherwise the province of the City. There are legitimate concerns about creating exclusive enclaves that divide the community into small pockets, some with significantly greater amenities than others.

Beyond the concerns of stratification, there are issues relating to financing of City services. Metro district residents will bear a substantial property tax burden in return for services; it is unlikely that these residents will be willing to support additional tax increases to support general City services.

Tax Policy Evaluation

Equity
Equity issues are a key concern. Within the district, it can be argued that equity has been determined by a vote of its residents. However, for the City as a whole, it is a much more

[83] Charles M. Tiebout, "A Pure Theory of Local Expenditures," Journal of Political Economy, October 1956, p. 416-424.

difficult issue. There likely will be increased services provided within the district, and other City residents may not have an opportunity to enjoy those services. Many may be willing to pay for similar services but do not have the means to reside in a metro district.

If the community as a whole is unwilling to dedicate resources to similar levels of service, there can be strong arguments that the districts create significant inequity. It should be noted that the potential inequities lie in both service level and tax burden. While residents of districts may enjoy a higher level of service than city residents who do not reside in districts, the district residents also pay city taxes, which conceivably are dedicated to providing services for which the metro district residents are paying twice.

Reliability/Sufficiency
Metro districts have broad taxing power. The bonds are not the responsibility of the City, and this should be a reliable and sufficient method for funding infrastructure improvements and operations.

Ease of Adoption/Administration
The Metro districts must adopt a service plan prior to a vote for creation. There are significant steps that must be taken to obtain City approval as well.

Economic Efficiency
Again, if one believes Tiebout's hypothesis, then Metro Districts are an efficient method for providing services that citizens desire and are willing to pay to receive.

Balanced or Broad-based
While this would not add to the City's revenue base, it could potentially reduce the need for funding of some City services. It would be a stretch, however, to refer to metro districts as a "broad-based" approach to dealing with the City's finances.

Utilize a Transportation Utility Fee

Transportation infrastructure is critical to nearly every aspect of City life and the City economy. Because all City residents and businesses benefit from the system, and a well-constructed and maintained system protects the health, safety, and welfare of the City residents, it is reasonable to establish the system as a utility and charge a fee for the specific services provided by the utility.

Unlike a tax, a special fee is not designed to raise general revenues for government expenses. The fee pays for a specific governmental service and must be reasonably related to the overall cost of the service. Mathematical exactitude is not required in determining equity for all citizens and is a matter of legislative discretion.

There are various options that may be utilized to assess fees for a portion or all of the costs associated with the City transportation system. Two that have been discussed previously are a street light utility fee or a public works utility fee.

Other Cities have adopted similar types of municipal service fees. The most notable is Fort Collins' transportation utility fee, which is paid by the owners or occupants of property within the corporate limits of the City, and is set as an amount that will provide sufficient funds to properly maintain local streets. The fee survived court challenge in *Bloom v. Ft. Collins.*[84] Colorado Springs as has a street light ordinance to collect revenue for the operation and maintenance of the City's streetlights, including the capital and power costs. The City Council calculated the amount to charge property owners based on whether their property was residential or commercial, the relative amounts of residential and commercial property within the City, and the total estimated expense to operate the streetlights. The fee also survived court challenge in *Bruce v. City of Colorado Springs*.[85]

The cities of Lakewood, Westminster, and Arvada assess fees for Storm water Management Utility, and according to the City of Lakewood, more than a dozen other Colorado Cities have established this Utility.[86]

Possible Additional Revenue Generation

According to a memo from May 2003, the amount budgeted for street lighting was $3.3 million; based on approximately 68,000 customer accounts and adding 10 percent administrative costs, the cost for each account were determined to total $53.42 per year, or an average cost of about $4.45per month per account.

According to the short term fiscal projection model, the current costs associated with street lighting are $4,189,444; adjusting for 10 percent administrative costs would yield a revised total of $4,608,388. Based on the 2003 figure of 68,000 customer accounts, the fee would total $67.77, or about $5.65 per month. This would not include capitalized costs if part of City debt service payments or capital budgets.

A broader approach would be to build the entire costs for maintaining the City transportation system in a Public Works Utility fee. According to the May 2003 memo, the City currently receives Highway Users Tax Funds (HUTF) from the State, by way of the counties, which is applied directly to infrastructure maintenance. This funding could be applied, along with additional funding from a citywide Public Works fee, to create a Public Works Utility. As with the Street Light Utility fee, the existing utility billing system could be used.

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[84] 784 P.2d 304, 305 (Colo. 1989)

[85] 2005 Colo. App. LEXIS 2048 (Colo. Ct. App. 2005)

[86] City of Lakewood, "Frequently Asked Questions," http://www.lakewood.org/index.cfm?&include=/PW/engineering/stormwaterutilityinfo/frequentlyaskedquestions.cfm, The City assessed a fee of $1.98 per month for single family homes and duplexes. For other properties, the fee is proportional to the amount of impervious area on each property. Impervious area includes those surfaces where water cannot soak into the soil such as driveways, parking lots, roof tops, sidewalks, patios, etc. The fee for properties other than single family homes and duplexes is $1.98 per month for every 2,250 square feet of impervious area. The Utility raises approximately $2.3 million per year. The City of Arvada's fee is $1.405 per month per 1,000 square feet of impervious area located on the property.

In a basic Public Works Utility framework, the fee would fund Street Services, Traffic Services, Engineering Services, Inspections, and Real Property Services. Other services could be included, depending on how the utility was structured. A flat rate could be applied to each utility bill customer account (there are more complicated methods, such as factoring in traffic generation and front footage of property on a public street multiplied by a base rate, but they would have greater upfront and ongoing administrative costs associated with them, and as noted previously, mathematical exactitude is not required).

According to the 2003 memo, the fee would be calculated as follows:

2003 Public Works Budget:	$17,001,043
2003 HUTF state funding	8,258,297
Net Difference:	8,742,746

Again assuming 68,000 utility bill accounts and 10 percent administrative costs, the estimated annual cost would have been about $141.43 per account, or $11.79 per account per month.

According to the short term fiscal projection model, the following are:

Table 38

Public Works Program	2006
Street Maintenance	$5,870,609
Street Sweeping	$1,215,818
Traffic Engineering Services	$439,639
Traffic Operations	$1,576,113
Engineering Services	$1,454,741
Public Improvement Inspections	$1,120,256
Real Property Services	$501,153
Subtotal	$12,180,335
10% Administrative expense	$1,218,034
TOTAL	$13,398,369
Highway Users Tax	$8,214,073
Net Difference	**$5,184,296**

Again, assuming 68,000 utility billing accounts, the estimated annual cost would be about $76.24, and the monthly billing about $6.35.

Impact on Citizens/businesses/developers

This should not have particularly significant effects on these groups. Of course, if the purpose of the utility fee is to free up general fund resources for other purposes, then the total costs paid by these groups will increase, which may have some impact on economic activity.

Tax Policy Evaluation

Equity
Currently, these services are provided through general fund appropriations, which are largely paid for with sales and use taxes and property taxes. Some groups, such as non-profits, are exempt from paying portions of the tax that currently funds these services. To the extent that all users will share in a greater portion of these public good sorts of costs, the fee can be considered more equitable. Of course, there are users who consume more of these services, and a flat rate formula does not address this fact. Greater equity can be built into the formula, although the additional complexity comes at a cost, both in terms of upfront study costs and ongoing costs to administer the utility costs.

Reliability/Sufficiency
If the City chose to assess the fee on a per property basis, this would be a fairly reliable method for funding. To the extent that the City assesses the fee to cover the entire costs of providing the utility, it is also perfectly sufficient.

Ease of Adoption/Administration
The fee is to be paid through City water bills, so a method for assessing and collecting the fee already exists. To the extent that it is done on a per property basis, there is very little administrative cost associated with assessing or collecting the fee. Since this is a fee and not a tax, no explicit citizen or voter approval is required. However, there may be a perception among citizens that the fee represented essentially a double charge for services that prior had been basic services provided by the City tax base. Council should be prepared to address this perception and potential resistance among the citizens.

Economic Efficiency
A per property fee is not as efficient as other methods that assess the fee based in some respect on utilization. On the other hand, the fee would be assessed on users who are currently not shouldering as large a burden of paying for the services, and in that respect this increases efficiency. If, however, this increases total taxes and fees paid to the City, there will be some lost economic activity related to deadweight losses.

Balanced or Broad-based
Greater use of fees would broaden the revenue base and could reduce reliance on sales taxes.

Utilize the Urban Services Extension Fee

The City has established, by ordinance, the Fee to help with the provision of services and encourage development in a sequential pattern from existing City development to the south and east. The ordinance provides that the Fee is annually assessed and levied on

land with structures that have been certified for occupancy that are located beyond the specified urban service area.[87]

The line for the provision of the urban services extension fee is currently set on Gun Club Road and Arapahoe Road, which means that developments east of Gun Club and south of Arapahoe would be subject to the fee until and if the line was extended. The line has not changed for about 12 years.

To date, the Fee has been used in the annexation process, the fee has been used to negotiate some upfront contributions including temporary fire stations and fire equipment. It is worth reviewing the adequacy and utility of the existing fee for application, particularly in out-lying new development.

Possible Additional Revenue Generation
The ordinance provides the following annual assessment rates:

Residential	$131.64 per unit
Retail/Commercial/Office	.15 per square foot
Individual	.11 per square foot

According to a City analysis from 2003, a 1,500 unit housing development at full build-out would pay $197,000 per year as long as it was outside the urban service boundary. It was estimated that it would generally take seven or more years to reach full build-out. It was also estimated that a retail development like City Place would pay about $75,000 annually at full build-out.

Impact on Citizens/businesses/developers
This would be a fee directed specifically at developers and new developments outside the urban center, and they no doubt would not favor the City beginning to collect it. Given that the City has negotiated with existing developments for exactions or other concessions in return for not collecting the fee, there may be some legal issues with collecting the fee, at least on already existing developments. However, most citizens, who would not expect to pay it, would most likely be supportive.

Tax Policy Evaluation

Equity
There can be concerns about horizontal equity: Some City residents would pay the fee, while others, who may be in close proximity, would not. Virtually identical houses of similar value would be taxed differently for, presumably, the same sets of City services.

Reliability/Sufficiency
It is unclear on what basis the fee rates were set. It is unclear whether, for example, a retail development like City Place is adequately charged at $75,000 for City services.

[87] City Code of the City of Aurora, Chapter 146-2165.

Because the fee is assessed annually at a fixed rate, it would be a reliable source of revenue and would not be significantly impacted by cyclical changes in the economy.

Ease of Adoption/Administration
The fee is to be paid through City water bills, so a method for assessing and collecting the fee already exists.

Economic Efficiency
It is difficult to assess whether this properly accounts for additional costs associated with development outside the City's current footprint. Orderly and contiguous development should be more efficient, and if the fee will further that goal or provide sufficient resources to the City to accommodate service provision, then it should prove beneficial.

Balanced or Broad-based
Currently, there are few mechanisms for the City to defray costs for services associated with development away from the core of the City. To the extent that this does so, it should broaden the City's revenue base.

Increase the Use of Impact Fees

Impact fees have been used extensively by growing communities over the past 20 years. While a national survey found that Colorado communities' average non-utility impact fee per single family unit was over $4,000, Aurora's fees do not come close to this level.

There are a variety of surveys on the use of impact fees in Colorado and nationally. In many instances, it is difficult to make comparisons between the studies, as they may not use common definitions, and the fees typically vary depending on the type of construction and use for the property. The following survey, from the State of Colorado Division of Housing, reflects charges for a single family residence, with actual construction costs of $100,000:[88]

Table 39
Development Charges, Single Family Residence, $100,000 construction costs, 2002

City	Water	Sewer	Traffic Impact	Storm Drainage	Park & Rec	Park/Open Spaces	Other
Arvada	8,915	2,475	3,033	0 - 4181	1,000	4,000	0
Aurora	7,121	2,620	125	258	810	1,000	14
Boulder	6,750	1,292	1,634	1,582	1,852	0	4,594
Colorado Springs	3,921	910	0	1,650	0	888	3,076
Denver	9,800	5,000	0	0	0	0	0
Lakewood	5,290	2,870	0	0	750	0	0
Longmont	7,650	3,285	657	270	3,024	0	1,714
Westminster	9,562	2,418	0	0	1,518	1,381	0

Note: Park/Open Spaces is a fee in lieu of land dedication

[88] "Housing Colorado: the challenge for a growing state," State of Colorado Division of Housing, November 1, 2002, p.34. The report is available at www.dola.state.co.us/doh/index.htm

Currently, Aurora charges impact fees or payment in lieu of fees for parks and transportation improvements. As can be seen from this survey, the extent of use and charges for these fees can vary widely from city to city. The following information, from a 2005 national survey, breaks down fees by multi-family units, retail, office, and industry as well as single family units:[89]

Table 40
Colorado Impact Fees

Facility	Single Family (unit)	Multi-family (unit)	Retail (1,000 sf)	Office (1,000 sf)	Industry (1,000 sf)
Roads					
Boulder	$1,846	$1,083	$1,575	$1,575	$1,575
Colorado Springs					
Longmont*	$600	*	*	*	*
Westminster*		*	*	*	*
Loveland	$3,112	$2,030	$7,924	$4,357	$2,259
Fort Collins	$2,446	$1,575	$7,068	$2,537	$1,529
Drain					
Boulder	$3,240	$1,620	$1,620	$1,620	$1,620
Colorado Springs	$1,604	$535	$982	$589	$982
Longmont*		*	*	*	*
Westminster*		*	*	*	*
Loveland	$445	$196	$589	$354	$554
Fort Collins	$669	$223	$655	$393	$655
Parks					
Boulder	$2,134	$1,356			
Colorado Springs	$834	$591			
Longmont*	$2,300	*	*	*	*
Westminster*	$1,462	*	*	*	*
Loveland	$3,650	$3,650			
Fort Collins	$3,149	$2,285			
Library					
Boulder	$372	$236			
Colorado Springs					
Longmont*		*	*	*	*
Westminster*		*	*	*	*
Loveland	$904	$904			
Fort Collins	$498	$361			
Fire					
Boulder	$199	$126	$164	$164	$164
Colorado Springs			$575		
Longmont*		*	*	*	*
Westminster*		*	*	*	*
Loveland	$527	$527	$350	$350	$120
Fort Collins	$178	$129	$188	$188	$52
Police					
Boulder	$238	$151	$164	$164	$164
Colorado Springs					
Longmont*		*	*	*	*
Westminster*		*	*	*	*
Loveland	$365	$365	$230	$230	$90
Fort Collins	$123	$89	$129	$129	$35
General Government					
Boulder	$316	$157	$195	$195	$195
Colorado Springs					
Littleton		*	*	*	*
Longmont*		*	*	*	*
Westminster*		*	*	*	*
Loveland	$700	$700	$460	$460	$160
Fort Collins	$225	$164	$209	$209	$58
Other					
Boulder	$445	$244	$512	$512	$512
Colorado Springs					
Longmont*		*	*	*	*
Westminster*		*	*	*	*
Loveland	$590	$590			
Fort Collins					

* Survey only included impact fees charged to residential single family homes

[89] Mullin, Op Cit., compiled from pages 2, 9, 18, 23, 30.

Possible Additional Revenue Generation
To determine specific revenue generation, it will be necessary for the City to undertake a study of the costs associated with new developments. For impact fees to be deemed constitutionally acceptable, the charges have to be reasonably related to the additional services to be provided to the new development. As a consequence, the national numbers may or may not be useful.

Impact on Citizens/businesses/developers
There are varying perspectives on who ultimately pays for impact fees. The general view is that housing prices may increase, but it may be due to the greater value attached to the services provided by the fees. This is buttressed by the fact that there is evidence that existing home values/prices appreciate when impact fees are used in a city. Because of competitive markets and the possibility for substitution, it is unlikely in the short term that a developer can entirely pass along the cost of the fee. It is possible that developers will seek to reduce their costs in other areas to make up for the additional cost of the fee. In the longer run, there is evidence that impact fees are to shift the cost backward owners of undeveloped land in the form of lower prices paid by developers for the land.

Developers and realtors are generally not supportive of impact fees. However, some developers view them as acceptable because they generally replace exactions, which are negotiated and less certain. Some also believe it adds predictability to the process. The general public generally favors impact fees, believing that they will be something of a replacement for general taxes.

Tax Policy Evaluation

Equity
One objection to impact fees is based on double taxation. If the homebuyer ends up paying the cost of the fee (which is debatable), they will be paying for new services through the fee while they pay for existing services through other taxes (for example to the extent that taxes pay for debt service on previous capital expenditures). Communities usually deal with this by lowering impact fees by an amount equal to the portion of taxes used to service debt on existing structures.

Another objection concerns the fact that existing homeowners, who are not paying the fee, benefit from the services as well. Of course, the converse is also true – long time residents have paid for a share of the services and facilities that currently exist in the City, which also benefit new homebuyers.

Reliability/Sufficiency
Impact fees are directly connected to new services and can be designed to be sufficient to cover those costs. However, because there are generally legal challenges to impact fees, they often are not structured to cover all costs so as to be legally more easily defensible. Because Aurora is projected to grow in coming years, they should be a reasonably reliable source of revenue. This is increased if the fees are charged at platting, although developers prefer to pay as part of the building permitting process.

Ease of Adoption/Administration
There are fairly strict legal requirements for establishing impact fees, and it generally requires a well crafted ordinance, a rigorous impact fee study (covering the facilities needed to service the new development, methodology for making this determination, any exemptions, offsets, the benefit area, and the percentage of cost recovery), a fee structure, etc. Once the fee is established, it is relatively easy to collect.

Economic Efficiency
There are certainly upfront costs associated with development that impact fees can recoup, and that should improve the capital allocation decision-making process. There is some concern that it could hamper development or purchase of lower-income housing, since the fees are assessed per house meaning that if the costs are built into the house (again, a debatable point), lower value houses bear a disproportionate impact.

Balanced or Broad-based
These fees provide a specific mechanism to pay for infrastructure and services dictated by new development. As a consequence, they are a "user charge" that reduces the reliance on sales tax revenues.

Establish an Excise Tax on Development

As explained earlier, excise taxes are levied on specific activities. It is generally understood that new development, while advantageous for a City in the long run, can create short term cost drivers that lead to cash flow problems. One method for dealing with this situation would be to establish an excise tax on new development.

Possible Additional Revenue Generation
There are various methods for assessing the tax. Possibilities include a tax on new housing and commercial development, assessed, perhaps, on residential housing units and square feet of new commercial space.

Impact on Citizens/businesses/developers
This would be a tax directly specifically at developers, and they no doubt would not favor it. However, most citizens, who would not expect to pay it, would most likely be supportive. As with impact fees, this would require specific research on costs associated with new development.

Tax Policy Evaluation

Equity
Excise taxes in general are considered inequitable, as they establish differential rates for specific economic activity.

Reliability/Sufficiency

In the short term, these could assist the City in dealing with cash flow issues associated with grow. The concern would be, however, that they would be built into baseline revenue assumptions. Should current levels of growth slow, which is bound to happen at some point, structural revenue shortfalls could occur. For this reason, on going operations should not rely on this revenue source.

Ease of Adoption/Administration
There will be significant work involved in determining the costs of new development to be captured through the tax. In addition, this tax would be subject to a vote of Aurora's citizens. Since it is on new development and most current citizens would not have to pay it, it likely would fare better at the ballot box than other tax options.

Economic Efficiency
To the extent that there are, indeed, cash flow issues for the City associated with new development, the tax can reflect these costs and better capture them.

Balanced or Broad-based
Currently, there are few mechanisms for the City to defray costs for services associated with new development. To the extent that this does so, it should broaden the City's revenue base.

Utilize a Parcel Tax

Parcel taxes are applied at a uniform rate on all owners of property parcels within a city. Parcel taxes had their birth in California as a way to escape some of the restrictions of Proposition 13. Proposition 13's main purpose was to limit property taxes through restrictions on both the growth in taxable value of property, the rate of taxation, and the growth in total assessments. The first parcel taxes in California were enacted in 1983. Since that time, they have become the largest source of discretionary revenue for school districts and an important source of revenue for other municipal governments. They are generally tied to a specific purpose, which makes them particularly marketable when the purpose has substantially the same benefit for property taxpayers regardless of the value of their property.

Parcel taxes have been dedicated to a variety of City services, including EMS services, library services, parks, recreation programs, operation and maintenance of museums and cultural facilities, street-related improvements, and crime prevention and safety.

However, in Colorado, property taxes must be *ad valorem* taxes, based on the value of the property. As a consequence, parcel taxes would not be acceptable absent a change in Colorado law. These taxes could be structured as impact fees (which would mean they could not be used for ongoing purposes) or as general taxes, although many of their specific benefits as a parcel tax would be lost. This is, however, a place where it may be worth exploring approaching the Legislature to allow the tax.

Possible Additional Revenue Generation
Parcel taxes are usually set at a level necessary to raise a defined level of revenue. Given that parcels of property do not vary significantly from year to year, they are very efficient in this respect. The possible additional revenue is subject to the needs of the City.

Impact on Citizens/businesses/developers
While any property tax increase will meet with resistance, there are certain property taxpayers who will be less resistant to a parcel tax. Commercial property, in particular, will see less of an impact from a parcel tax than from a change in ad valorem property taxes. Higher income individuals, who generally own parcels with higher valuations, may also find this a more acceptable approach to funding certain services.

Tax Policy Evaluation

Equity
Parcel taxes are regressive – they impose the same tax rate on all owners of property regardless of wealth, income, or ability to pay. Some parcel taxes provide for methods to reduce the impact on certain property taxpayers, including exemptions for seniors or very low income property taxpayers.

Reliability/Sufficiency
The parcel tax is a property tax, which is a very stable and reliable source of income. It is assessed against property, which cannot leave for cities with lower tax rates. A lien can be placed on the property should taxes not be paid, making evasion, at least in the long run, difficult.

Ease of Adoption/Administration
The vehicle for collection of the tax is already in place. Since parcel taxes are levied at a single rate against all parcels, they are very easy to administer.

Economic Efficiency
Parcel taxes had their beginning as a way to get around a specific state tax limitation, (California's Proposition 13) which makes them somewhat suspect from the start – in general, the best methods of taxation have had broad application in multiple states with varying economic and demographic circumstances. In general, parcel taxes are imposed at levels that probably do not greatly impact on the efficient operation of markets. Given that Colorado cities raise significantly less revenue from property taxes than cities in the rest of the country, parcel taxes will probably not have a significant impact on the local economy.

Balanced or Broad-based
As noted above, the fact that this would broaden the tax base would likely be a benefit for the City tax structure. However, there is little upside potential to the tax since it is not based on the value of property, which means that it will, unless put to a vote for an increase, tend to be a flat or smaller portion of overall tax revenues over time.

Index/Expand Charges for Services

Charges for services are a revenue staple for local governments, and their use has expanded as resistance to traditional taxes has grown. As discussed earlier, the City should have a clearly articulated policy on fees that will pay the entire cost of providing services and those where there will be full or partial subsidy.

A practice that has been adopted in many cities is to routinely (generally on a yearly basis) update fees to account for inflation. Often, the consumer price index for the region including the city is used. Another useful measure is the Bureau of Economic Analysis' State and Local Government Implicit Price Deflator, because it measures price changes that are specific to state and local governments. For purposes of comparison, the following would have been the adjustments under five plausible indexes for 2005:

Table 41
Indexes for Inflation

Measure	Change
Consumer price index, national	3.40%
Consumer price index, West region	3.10%
Consumer price index, Denver MSA	2.09%
State and Local Government Implicit Price Deflator	5.41%
National GDP Implicit Price Deflator	2.80%

The difference between the State and Local Government Implicit Price Deflator and the Implicit Price Deflator for the United States economy as a whole is remarkable. It represents the fact that many of the resources state governments utilize or consume have exhibited strong inflationary tendencies, including energy and employee benefits. Likewise, at the state level in particular, health care (Medicaid) is the largest single component of general fund budgets, and Medicaid has been growing by between 8 and 12 percent a year for the past four years. Higher education and transportation also have been areas of the budget with higher than average inflation.

This is probably a good indication of the desirability of using an inflation measure that is tied to government. The Bureau of Labor Statistics only publishes the Denver MSA data on a semi-annual basis, and it is a little more difficult to determine and detect trends from that data, although the lower level of inflation in the Denver MSA is somewhat surprising.

Possible Additional Revenue Generation
Under any of these measures, service charge revenue would have increased over the previous year. The current forecast is that licenses and permits will generate about $3.8 million in FY2006. Internal and external charges (some of which are probably not

applicable) are projected to generate an additional $5.5 million. The following table provides possible additional revenue using the various inflation indexes:

Table 42
Additional Revenue from Indexing

Item	Current Revenue	CPI National	CPI West	CPI Denver MSA	State & Local Govt Inflation Rate	National Inflation Rate
Construction Permits	2,153,716	73,226	66,765	45,013	116,516	60,304
Motor Vehicle Fees	910,359	30,952	28,221	19,027	49,250	25,490
Business Licenses	722,498	24,565	22,397	15,100	39,087	20,230
					0	
Internal Charges	2,067,955	70,310	64,107	43,220	111,876	57,903
External Charges	3,402,543	115,686	105,479	71,113	184,078	95,271
Total		**$314,740**	**$286,969**	**$193,473**	**$500,808**	**$259,198**

It should be noted that if prices decline, fees should decline as well. Of course, the policy could be written so that in those instances, fees stay constant, but there is at least more logical consistency by allowing fees to decline in those instances.

Impact on Citizens/businesses/developers
Consumers are most resistant to large, sudden increases in fees and permits and annual indexing eliminates the need to make periodic large increases. Consumers in cities that have adopted this policy have raised no strong objections. In some respects, the transparency and advance warning it provides should provide some greater comfort to individuals and businesses as they plan for purchase of City services.

Tax Policy Evaluation

Equity
As long as the policy is clearly articulated and tied to a logical index, there should not be issues with equity.

Reliability/Sufficiency
This establishes regular (almost routine) increases in fees and permits to reflect the fact that inflation drives up the City's cost of providing services, and the revenues that support those services has to increase as well. It provides greater opportunity for fees and permits to "pay their own way" for the services that are provided.

Ease of Adoption/Administration
The vehicle for accepting payment is already in place. For ease of administration, the City may wish to round off fees to the nearest dollar or, for minor fees, the nearest tenth of a dollar. Since this is a fee policy change, it is not subject to a vote under TABOR.

Economic Efficiency
By ensuring that fees are set at levels that generate revenue sufficient to support services, indexing the fees creates more efficient pricing and markets.

Balanced or Broad-based
While this would not necessarily broaden the base, it would prevent it from eroding over time because of the effects of inflation.

Section Six: Other Sources

Non-Profit Contribution/Payments in Lieu of Taxes

Non-profit corporations benefit from the use of City services, including fire and police protection and street maintenance. In fact, it has been suggested that the nonprofit sector has been the single fastest growing segment of the U.S. economy.[90]

While non-profit corporations are an important asset for the community as a whole, the City costs associated with serving them are borne by the other taxpayers of the City, many of whom do not enjoy the financial health of these organizations. To address this fact, many cities across the country have sought either voluntary payments in lieu of taxes (PILOTS) or have designed programs to assess all residents for basic city services, including non-profit corporations, with a credit given to property taxpayers for these charges.

The first use of PILOTS was by the federal government, which continues to reimburse cities for services related to federal facilities. Several states and state universities also reimburse local governments for services provided to their facilities.

Possible Additional Revenue Generation
This would depend on a variety of factors. In some cities, the negotiations are a "get what you can" approach. In FY2005, the City of Pittsburgh negotiated a $5.5 million aggregate fee from its non-profit community, which included the University of Pittsburgh, the University of Pittsburgh Medical Center, Duquesne University, Carnegie-Mellon University and others. In some communities, the negotiation of payments in lieu of taxes is well established – MIT and Harvard Universities annually provide multi-million dollar support to Cambridge, Massachusetts for police, fire, and other city services.

It is also possible to use service charges – often district assessments – to recoup costs associated with non-profit corporations. In these instances, it would be necessary for the City to do an assessment of the costs associated with providing service to property owners, such as street construction and maintenance. Charges are then made to each

[90] City of Philadelphia, Executive Order 1-94, "Payments in Lieu of Taxes," June 30, 1994, p. 1.

property owner based on their frontage; generally, a credit is given against property tax so that the charges are largely borne by the non-profit community. In many instances, the threat of this sort of process is used to exact voluntary contributions from the non-profit community. Baltimore received a commitment of payments of $20 million over 4 years from 16 of the city's largest nonprofit organizations after the City dropped a proposed energy use tax on nonprofit organizations within the city.

Other cities utilizing PILOTs are Indianapolis, IN; Minneapolis, MN; New Haven, CN; and Palo Alto, CA.[91]

Impact on Citizens/businesses/developers
In general, this approach will be supported by the community as a whole. The argument that City services are provided without payment by non-profits resonates with most taxpayers. The fact that non-profits are also largely exempted from sales and use taxes is a further argument in favor of some form of taxation to recoup the cost of services.

Tax Policy Evaluation

Equity
While many small non-profit organizations are run on small budgets and would find any additional payment burdensome, many, such as hospitals, public and private universities, and national organizations, are fully able to make these contributions. In many respects, they have more capacity to make payments to support city services than lower income taxpayers.

Reliability/Sufficiency
This depends on the structure of the PILOTS. If it relies on year to year contributions, it is not a reliable revenue source. In many cases, cities negotiate multi-year agreements, which increase their reliability. In the absence of agreements, an assessment is a fairly reliable and stable source of income.

Ease of Adoption/Administration
Negotiation with non-profits can be a time consuming process, and the time and cost associated with the actual collection of pledged contributions should not be underestimated. Since this is a fee, it may be implemented without a vote of Aurora's citizens.

Economic Efficiency
While the practice of exempting non-profits from property tax is long-standing, it is not entirely clear from a market efficiency standpoint. The original premise may have been to keep government out of church-state entanglements or to assist organizations that have a strong public purpose but are not in strong financial shape.

[91] "PILOTs: A Comparative Analysis," Government Finance Review, June 1999.

While these are laudable goals, many non-profits, particularly colleges and universities and health care facilities, require a great deal of local city service support, pay little or no taxes, and are in a financial position that would allow them to provide financial support for these services.

Balanced or Broad-based
This would broaden the City's revenue base.

Market-Based Revenue Opportunities

A Market-Based Revenue Opportunities ("MBRO") program offers a way to maximize the revenue-generating capacity of City assets. This broad term encompasses various entrepreneurial concepts, including advertising, exclusivity arrangements, rental agreements, and corporate sponsorships.

While some MBRO opportunities, such as an outdoor advertising program, are generally well established in the governmental marketplace, other areas are still evolving. Such arrangements can raise legitimate community concerns regarding the appropriateness of advertising content, aesthetics, and excessive commercialization of public service. The City will initially establish MBRO program parameters and guiding principles for considering such arrangements consistent with local community values.

Within this policy framework, the City would inventory facilities, real estate, and other assets and mechanisms under their control with potential for MBRO revenue generation. This assessment may include, but not be limited to, consideration of opportunities in the following categories

- General outdoor advertising. Billboards and other outdoor signage can generate both a fixed rental payment and/or a share of gross advertising revenues. While the precise revenue generation potential largely depends on location, a single prime billboard location can generate tens of thousands of dollars per year. Some governments are also exploring temporary ad banners on public construction site fences.

- Street furniture. Advertising revenues can offset or even eliminate the costs of "street furniture[92]", including such amenities as bus shelters, benches, public toilets, newsstands, trash receptacles, information kiosks, bicycle racks, and telephone pillars. In Boston, for example, the city's advertising revenue stream for a high quality street furniture program includes both an annual fixed fee of $750,000 and a license royalty fee (10 percent of annual revenues, generating $314,780 in 2003).

[92] "Street furniture" is the terminology for physical components/amenities of the streetscape such as kiosks, bus shelters, benches, and trash/recycling receptacles.

- Indoor advertising. Advertisements may be placed in public restrooms, libraries, civic centers, parking garages, and recreation venues. For a modestly scaled indoor advertisement, vendors estimate that each frame can generate as much as $1,920 annually, with a government receiving 10-25 percent of the revenue.

- Other miscellaneous advertising. Other advertising options being pursued by municipalities nationally include: tax and utility bill inserts; banners on government websites; advertising placements on the sides of rollout refuse carts as used in conjunction with automated trash collection; vehicle advertising "wrap" arrangements; and advertisements on parking meter poles.

- Secondary use of public real estate. City facilities and/or infrastructure can generate supplemental revenues from such options as leases for the placement of telecommunications equipment (e.g., cell-phone towers) and facility rentals for events and activities.

- Municipal marketing partnerships. A number of communities have developed corporate sponsorship programs, often in a blended arrangement involving commodity delivery, promotions, and discounts. For example:

    - Oakland, CA: Named Coca-Cola its official soft drink, giving it exclusive rights in city buildings and parks.
    - San Diego, CA: Corporate partnership program has netted $5 million over the past several years, resulting in revenue to expense ratio of 22:1[93]. Corporate partners, including Pepsi, Verizon, and General Motors, have all paid for the right to be the "exclusive" provider of their respective products and services to the City.
    - Huntington Beach, CA: Realizes $3 million in annual benefit from corporate partners including Coca-Cola, Chevrolet, Simple Green, and Yamaha.
    - Miami, FL: Purina sponsored construction of two "Dog Chow Dog Parks" as part of a marketing campaign in exchange for promotion rights and a waiver of fees for park events.
    - Austin, TX: Austin has recently committed to exploring MBRO options and is considering which types of assets and services should be involved in a future program.

Possible Additional Revenue Generation

These goals are based upon discussions with MBRO specialists who typically project revenue potential at 2% of current, locally-generated[94], General Fund income. Based upon City of Aurora locally-generated General Fund revenue of $220.5 million, annual revenue could be as high as $4.4 million. Actual revenue potential cannot be ascertained

[93] The "expense" referred to in this ratio is the amount of money the City has spent on their MBRO program, meaning that for every $1 spent, they've generated $22 in MBRO income.
[94] Local taxes, fees, fines, and charges

with certainty until programmatic parameters are established; in particular, revenue potential is subject to the City's tolerance for placements, concepts, and content. Additionally, some MBRO revenue may already flow into the City and would offset this general projection.

Impact on Citizens/businesses/developers
MBROs are popular because they provide revenues that are not raised via taxes. Some citizens find the use of city space for advertising to be inappropriate.

Tax Policy Evaluation

Equity
As a revenue source, there really aren't issues relating to equity. There may be concerns about the City providing its imprimatur to the businesses, products or services that are advertised.

Reliability/Sufficiency
Experience is limited, but cities with active MBRO programs have enjoyed steady revenue streams from their programs.

Ease of Adoption/Administration
The City will need to issue an RFP and assess the responses. In general, cities that have pursued this action have required 12-18 months to begin generating revenues.

Economic Efficiency
Market-based revenue options are, by their nature, driven by the market that exists for advertising and other provided services.

Balanced or Broad-based
While not a large revenue source, this can be a useful method for generating revenue that is not paid by business or consumer taxes.

Expand the Occupational Privilege Tax
or
Eliminate the Occupational Privilege Tax

Aurora assesses an occupational privilege tax of two dollars per month on employees and a match of two dollars per month by the employer for any person who is subject to income tax withholding pursuant to the provisions of the Federal Internal Revenue Code. Occupational privilege taxes are assessed to help cover costs associated with non-City residents who work in Aurora, as well as costs associated with businesses located within the City.

Occupational privilege taxes are not in widespread in the Denver MSA, although Denver and Greenwood Village also assess the tax. Many of the occupational privilege taxes are assessed in resort communities (Aspen, Breckenridge, Estes Park, Snowmass Village, Telluride, Vail) or are a flat rate per business per year.[95] These types of taxes are sometimes referred to as "nuisance taxes" because they require significant paperwork on the part of business to remit and Cities to collect.[96] Small businesses in particular find them burdensome.

The following are the combined employee and employer monthly tax rates for other local governments with occupational privilege taxes:

Table 43
City Occupational Privilege Tax Rates

Local Government	Combined Rate Per Month
Denver	$9.75
Sheridan	$6.00
Glendale, AZ	$5.00
Aurora	$4.00
Greenwood Village	$4.00

Possible Additional Revenue Generation

For FY2006, the occupational privilege tax is projected to generate $3.9 million. An alternative would be to adopt a higher rate. The following would be the additional revenue to the City based on the higher charged rates in comparable cities:

[95] Aspen has a sliding scale based on number of employees, which ranges from $150 to $750 per business per year. Breckenridge is $200 plus $10 per employee per year. Dillon is $60 per business per year. Leadville is $50 per business owner. Telluride has a sliding scale similar to Aspen's, ranging from $100 to $1,250 per business per year. Winter Park is $60 per business per year.

[96] Bland, Op Cit., p. 13.

Table 44
Additional Revenue Based on Other City Rates

Local Government	Combined Rate Per Month	Amount Greater than Aurora	Increase in Current Tax	Additional Revenue
Denver	$9.75	$5.75	143.75%	$5,630,197
Sheridan	$6.00	$2.00	50.00%	$1,958,330
Glendale, AZ	$5.00	$1.00	25.00%	$979,165

Impact on Citizens/businesses/developers
As noted above, the tax is relatively unpopular with business, particularly small businesses. An increase to the Denver rate would be a significant increase in this revenue stream, which would make the tax about equal to about 4.2 percent of total general fund revenue collections.

Citizens in general are likely indifferent to the tax, and there is a reasonable case to be made that the tax exports some of the tax burden and covers some costs associated with workers from other cities using Aurora services. Of course, those workers are also probably paying some sales tax in Aurora as well.

It is possible that there would be business location decisions impacted by the tax, particularly if it was increased to the level of the Denver tax.

Tax Policy Evaluation

Equity
As noted previously, there is an argument that can be made that the tax provides a mechanism for assigning some costs to non-residents who consume city services. The tax is borne by all businesses, so there are not issues of horizontal inequity.

Reliability/Sufficiency
The tax has shown moderate expansion in recent years, with growth rates of 1.7 percent , 2.4 percent and a projected 2.5 percent in the current and last two fiscal years. This is, however, below the average and projected growth rates for the current year and the previous two of 2.5 , percent 3.0 percent and 3.0 percent.

Ease of Adoption/Administration
As noted above, the tax requires resources for compliance and administration. However, an increase in the rate shouldn't increase this burden. Of course, a reduction would free up resources for both the City and employers.

Economic Efficiency
Business taxes are generally a cost shift to purchasers. Given their sporadic utilization, there are some concerns that an increase could have a detrimental impact on the City business climate and, over time, may lead to some loss of business activity.

Balanced or Broad-based
The City has no other broad-based tax specific to business. To the extent that it is not a sales tax, it helps to broaden the City's base. Because it is not levied against earnings or receipts, it also is less cyclical than other parts of the City tax base. An increase (or decrease) in the tax would not broaden the base per se.

Section Seven: Property Tax

As previously noted, for the nation as a whole, the property tax is the primary source of revenue for local governments in general as well as cities in particular. It is the only major tax utilized in all 50 states, and it is the oldest tax levied in the United States.

At the same time, surveys have generally found that the property tax is the least popular of the major taxes.[97] Taxpayer revolts are often specifically directed at the property tax, and, on average, property taxes are a declining source of revenue for cities and counties.[98]

There are practical reasons that the property tax continues to be an important revenue source for local governments. The property tax base is immobile and the tax difficult to evade, which means that local governments can easily administer and predict their revenues from year to year. Unlike sales and income taxes, property values are not as closely tied to changes in the business cycle and thus provide a more stable source of revenue. It also finances property-related services, such as police and fire protection. Property taxes are also seen are largely the domain of local government and are not as prone to usurpation by state and federal government.

Property taxes can become an issue not only with local voters and individual taxpayers but with businesses as well. Several studies have examined the effect of property taxes on employment growth and property values, and, in general, high local property taxes deter economic growth.[99] Other studies have determined that cities with higher property tax burdens have lower property values. One study found that a city with a tax burden double that of another will have property tax values about 15 percent lower than the other city.[100]

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[97] Gordon Shuford and Richard Young, "A Report on Local Government Funding: An Overview of National Issues and Trends," Institute of Public Affairs – Center for Governance, University of South Carolina, February 2000, p. 23.
[98] Op Cit., Bland, p. 77.
[99] Therese J. McGuire, "Do Taxes Matter? Yes, No, Maybe So," State Tax Today, June 9, 2003, p. 22.
[100] Katherine L. Bradbury and Helen F. Ladd, "City Taxes and Property Tax Bases," National Bureau of Economic Research Working Paper 2197, March 1987, p. 27.

It is also generally accepted that taxes increase in importance as a business choice of location narrows from a state or regional to a local level. In particular, capital-intensive industries will pay particular attention to local property taxes. On the other hand, retail businesses, which are most concerned with readily available consumers, are not as likely to be impacted, at least in the short run, by property tax rates or increases.

Colorado's property tax revenue is somewhat constrained by the Gallagher Amendment, which divides the State's property tax burden between residential and commercial property, with 45 percent of the total amount of state property tax collected coming from residential property, and 55 percent from commercial. It also fixes the assessment rate for commercial property at 29 percent. The assessment rate for residential property is annually adjusted to maintain the 45 percent split of property tax revenue for residential property. While the residential property assessment rate was 21 percent in 1982 (the year that the Gallagher Amendment was adopted), last year's level was 7.96 percent.

The Gallagher Amendment has led to decreases in taxable assessed values in some communities despite appreciation in market values on existing property. While real estate appreciation has been the norm nationally – and in the Denver MSA – the effect of Gallagher has been to decrease the ratio of taxable assessed value to market value.

TABOR also affects property tax collections. In most property tax systems, mill levies may be adjusted to raise the amount of revenue necessary to fund government services. However, under TABOR it is necessary to receive voter approval to increase mill levies. In instances where the assessed value of property declines, the mill levy cannot be used to maintain previous levels of property tax revenues. At the same time, if assessed values in a city or county increase significantly, TABOR's allowable revenue limit may require the local government to lower its mill levy. Furthermore, if the ratio of residential to non-residential actual values changes in a manner that dictates an increase in the residential assessment rate, that rate may not float back up without an affirmative vote of Colorado's citizens. As a result, the rate remained at 9.74 percent in 1999 even though market conditions dictated a small increase.

Because of differing methods for funding public services, direct comparisons of city property tax mill levies can be difficult. For example, in 2003, Aurora's levy was 11.409 mills. One of the comparable communities within the region, Lakewood, had a mill levy of 4.711; however, Aurora's levy includes fire protection, while for Lakewood a Metro Fire District, which levies an additional 11.480 mills for those services, provides this service. Of greater impact for property taxpayers in making comparisons will be the levy for the local school district, as it makes up a much larger share of the total property tax bill.

Property Tax Rate Increase

As previously noted, Colorado cities collect significantly less in property taxes than the nation as a whole, and Aurora is no exception. There are strong arguments that can be

made that additional property tax revenue would be a useful diversification of the revenue mix and would not over-burden property taxpayers.

Possible Additional Revenue Generation

The current estimate is that the City will generate $22.7 million in property tax revenue in FY2006. This is about 10 percent of total revenues and the second largest revenue source. The following details the property tax rates for the ten largest Front Range cities:[101]

Table 45
Comparative Property Tax Rates, 2004-2005

City	Mill Levy
Lakewood	16.191 (combined city and fire protection district)
Pueblo	15.441
Denver (city portion)	11.471
Aurora	11.079
Thornton	10.210
Ft. Collins	9.797 (fire protection not included)
Arvada	7.020 (fire protection not included)
Centennial	4.982 (fire protection not included)
Colorado Springs	4.944
Westminster	3.650

Given Aurora's current property tax, a 4 mill increase would generate approximately an additional $9.6 million in FY 2007.

Aurora's existing property tax rate is already among the higher in the region. Voters also rejected a 4 mill increase in November 2005. It is likely that any attempt to increase the rate will have to be tied to issues that resonate with the voters. As with most of the choices discussed in this report, a broad-based campaign to educate voters about the issues facing the City will be necessary to gain their support.

Impact on Citizens/businesses/developers

Property tax increases are generally unpopular. Many national surveys have identified the property tax as the least popular of the major taxes. Businesses, in particular, may resist increases in the tax. Because Colorado's Gallagher Amendment requires that non-residential property pay 55 percent of the property tax, businesses have seen their burden, in terms of taxes per assessed valuation, grow by a much faster rate than residential property taxpayers. Unless they can be convinced that the services the City will provide will benefit them, it is likely that they will not support increases. Residential property taxpayers are, by the last vote, also not easily convinced, although the impact on them, compared to other similar locations outside the State, is much lower than the norm.

[101] "Budget in Brief: A Citizen's Guide to the 2005 Budget," City of Colorado Springs, Office of Budget and Financial Analysis, May 2005, p. 15.

Tax Policy Evaluation

Equity

While property taxes are generally considered somewhat regressive, they are less regressive than sales and excise taxes. To the extent that property taxes supplement or supplant sales taxes, they may make the City's tax system more, rather than less equitable.

While property taxes can be regressive for certain types of individuals (for example, a retired person living on a fixed income whose property continues to increase in value, leading to annual property tax increases), it is mitigated in many states by homestead exemptions, low income credits (often referred to as 'circuit breakers'), and the business tax component The requirement that 55 percent of the property tax is paid by commercial property is significant and greatly reduces regressivity – the business property tax component falls on owners of capital and is also, to some degree, exported to residents in other states. One national study found that, on average, 40 percent of a typical state's property taxes fall on business (excluding the portion of property taxes that were assigned to renters), well below Colorado's 55 percent.[102]

Reliability/Sufficiency

The property tax is probably the most reliable of all local taxes. Property tax collection rates are extremely high, typically in the range of 92 to 96 percent of the current levy.[103] It is assessed against property, which cannot leave for cities with lower tax rates. A lien can be placed on the property should taxes not be paid, making evasion, at least in the long run, difficult. Property appreciates in value over time, giving local governments the opportunity to obtain additional revenue without necessarily having to increase property tax rates.

In general, property taxes are an excellent tax for raising sufficient revenue. In many state tax systems, the local government budget is set and property tax rates are then pegged to raise an amount sufficient to fund the budget. While TABOR complicates this process in Colorado, voters in Aurora have rejected tying property tax revenue increases to the TABOR limits.

Ease of Adoption/Administration

The vehicle for collection of the tax is already in place. However, any increase in property tax rates is subject to a vote by Aurora's citizens.

Economic Efficiency

The debate over the property tax is probably more heated than over any other mechanism for raising revenue. Originally, the general rationale for the property tax rested on homeowners being the primary consumers of local government services. In many states,

[102] "Who Pays? A distributional analysis of the tax systems in all 50 states, 2nd edition," The Institute on Taxation and Economic Policy, 2003, p. 9.
[103] Shuford and Young, Op Cit., p. 26-27.

farmers and ranchers (often a powerful lobby) sought and gained limits on taxes by arguing that they were bearing a disproportionate share of the tax burden. Property tax revolts, such as Proposition 13, have, in many states, triggered local efforts to broaden their revenue base.

While opponents of the tax have made a strong case that property owners bear a disproportionate share of the local government tax burden, it is not all that clear. For most households, their home is their primary investment and the largest single purchase that they will ever make. Locally delivered services, including fire and police protection as well as libraries and recreational facilities, are particularly important for most home owners. Studies have shown that cities that effectively deliver these services are highly valued and result in stronger property values, which ultimately provides a better return on investment for home owners.

Balanced or Broad-based
This is an existing tax, so an increase in the rate does not assist in making the system more balanced or broad-based. However, given that the sales tax makes up over half of the revenue collected by the City, an increase to the property tax that reduced reliance on the sales tax would make the system more broad-based. Just as important, the essential stability of the property tax would improve balance in the system.

Section Eight: Miscellaneous Alternatives

There are nearly endless possibilities for changes to revenue structures. The options included in the first seven sections of this chapter were those deemed most worthy of additional analysis. However, the following are further areas that the City may choose to investigate.

Sales Tax Related

Eliminate Exemption for Groceries and Prescription Drugs
Aurora currently exempts food for home consumption from its 3.75 percent sales tax. These exemptions are often seen as a way to make the sales tax less regressive by exempting purchases of items that generally make up a larger portion of the disposable income for lower income households. While this may be considered progressive tax policy, many Colorado cities do not provide this exemption, including Arvada, Brighton, Cherry Hills Village, Lakewood, and Wheat Ridge. In fact, only 15 of the 60 Colorado municipalities with self-collected sales taxes provide the full exemption.[104]

Other tax expenditure reports have identified food for home consumption as being between 6-12 percent of sales tax collections; applied to Aurora that could yield additional tax collections of between $7 and $13 million a year.

[104] "Local Sales and Use Tax Clearinghouse Report," Colorado Municipal League, July 1, 2005.

Increase Sales Tax Rate on Utilities

Utility bills are currently subject to the 3.75 percent sales tax. As with food for home consumption, utilities are often seen as a necessity, and some Colorado cities exempt gas, electricity and similar utilities from the sales tax.[105] On the other hand, one of the advantages of this source of revenue is that it is relatively stable, compared to sales tax revenues in general. Based on current revenue collection, each additional 0.25 percent increase in the sales tax rate would yield approximately $700,000 in additional revenue.

Public Improvement Fee

Similar to a retail sales tax, the fee is charged to retail customers and the revenue is used to pay debt service on bonds to build public improvements. The potential for utilization depends upon retail being located within the district. It has been utilized in Lakewood (rate of 1.4 percent), Loveland (rate of 1.25 percent), Colorado Springs (2.25 percent) and Pueblo (rate of 0.5 percent) among other places.

There could be concerns about border competition if the rate is too high, but it has the potential for creating public improvements in areas where the development will lead to significant new retail activity.

Streamlined Sales Tax Project

The Streamlined Sales Tax Project (SSTP) is a cooperative effort among the States to simplify the current sales tax structure. By working toward common definitions, the Project is attempting to gain voluntary compliance by large e-commerce retailers to collect and remit sales tax on Internet and other electronic purchases. While there has been significant progress made to date on the initiative, it has not yet been implemented among the participating states.

Colorado is not a participating state, and any hope for additional revenue based on voluntary collections would require action by the State Legislature. Even with such action, it is not clear that this would result in significant new revenue for the City. For one thing, much of the analysis of the impacts of electronic commerce overlook the fact that a good portion of those transactions are business to business transactions, where the transaction is subject to use tax. Businesses typically already remit a high percentage of those taxes, so some of the hope for additional revenue collection is probably overstated.

It is notable that the State of Iowa, a participant in the SSTP since the beginning, is estimating only $25.0 million in additional revenue next fiscal year from the SSTP. The State of Iowa expects to collect $1,935.0 million in sales tax in FY2007; of that $25.0 represents 1.3% of total collections. If the City of Aurora were a participant, that same level of additional resources on the Aurora sales tax collections base would generate an additional $1.6 million.

[105] Ibid. According to the report, 5 cities provide a full exemption, while several others tax utilities at a lower rate than other purchases subject to the tax.

Income Taxes

Local Personal Income Taxes

While personal income taxes are not widely utilized at the local level, there are a handful of States where they are an important local revenue stream. They are broadly used in Indiana, Kentucky, Maryland, Michigan, Ohio and Pennsylvania. It is notable that these are all cities east of the Mississippi River. There are some variations used in California, Iowa, Missouri, and Oregon – such as Iowa allowing local option personal income surtax to replace a portion of property tax. Perhaps the nearest comparable city with an income tax is Kansas City; in Missouri, only Kansas City and St. Louis among cities have been given the authority by the Legislature to impose a local personal income tax.. Nationally, local personal income taxes account for only 5.9 percent of local general revenue.

Since local income taxes are explicitly prohibited by TABOR, the implementation would require a constitutional change. Given its lack of use, it would probably require a broad coalition of local governments (and either dedication for a popular purpose or use to replace less popular taxes) to have any possibility of passage.

Local Payroll Taxes

This functions like an income tax, but, because it is assessed on payroll, it is less visible to taxpayers. Las Angeles and San Francisco levy a payroll tax on employers. Four urban counties in the Portland, Oregon area also have a payroll tax, with the revenue dedicated to supporting public transit.

This would require a change in the State Constitution, either by Legislative action or a public initiative. Given its lack of use, it would probably require a broad coalition of local governments (and either dedication for a popular purpose or use to replace less popular taxes) to have any possibility of passage.

Excise Taxes

Increase Admissions Tax

The City currently charges a 3.75 percent tax on admission to sporting and entertainment events. Other cities charge a higher admissions tax, including Denver (10% at City-owned facilities), Cherry Hills Village (10%), and Boulder (5%). While it will not yield significant new revenues, an increase in the tax is not likely to significantly impact consumer behavior.

Increase the Occupation Tax on Telephone Suppliers

This tax, which applies to land lines but not cellular phone users, has been declining, as land lines are being replaced by cellular phones. A 20 percent increase in this tax ($0.22 per line) would generate an additional $300,000 a year. It is possible, however, that

increasing the tax would accelerate the trend toward use of cellular phone service and further erode this revenue stream.

Establish a Real Estate Transfer Tax

A real estate transfer tax is levied at the time real property is conveyed to a purchaser. The tax is analogous to a sales tax on the purchase of real property. Twelve Colorado municipalities impose a real estate transfer tax. Several have earmarked the receipts for specific purposes. Aspen and Crested Butte impose two separate taxes with the revenues dedicated for different purposes.

The following are real estate transfer tax rates for cities in Colorado:[106]

Table 46
Colorado Cities' Real Estate Transfer Tax Rates

Municipality	Rate	Municipality	Rate
Aspen	1.5%	Minturn	1.0%
Avon	2.0%	Ophir	4.0%
Breckenridge	1.0%	Snowmass Village	1.0%
Crested Butte	3.0%	Telluride	3.0%
Frisco	1.0%	Vail	1.0%
Gypsum	1.0%	Winter Park	1.0%

Effective December 31, 1992, new or increased transfer tax rates on real property are prohibited under the Colorado Constitution (Article X, Section 20 (8) (a)).

Establish a Parking Tax

This is a tax assessed on businesses that operate parking lots. Businesses collect the tax from customers and remit to the City. This is generally used in urban center cities and is a method to export tax burden to suburban residents who commute for work into the City. It can be argued that it is one method to recoup costs associated with travel, congestion, and motor vehicle enforcement on commuters who consume significant public services during the work day. There often are concerns that it also reduces retail and other economic activity downtown because of the additional cost. Parking rates are generally a percentage of the total daily fee and range from 7.75 percent in Anaheim, CA to 15.0 percent in Philadelphia PA, 20.0 percent in Miami, FL and 25.0 percent in San Francisco CA. While the City has the authority to charge a tax, it would require a vote.

[106] "Tax Handbook: State and Local Taxes in Colorado," Colorado Legislative Council Research Publication No. 447, December 1998.

It may also be possible to assess a user fee imposed on parking spaces. An annual fee could be assessed on the number of parking spaces at a business. This is discussed under the section on other fees and service charges.

Establish a local option gasoline tax

Local governments in 14 states have local option motor fuel taxes. Two states, Alabama and California, have no limitations on the rate, although California does require voter approval. The remaining state rates range from $0.01 in Tennessee to as much as $0.12 in Florida.

There are reasonably strong arguments to be made for a local option gasoline tax. First, transportation is a major expense for all local governments, and it fits with the presumption in favor of taxes on those who consume the greatest amount of services. Second, the tax can encourage the use of more efficient and less costly modes of transportation. Third, the tax can be used as a method to finance capital construction costs, either through bonding or a pay-as-you-go approach.

Aurora is projected to receive approximately $8.2 million in FY2006 from its share of the State tax on motor fuels. Aurora's current backlog of projects suggests there is a need for additional resources, and this tax bears a close connection with use for City highways and streets. While higher fuel prices may lead to voter and consumer backlash, a State analysis in 2002 indicated that Colorado ranked 32nd among the states in motor vehicle tax collections per $1,000 of personal income. A 10% increase in the tax (currently 22 cents per gallon), could raise an additional $800,000 a year.

Establish a Local Cigarette Tax

Many local governments across the Country have been imposing or raising local cigarette taxes. As with State increases in the tax (which has been the most common form of tax increase at the State level over the last 10 years), the tax can be justified both on public health grounds (increases in the tax tend to decrease consumption, particularly among youth smokers, who are more sensitive to price increases) and based on the health-related cost of providing services to smokers.

While the City has the power to tax the purchase of cigarettes, it already receives approximately $750,000 in revenue from the State for its share of the 27 percent of gross cigarette taxes collected by the State. If it chooses to impose a cigarette tax, it would forfeit these annual revenues. It is likely that an increase in the tax sufficient to make up this lost revenue would lead to a significant consumer flight issue, making this a poor revenue choice for the City.

Establish a Tax on Internet Access

Currently, new taxes on access to the Internet are prohibited by federal law. It is unlikely that this situation will change in the near future. The moratorium preventing these

charges has been extended several times by Congress in recent years. The argument has been made in the past that taxing Internet services would hamper the development of the technology. Given the rapid expansion in cellular phone service and similar technologies that are subject to extensive taxation, this line of argument is probably somewhat suspect.

Assessments, Impact Fees, and Exactions

Vehicle Impact Fee for Public Safety

The City could charge a fee per vehicle for costs associated with public safety. There already is a $10.00 per vehicle registration fee charged by the E-470 Traffic Authority within its designated service area, with the proceeds dedicated to the cost of their financing.

This excise fee would be paid for the right to register a motor vehicle. Earlier, it was suggested that a vehicle excise tax for the maintenance of the pubic highways would be a better fit, and it is analyzed above.

Right of Way Maintenance Assessment Fee

This could be imposed for summer and winter street services, including sweeping and patching city streets, snow plowing, sidewalk repair, litter pickup, ordinance enforcement and emergency service, and boulevard tree maintenance and trimming. Charges would be levied per lineal foot of street frontage. This removes the cost of the functions from the City's general fund budget and allows the City to receive payments from non-profits. In other cities, property taxpayers are allowed to deduct the fee from their property taxes or receive a credit up to the amount of property taxes paid against this fee.

The tax is used in both St. Paul, MN and Milwaukee, WI. Milwaukee raises $3.5 million annually from the fee. Because the charge is for specific services, it would not be subject to a vote.

Other Fees and Service Charges

Assess the Adequacy of Fees to Recover Costs

In a number of cities, establishing a consistent cost accounting methodology has led to opportunities to justify raising fees to raise additional revenue. For example, the City of Minneapolis, after contacting for a fee study, was able to justify changes generating an additional $1.5 million a year in additional revenue.[107]

[107] In May, 2004 the City of Minneapolis retained PFM to conduct an activity based costing assessment of its development related activities in order to fulfill a state mandate. Along with helping the City determine appropriate allocations of existing revenue, PFM worked with the City to identify or create 72 new initiatives to achieve substantially more revenue through greater cost recovery. Of these 72 initiatives the City prioritized up to 30 to be analyzed and developed for the 2006 Budget. As of today, PFM has completed a detailed fiscal impact analysis and business case study description for 12 of these initiatives

There are several methods that should be utilized in conducting the study. For example, in calculating costs of providing a service, often the hourly rate of the staff that provides the service is utilized, but it understates the cost for the employees' productive time. Productive time is calculated by subtracting accrued leave (sick leave, holidays, vacation and other paid leave) from an employee's annual hours to determine the remaining "productive hours." Thus, if an employee typically works 2,080 hours per year (52 weeks of 40 hours) and accrues 280 hours of paid time off, the employee is productive for 1,800 hours. To calculate the productive rate, the hourly rate is divided by the productive hours and multiplied by the actual hours. A $20.00 per hour employee with a 2,080 to 1,800 hours ratio would have a productive rate of $23.11 per hour, and this, not $20.00 per hour, should be used to calculate costs.

These assessments are easily defensible if the City has established a policy for charges to recover costs for services. In that case, the consumer pays for the service, and other city taxpayers are not required to subsidize it. Further, by reflecting full costs for overhead and other assistance provided by the City, its general tax burden is shifted toward those who are most willing to pay for something that benefits them most directly. These changes also do not require a vote.

Increase E-911 Monthly Telephone Surcharge

The City currently assesses a $0.70 per month charge per line for costs associated with the E-911 system. There is evidence that the costs of the program are not being met by the current surcharge. However, the current charge is the highest that can be charged without approval from the Colorado Public Utilities Commission. It would make sense to document the level of expenditures necessary to maintain the current E-911 system to make a case for an increase in the surcharge.

Establish a Trash Hauling Fee

Trash-hauling vehicles traveling through Aurora to the Arapahoe Landfill cause considerable wear and tear on City streets. It has been suggested that the City charge a fee at the Denver-Arapahoe Landfill for trash-hauling vehicles that enter the facility. However, legal analysis indicates that the City cannot legally compel the collection of the proposed fee by either the landfill owner or operator, as the facility is owned by the City and County of Denver and operated by a private corporation.

Transfers from City Utilities

Cities that operate one or more utilities regularly charge those utilities for services provided by the rest of city government. The City should ensure that overhead covers all reasonable services, including charges like pavement cut fees. In many instances, Cities have used difficult budget times as an opportunity to revise their overhead charges.

for over $1.1 million in recurring additional revenue. Based on the more detailed analysis provided by PFM, the City has decided to pursue approximately 20 of the original 30 initiatives in the 2006 Budget. It is expected that this will yield over $1.5 million in recurring additional revenue.

When the City of Roseville, MN was facing a $17.5 million shortfall in FY2003, it raised indirect cost charges to enterprise funds by $2.8 million.

Fire-Med Subscription Fee

This is a voluntary membership program intended to improve the quality of emergency medical services. An annual membership fee is charged on a per household basis that covers all who live at the residence. It would be used to fund all the paramedic positions, life saving equipment and advanced training. It would cover everyone in the household for paramedic advance life support services and for visitors when they suffer an emergency at the Fire Med household. These have been utilized extensively in California and Oregon. Of the 34 cities in Orange County, CA, 32 have some form of the subscription fee, although the types of services covered by the fee vary widely from city to city. Costa Mesa CA (population 110,000) raises about $750,000 a year from its subscription fee, while Salem, OR (population 146,000) raises about $275,000 from its $40 a year fee.

According to the City of Costa Mesa, in other cities utilizing the subscription programs, the quality of the service improved after implementation of the program.

While it can be argued that this allows individuals to determine the amount of service they are willing to pay for, there are others who would argue that police, fire, and emergency services are the sort of public good that a City should provide to all its citizens in the same manner in terms of quantity and quality. However, given its voluntary nature, the fee could be assessed without a vote.

Transportation fee assessed on parking spaces

As a method for assessing fees based on the use of the transportation system, a charge could be assessed against parking spaces in the City. This would be similar to the precedent set by storm sewer and sanitary sewer utilities, where they operate without precise metering or direct association to property value.[108]

There is evidence to connect the trip generation rates of a property to street maintenance costs. There is good evidence that parking is oversupplied by commercial business, which leads to excess trip generation and, among other things, excess storm water runoff costs (because of the greater amount of paved surface area).[109]

One of the advantages of this approach would be to, in theory, reduce the oversupply of parking. Most research has found that oversupply is the rule. One study found that the general rule of providing 4.0 parking spaces per 1,000 square feet of office floor space is often almost twice what is actually needed.[110] As one commentator noted, "it seems

[108] Sarah Hacket, "Transportation Utility Fee," Minnesota Cities, November 1992.
[109] Ibid.
[110] Chester Arnold and C. James Givvons, "Impervious Surface Coverage," Journal of the American Planning Association, Spring 1996, p. 251-252.

desirable that parking prices reflect at last the opportunity cost of parking spaces. In the absence of direct road user charges, some other unpaid cost of driving cars through congested areas might be included in parking fees."[111]

Other Revenue Options

Increase Audit Revenue

Additional tax-related revenue is collected as a result of additional tax audits, mainly of businesses. Additional auditors generally bring in more revenue than they cost in terms of salary, benefits, and other support. An entry level auditor is estimated to generate a net of $50,000 in the first year and a net of $200,000 in the following years. While there certainly will be a point of diminishing returns, the City believes that they could add additional auditors and generate additional revenue at the moment.

A well publicized campaign can not only generate additional revenue, it can have a deterrent effect in the future and increase voluntary compliance. This could be done in concert with other initiatives, including tax amnesty or a tax gap project. These sorts of efforts may cause some grumbling about overly aggressive collection tactics, but the average taxpayer can be appealed to with the point that they pay their fair share of taxes, and why shouldn't everybody else.

Tax Amnesty Program

The City could offer delinquent taxpayers a window in which to pay back taxes without additional penalties. These work well in conjunction with the hiring of additional auditors or future imposition of additional penalties for violators. These have been used extensively during lean budget years. Las Angeles took in $14.7 million from a business tax initiative in 2002. Chicago took in $8 million from a similar effort. Denver did tax amnesty in 2003 and expected to recover between $0.5 and 1.0 million. Alexandria, Virginia offered a tax amnesty for 2002 through the end of 2005. Of course, these are one time revenues and should not be seen as an ongoing revenue source.

Given the overall collection rates, amnesty should not be offered for property taxes. It should also not be offered too frequently, or taxpayers may believe they can be delinquent and have a regular opportunity to pay taxes without penalty. Amnesties work best as a carrot and stick approach, which means you have to be ready to use the stick.

Tax Gap Project

Several governments have increased tax revenue by a public private partnership to upgrade their tax data through purchase of a data warehouse. In these instances, a vendor creates the data warehouse in return for a share of the increased taxes generated. The

[111] Paul Schonfeld and Himmat Chadda, "An Assessment of Urban Travel Reduction Options," Transportation Quarterly, July 1985, p.405.

State of Iowa has generated over $50 million of additional revenue through its tax gap project, in conjunction with NEC.

Online Advertising

While this can be part of a market-based revenue approach (see MBROs), it can also be done as a separate initiative. The City can use banner ads, featured placement or sponsorship ads on City websites.

Online pricing is expressed in CPM, or the cost per thousand impressions. Pricing varies; for a banner ad, for example, anywhere from $3 to $30 CPM. One e-government application provider charges $18 CPM for banner ads. Charges are based on either the actual number of click-throughs or the click-through rate, which is the average percentage of visitors who click on an ad. The click through rate is currently around 1 percent.

Honolulu County's website attracts 4.6 million visitor hits per month and could reasonably expect to earn $600,000 a year. Fairfax County, Virginia expected to earn between $500,000 and $1 million annually when it began contemplating online advertising sales.

There are, of course, a variety of concerns about this approach, including concerns about warranting advertised products. Governments have been somewhat hesitant about embracing this revenue source.

Public Private Partnerships for FMP II

The City has successfully utilized public private partnerships in developing City facilities, and it should continue to do so for projects associated with the Facilities Master Plan II. Joint use aquatics and recreational facilities with other communities, schools, and YMCAs are possibilities. Many communities are exploring joint use facilities at state and federal locations as well, such as National Guard armories.

Another model that has been utilized is private sector financing of a public facility with a negotiated annual payment or contribution made by the City. In many instances, the private partner benefits as well, for example by the ability to utilize asset depreciation, which is not available to the public sector. The City of Ottawa, CA has identified the following as necessary criteria for possible public private partnership projects:

1. Projects must already be outlined in the City's five-year capital plan
2. Private sector partners must either add value or create a new revenue stream to reduce the City's net contribution
3. Projects must leverage existing City assets, services and abilities to reduce the need for capital funds
4. In return for ongoing annual funding support from the City, projects must reduce or eliminate the need for initial capital investment by the City

5. Projects must represent an acceptable risk to the City and meet overall City objectives.[112]

There are also corporate sponsorship possibilities. Pepsi, for example, has a program to fund parks.

Tax Increment Financing

Tax increment financing (TIF) has been extensively utilized in a number of states. TIF funds public improvements by freezing property tax rates at the current level for a given period of time (as much as 25 years in some states). The increased property taxes that would be generated in the TIF district are used to pay for the improvements. Best utilized in blighted areas with little opportunity for growth in property values, TIF could be a tool for certain infrastructure improvements associated with the FMP II.

Sale and Disposition of Surplus Property

Cities across the country are using online auctions to reduce surplus property and raise additional revenue. Beyond the usual surplus equipment, online auctions have been used to sell tax-defaulted properties. In May, San Bernadino County, CA sold 1,600 parcels and generated $41.7 million through an online auction. The City of Richmond, VA projects revenues of $2.5 million a year through its program. These can be done with minimal overhead, and there are vendors who will run the entire program for a percentage of the revenue.

Asset Sales

The City should inventory its assets and explore opportunities for sales, particularly for those City services that have reasonable private sector substitution. The City should also assess the market value of its property. The State of Iowa found, for example, that it owned Department of Transportation garages that were in highly valued commercial areas. The State ultimately sold some of those properties and built in less commercially desirable areas. Ultimately, this is an economically efficient exercise, as commercially desirable areas may generate new economic activity and revenues for the City.

Grant Enterprise Management

The City should explore hiring a grant specialist to locate and apply for grant funds. The City should investigate hiring this person on a contingency basis.

Tax Revenue Anticipation Notes

Tax revenue anticipation notes (TRANs, sometimes called revenue anticipation notes, RANs) are tax exempt borrowings done for cash flow purposes. Because of the timing of tax collections, in many places governments have cash flow problems at various points

[112] City of Ottawa, CA, Long-Range Financial Plan, "Potential New Revenue Sources," 2004.

in the fiscal year. The City would determine the largest amount it could borrow (based on IRS "safe harbor" regulations), do a tax exempt short term issuance, and then bank the proceeds in taxable short term investments. To the extent that the taxable investments yield a better return versus the interest rate on the short term loan, the government may be able to earn positive arbitrage.

This is standard practice for many governments both City and State, around the country. However, the IRS regulations are very specific, and a government must take care to not run afoul of those regulations or it can be subject to penalties. As an example of the potential under the right circumstances, the City of Richmond, in its 2005 budget, projected $13 million in revenue from its TRAN. Of course, if interest rates are high when the City secures its loan and then fall, it is possible that the City could encounter negative arbitrage, although the current interest rate environment would make that seem unlikely.

Aurora Regional Infrastructure Mill Levy

Currently, Metro Districts must levy this for City infrastructure needs, but the current revenue stream is small. The levy could be expanded to serve as a revenue source for pay-go capital projects or as a repayment stream for bonding or other financing mechanisms for capital projects.

Securitize an Existing Revenue Stream

Securitization is a form of financing in which the City assigns a revenue stream generated from some source in return for an upfront payment. In most instances, a new or existing revenue stream can be securitized or used to back revenue bonds for capital improvements. However, these repayment streams are less reliable than a City's general taxing powers, and the bonds will thus be more costly to the City than a general obligation issuance. On the other hand, this may provide an alternative approach to funding capital improvements. If the revenue stream currently exists (particularly if it is a general fund revenue source), its utilization for this purpose could create other budget pressures.

CHAPTER FIVE:
FISCAL ANALYSIS NOTE

Overview

The City has maintained and used a Fiscal Impact Model for a number of years. City staff from various departments originally developed the model. The model produces a rich array of information, which is used to inform the development decision process. A City requirement calls for the findings of the Fiscal Impact Model to be produced prior to City Council action on specific development projects.

While the model is dated in a number of respects, some of the base data has been updated on a regular basis. However, the Model's underlying structure and assumptions are nearly twenty years old. It was developed in a vastly different period in both the community's and region's development history. For example, the community was nearly half its current size, and was homogenic in character. At that time, Aurora was a fast growing, large suburban area in the Denver metro area. The core economy of the City was suburban in nature, with new offices and retail being the primary employment – along with three major military bases within the city boundaries. Aurora was the edge of the metro area, and was primarily middle class in character.

The regional economic structure was also vastly different. The state and metro economies were strongly influenced by employment and basing decisions of the federal government, energy policy and markets, and regionally specialized services and activities. Today, the Denver metro area is an information-orientated economy, with firm productivity and employee wage and salaries well above the national average. This evolution of the metro and local economies has influences on the residential and commercial development and outcomes. The outcomes and impacts from any development within the community are different than twenty years ago, and likely will continue to evolve in the future.

The Aurora Fiscal Impact Model was appropriate given the patterns and connections of the time. However as has been pointed out in many other parts of this report, the economic, development, and community characteristics have changed and will continue to change. Any fiscal analysis to be meaningful and informative must appropriately reflect these changes. It is as important today, as when the original Aurora Fiscal Model was developed, for a community to recognize and understand how development impacts the existing community and the fiscal outcomes from this development.

Findings

In January and February a review of the existing Fiscal Impact Model was undertaken. This review included an examination of the model, the base data, the core assumptions, the model outcomes, and discussion with the staff responsible for maintaining the model. While the model is updated with both project specific data and the underlying base data, this data provides only a partial basis for the outcomes and impacts derived from the model. More formally, the outcomes from an impact model are contingent on the formal relationships simply replicated within the model.

As has been discussed within this report, household consumption spending has changed in the U.S. The current model assumes a constant share of household income spent on

housing, on retail spending, and on the types of goods and services. While the model does allow for these shares to be changed as an input, this adjustment is carried forward through all periods of the model run.

Secondly, the current model does not allow for minor variance between each type of development (single-family residential, multi-family residential, office, retail, industrial, lodging, and parking). Each of these broad categories has an array of activities and outcomes, and they cannot be simply modeled to produce a single ""average" outcome.

As an example, vast differences exist in both the firm and employee spending within the local market, based on the whether the office is a backroom site (administrative or call center) or a corporate or management central office location. The significant difference in household consumption patterns has demonstrated how development patterns in the future will likely have a varied impact on retail sales tax revenue generation. A further point, the sales per square foot varies considerably between various types of retail, such as hardware versus clothing and "mom 'n pop" versus "category killer" box stores.

Third, the existing model incorporates revenue and expenditures information to produce fiscal outcomes from the development. This information includes tax and fee rates, staffing, program costs, and other related information. With the Budget Office operating a set of revenue, expenditure, and budget models and the Planning Department maintaining the current Fiscal Model, it is quite easy for these two departments to have varied information within each of these information tools. As the link between development patterns and fiscal outcomes has increasingly become understood, it is important that all City information tools are using the most up-to-date and consistent base data across departments.

Fourth, the current model has a large number of base variables. The current manner for updating the base variables requires the operator to check or input variables in a number of locations – and in some cases, with the same information. Some of the base information requires may have general or specific relationships with other base data. The current model does not allow for consistency or logic checks. As an example in one model run provided for review, the model base data had varied rates for inflation and interest rates. Or conversely, the average household size was consistent between single and multi-family residential development. While real world data can and will provide anomalies to the theoretic relationships, these variances should be double-checked to ensure accuracy of both the input and resulting output data.

In summary, the existing Aurora Fiscal Impact Model is a useful tool for informing community decision makers on the impacts of development. However, a close examination reveals a number of weaknesses in the model calling into question the validity and reliability of the outcomes of this model. These weaknesses are related to the assumptions, structure, and underlying base data.

Considerations and Next Steps

The review of the model revealed a need to update the underlying structure, assumption, and data within the model. Various discussions throughout the term of this project -- from the leadership and stakeholder interviews in December, various department leadership meetings and updates, discussions with City Manager's office staff, and Council Committee presentations and discussions in the April -- all revealed a perceived usefulness and interest in obtaining the type of information generally produced by this model. In most of these discussions, the current model and resulting data were questioned.

Based on these concerns, it would seem logical for the City to review and revise the model. A number of communities, in the metro area and throughout the nation, have operating fiscal impact models. Any of these models could easily be adapted for use by the City of Aurora. However based on the varied discussions, a consideration of the appropriateness of these "stock" models for use in the community seems warranted. While every community is unique in some ways, the fiscal and economic environment in Colorado and specifically Aurora would suggest simply adapting one of these models might have some methodological weakness. Secondly, these models tend to produce a large volume of detailed information, which has marginal value to the end users of this type of information in Aurora. Third, the City's Budget Office maintains and updates a number of other models for use in understanding the economic and fiscal conditions within the community today and tomorrow. Specifically, this project alone provided a new fiscal/budget model for use by the Budget Office.

Given these three preconditions, the city may wish to pursue developing a new Fiscal Analysis Tool between the Finance and Planning Departments. This tool would likely be more simplified than similar models and tools in other communities, specifically aimed at providing policy level information to community decision makers. Additionally, a new fiscal (and development impacts) analysis tool should build and link to other existing models and data in the Finance Department's Budget Office and other City departments (such as Development, Planning and Building Inspection). Finally, a design objective of any new tool should be to allow for the variability of the type of development by user and for the users characteristics to change over time. In this way, a household is not just a household, but a household living in a specific type of housing with a related head of household age and composition characteristic which changes over time.

The suggested Fiscal Analysis Tool would provide comparative, as opposed to absolute, information on any development proposal. This tool should also provide a cumulative outcome of the development within the community, as opposed to specific impacts or outcomes from the development proposal. Each development is part of the greater community, and influences the development and changes in other parts of the community.

Two other factors should be considered in the development of a new fiscal tool. First, the outcomes should include a number of measures toward varied City's strategies, both fiscal and development plan. Second, the tool must provide outcomes and impacts in two

distinctive time frames, short and long term. Similar to this report, the tool should demonstrate the fiscal and development impacts in both the immediate term and long term. It is suggested that the short -term outcomes could be in single year increments to either five years forward or through project building completion (which ever is sooner). The longer-term horizon would extend the project outcomes to ten and twenty years into the future.

In summary, the review revealed a desire for relevant, up-to-date information on the fiscal and development impacts and outcomes from proposed projects within the community. The projects would need to be of significant size to have a reasonable and material impact on either the revenues or expenditures of the city. The new tool would replace the existing Fiscal Impact Model, and would link to other existing or developed models, tools, and data used within various City departments and programs. This linkage would ensure consistent and up-to-date information across all departments and more importantly consistent underlying facts and factors in material provided to appointed and elected leaders in the community. The tool would provide comparative, cumulated information about development within the community. And finally, the tool would be structured to allow for the variety and evolving characteristics and conditions in the economy and community.

Appendix

"Most Likely" Options for Addressing Revenue/Expenditure Balance

Category	Revenue Potential	Voter Approval?	Legal Barriers	Other Barriers	Timeframe
Sales tax expansions	Approx. $ 5 million	Yes	No	Border competition must be considered	Other than vote, no major implementation issues
Excise tax increases (food, hotel, cell phone, satellite TV)	Aprox. $4 million	Yes	No		Other than vote, no major implementation issues
Development-related fees and taxes	Hard to define; $1-10 million	Yes	Have been challenged in other locations	Developers will oppose but public is generally accepting	Over one year to draft standards, assess impacts, etc.
Activate urban extension fee	Depends on development	Yes and No - already on books but may need to be re-approved	Past agreements to dedicate land in lieu of fee are an issue	The fact it has not been collected before may raise fairness issues	Can be collected immediately but for the legal issues.
Utilize special districts for more services	This would be a method to provide services, not increase revenue	Yes, within each district	No	Concerns that this may lead to "Balkanization" of the City and its services	Requires a detailed service plan, approval by City, and vote; over one year
Utilities for services	Transportation utility could be $10 million (or more) a year	No, as long as assessed to cover cost of specific service	No, been upheld in other cities	Pretty easy to assess and administer	Probably quicker than any other alternative
Expand service charges	Could range up to $5 million	No	No	Some, like increasing charges to enterprise funds, may	Indexing fees can be done quickly. Adjusting overhead and

				cause internal friction	fees to cover actual cost of service may require an additional study
Change privilege tax	Expand could add $1-5 million; eliminate cuts $3.9 million	Yes to expand, no to eliminate	No	Voters are generally indifferent but some businesses may relocate over time based on higher tax	Eliminate can be done immediately, expand requires vote but otherwise no administrative issues
Others	Could add $1-3 million	No to most (non-profit contributions, increased audits, advertising, etc.)	No	Non-profit community will oppose; some don't want City in advertising	Can be initiated quickly but requires negotiation or contracts in place

All Options for Addressing Revenue/Expenditure Balance

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
	Sales Tax Related					
1	Increase sales tax rate	.25% increase would raise an additional $9.6 million before adjusting for adverse effects from consumer mobility	Yes	Current revenue source, Colorado law is clear that cities may set the rate	The City's current rate is already at the high end of surrounding communities, and consumer flight is an issue. Most research suggests, however, that rate differences of less than 1% do not significantly impact consumer decisions.	Requires an election
2	Expand to consumer services	Depending on services, expansion could raise an additional $1-4 million a year	Yes	Current revenue source, and some consumer services are already taxed	Best applied to services where there is little ability to avoid the tax (for example, lawn care services). Consumer mobility will be an issue, as a 3.75% price increase can be expected to reduce larger purchases where competition exists by between 0-10%	Requires an election

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
3	Expand to professional services	While this has, in theory, large revenue potential, it is likely that consumer mobility will be a major factor	Yes	Current revenue source, so should not be major barriers	It is very likely that there would be significant opposition from the business community, and, over time, it can be expected that many firms would relocate operations.	Requires an election
4	Differential Rate – prepared food	.25% increase in rate on prepared food generates approximately $924,000	Yes	Current revenue source, so should not be major barrier	Denver charges an additional .5% (4% total) for food and liquor for immediate consumption. Relatively inelastic so shouldn't be a consumer mobility issue	Requires an election
5	Differential Rate – rental cars	Not considered to be a large source of revenue	Yes	Current revenue source, so should not be a major barrier	Denver charges 7.25% on automobile rentals of less than 30 days.	Requires an election
6	Eliminate exemption for groceries and prescription drugs	Other tax expenditure reports have identified the tax exemption on food as being between 6-12% of sales tax collections, which could be between $7 and $13 million	Yes		This would be considered regressive, although it would also reduce some of the cyclical effect of the sales tax. A majority of Colorado cities do not provide this exemption, including Arvada, Boulder, Cherry Hills Village, Ft. Collins, Lakewood, and Westminster.	Requires an election
7	Public Improvement Fee	Method for paying for specific public improvements rather than a general revenue source		Used in other locations, including Lakewood, Loveland, and Colorado Springs	Potential depends on retail within the district. This fee varies from 0.5% to 2.25% in other Colorado communities. If fee is too large, there may be significant consumer flight.	
8	Streamlined Sales Tax Project	No current opportunity for revenue; estimates of loss from e-commerce vary widely.	No	Would require Colorado to become a participating state in the project, which it has not done to date	There is a significant divergence of opinion about the revenue potential from this project. The most recent study by Fox and Bruce suggests 2003 loss for Colorado cities of between $64-$67 million. Aurora's share would be approximately $3.4 million. However, a competing study suggests the Fox amounts are overstated by a factor of 10. This amount would not be immediately available even if Colorado was a participating state.	Requires state to become a participating state; implementation period is also lengthy

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
	Excise Taxes					
9	Increase admissions tax	Minor revenue source	Yes	Current revenue source, so no legal issues	Current tax is 3.75%; Denver's tax is 10%. Applied to relatively inelastic purchases, so consumer flight not a major factor	Requires an election
10	Parking tax	Depends on assessment; probably not a major revenue source	Yes		Can be argued that the tax is largely exported to commuters and travelers and is a method to recoup costs associated with travel, congestion, motor vehicle enforcement. Concerns are generally expressed that it reduces retail and other activity because of the increased cost.	Requires an election
11	Local option gasoline tax	No immediate potential, as it requires state legislation	Depends on how it is structured – could be a user fee not requiring an election	Requires state law change	Local governments in 14 states have this local option tax, ranging from $0.01 to $0.12 per gallon. There are reasonably strong arguments for this tax, including consumption-based and the major expense associated with a transportation system.	Lengthy
12	Real Estate transfer tax	No immediate potential, as is prohibited by state constitution	Yes	Requires state constitutional change	Widely used throughout the country, but effective December 31, 1992, new or increase transfer tax rates on real property are prohibited by the Colorado constitutions, Article X, Section 20 (8) (a)	Lengthy
13	Internet access	No immediate potential, as it is prohibited by federal law	Yes	Requires federal law change	Argument has been made that taxing Internet services would hamper its development, although this is disputable.	Lengthy
14	Lodgers tax rate increase	The current rate is 8%, and an additional 1% would yield an additional $400,000 a year	Yes	Currently taxed so no major issues	This is a way to export tax burden, and it can be argued that travelers and tourists consume city services, such as police and fire protection and street maintenance. The demand for service is relatively inelastic.	Requires an election
15	Cellular phone tax	Based on current utilization, doubling sales tax could raise approximately $2.6 million in additional revenue	Yes		It can be argued that this is an equity issue, as land lines are currently subject to an occupation tax. It is unlikely that this additional tax will significantly alter consumer behavior.	Requires an election

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
16	Satellite television transmission service	Based on current utilization, could generate approximately $575,000 in additional revenue	Yes	Might require a change in state law to provide the locals with access to the necessary records to implement	It can be argued that this is an equity issue, as cable television subscribers are paying a franchise fee; on the other hand, that is related to cable televisions access to city rights of way, which is not the case with satellite transmission. It is unlikely that this additional tax will significantly alter consumer behavior.	Requires an election
17	Increase Utility taxes	Currently subject to a 3.75% sales tax, each additional .25% yields approximately $700,000 in additional revenue	Yes		Utilities are often viewed as necessities, and increases in the rate may be seen as making the overall tax structure more regressive. On the other hand, one of the advantages of this source of revenue is it is relatively stable (compared to sales tax revenues in general).	Requires an election
18	New development	A $25 per month tax would raise approximately $700,000 in the first year, and grow by similar amounts in the following years	Yes	Would have to determine what, exactly, is subject to the tax	It can be argued that this is a method for covering the costs of services that otherwise may not be available in new developments for the foreseeable future; those in new developments may argue that it is double taxation, as they are already paying other general taxes to support basic city services. Because it would apply to a relatively small set of voters, it would stand a reasonable chance of passage.	Need an election
19	Occupation tax on telephone suppliers	A 20% increase in this tax ($0.22 per line) would generate about $300,000 a year	Yes	Existing tax	This revenue source has been declining, as land lines are being replaced by cellular phones. It is possible that an increase in this tax would increase that trend.	Need an election
	User Charges/Fees					
20	Special assessments	Is a method for financing public improvements rather than a source of funding for general government	No		These are generally levies on property owners for the increased property values created by street improvements, generally curbs, gutters, sidewalks, storm drainage and street lighting, although they have also been used to construct recreational facilities and off-street parking.	Can be utilized currently

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
21	Right of way maintenance assessment fee	Can be used to cover costs associated with specific services, such as sweeping and patching city streets, snow plowing, sidewalk repair, tree maintenance and trimming	No	To the extent it is charged for specific services, it is not subject to a vote	There are various ways to structure this. Some cities use it as a method to assess costs on non-profits and governments that do not otherwise pay taxes – this can be done by providing a credit against payment of the fee for property taxes paid to the City.	
22	Special districts for services	Is a method for financing public improvements rather than a source of funding for general government	Special districts require approval of voters within the district		The City Metro District Model Service Plan establishes guidelines for their use. There is a legitimate concern that broader use for general government services will lead to a "Balkanization" of the City.	Can be utilized currently, but there are several process steps to complete
23	Aurora Regional Infrastructure Mill Levy	Currently Metro Districts must levy this for City infrastructure needs, but the current revenue stream is small. Alternatives to increase this levy could be investigated	Yes		Because special districts are developed to provide necessary infrastructure and services, it makes sense that they also provide a mechanism for the City to address its ongoing needs. The levy, if expanded, could serve as a revenue source or repayment mechanism for pay-go or bonding for capital projects.	Probably 1-2 years
24	Transportation utility fee	A fee of approximately $6.50 per month would generate about $5 million annually	No	To the extent the fee is used solely to fund specific services, the Colorado Courts have ruled in their favor	There are several attractive features to this approach, including the ease of administration (can be assessed on a property by property basis or by front footage of property on a City street) and collected on current utility bills. It is used in other large Colorado cities	Can be utilized currently, although the method for assessing the fee must be established
25	Street lighting utility fee	A fee of approximately $4.50 per month would generate about $3.3 million annually	No	To the extent the fee is used solely to fund specific services, the Colorado Courts have ruled in their favor	There are several attractive features to this approach, including the ease of administration (can be assessed on a property by property basis or by front footage of property on a City street) and collected on current utility bills. It is used in other large Colorado cities	Can be utilized currently, although the method for assessing the fee must be established

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
26	Urban Services Extension Fee	According to a City analysis from 2003, a 1,500 unit housing development at full build-out would pay $197,000 per year as long as it was outside the urban service boundary, and a retail development would pay about $75,000 annually.	Currently on the books, although may have to be re-authorized by statute to be fully utilized, which would be subject to voter approval	The current fee has been used as a negotiating method to obtain other financial consideration from new development; it is possible that the fee could not be charged in areas where the City negotiated other payments in lieu of the fee.	The fee is ongoing so can be used to fund ongoing services in outlying areas; it recognizes the increased burdens on the City for serving non-contiguous and/or outlying areas.	Depending on how it is structured and administered, it could be utilized currently or may require an election.
27	Expand Impact Fees	Impact fees currently are assessed for transportation and parks. The additional revenue generated depends upon the fees and their utilization. A combined $1,000 fire, police, library and general government impact fee applied to 2,000 residences would generate approximately $2 million a year	Yes	These fees have been challenged in other Cities but can be structured to meet legal scrutiny	These would be one-time charges and would not be a source for covering on-going services. While there is some dispute over who actually pays impact fees, the general belief is that, in the long run, they get factored into the price paid for undeveloped land.	Requires background study to determine appropriate charges and may be subject to Court challenge once put in place
28	Vehicle Impact Fee for Public Safety	This would depend on the fee charged per vehicle.	Yes		This could be assessed as an excise tax for the right to register a motor vehicle. This could be similar to an excise tax for the maintenance of public highways.	Requires an election

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
29	E-911 Monthly Telephone surcharge	Would require Public Utilities Commission approval, as the $0.70 monthly charge per line is the limit without approval. Could be used to reduce costs from general fund necessary to provide the service if PUC approves.	No	Requires PUC approval	Expenditures that could be charged to the fund have increased significantly in recent years, and this is a logical user fee.	Would require PUC action and documentation of acceptable activities to be charged against the Fund.
30	Increase fines and surcharges	Not quantifiable at this time	No	Requires Court action	There are only a few costs and surcharges that are established by ordinance. With the exception of three surcharges, which total $17, most other costs are discretionary with the court.	Unclear
31	Trash Hauling fee	Probably not significant because of legal issues	No	Fee would be charged for the right to enter a landfill that is located outside of the City and owned by a neighboring municipality – no power to compel collection beyond City borders.		Unclear
32	Parcel Tax	Not immediately available, as it requires a change in Colorado law	Yes	Colorado law requires that property taxes be assessed based on value, while parcel taxes are applied at a uniform rate for all property owners	Parcel taxes are used extensively in California, and are generally dedicated to providing a specific service. They have performed reasonably well in elections, because the cost per parcel is generally not seen as onerous, particularly by higher income voters. They are, however, a more regressive revenue source, although some provide low income or other exemptions.	Takes a law change

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
33	Index Fees and Charges	Annually increasing fees by one of several inflation indexes can raise between $100,000-$500,000 a year			This is becoming a common "best practice" for governments, as it allows for incremental increases that do not materially impact consumers as opposed to large, infrequent changes to fees and charges	Can be done quickly
34	Establish broad-based fee policy	By itself is not really a revenue issue	N0		A clearly articulated policy of what services will recover the entire cost and which will be subsidized, and at what rate, is generally considered a best practice. This goes hand in hand with assessing the adequacy of fees and indirect and direct cost allocation practices.	Can be done quickly
35	Assess adequacy of fees to recover costs	Would require a detailed study to determine areas for additional cost recovery	No	A detailed fee study may actually improve the legal basis for some charges	Part of an overall fee policy, these are very defensible as part of a market-driven approach to providing services. The City of Minneapolis was able to add $1.5 million to its budget on the basis of such a study.	Probably a 1 year process
36	Transfers from utilities for direct and indirect costs	The City currently receives transfers, but the basis for current policy is unclear, making an assessment of possible additional revenue difficult	No		Cities that operate utilities regularly charge for direct and indirect costs.	Can be done quickly
37	Transportation fee assessed on parking spaces	Depends upon level of fee	No	There is evidence to connect trip generation rates of property to street maintenance cost, so could be created as a specific fee	This has been explored as a way to reduce the oversupply of parking, particularly in densely populated areas. May not have a particularly good fit with the situation in Aurora.	Can be done quickly

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
38	Fire-Med subscription fee	This voluntary fee has raised up to $1 million a year in other cities, mostly in California	No	Strictly voluntary	Used in other cities to fund paramedic positions, life saving equipment and advanced training. It covers household residents and visitors for the cost of providing these services on an annual basis. Some data suggest cities utilizing the programs have seen an increase in quality of service. Others would argue that these are basic services that a City should provide to all.	Can be done quickly
	Income Taxes					
39	Assess local personal income tax	Not immediate source, as it would require approval by the State Legislature and an election	Yes	Prohibited by TABOR	Broadly used in six states, all east of the Mississippi river. Some variations are used in California, Iowa, Missouri, and Oregon, such as allowing a local option income tax to replace property tax revenues. Nearest comparable city with an income tax is Kansas City.	Long time frame to accomplish
40	Assess a local payroll tax	Not immediate source, as it would require approval by the State Legislature and an election	Yes	Might be challenged as effectively a local income tax and thus prohibited by TABOR	Functions like an income tax, but, because it is assessed on payroll, it is less visible to taxpayers. Los Angeles and San Francisco, among others, assess a payroll tax	Long time frame to accomplish
	Privilege Taxes					
41	Expand occupational privilege tax	Increase to levels of Glendale AZ, Sheridan, or Denver would raise between an additional $1 and $5.6 million a year	Yes	Current tax	While this is a significant source of revenue, privilege taxes are relatively unpopular with business, particularly small business, which finds the reporting process burdensome. While citizens are likely indifferent, there may be businesses that would make location decisions based on the tax, particularly if it were increased to the level of Denver.	Requires an election
42	Eliminate occupational privilege tax	Reduction or elimination will decrease revenue by up to $3.9 million a year.	No		While noting the arguments above, the City has no other broad-based tax specific to business, and to the extent that it is not a sales tax, eliminating the tax would narrow the tax base.	Can be done quickly

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
	Property Taxes					
43	Increase rate	A 4 mill increase would generate approximately $9.6 million in additional revenue	Yes		Voters overwhelmingly defeated a 4 mill increase in November 2005. Aurora's existing property tax rate is already among the higher in the region.	
	State Taxes					
44	Cigarette tax	Aurora is projected to receive approximately $750,000 in FY2006; doubling the local share could double that amount.	Yes	Would require legislative action.	While raising cigarette taxes is relatively popular and has strong health-related arguments, this is not very likely given that the tax was recently raised by 64 cents to go for health-related programs.	Probably lengthy
45	Gasoline tax	Aurora is projected to receive approximately $8.2 million in FY2006; increasing the tax by 10% (currently 22 cents per gallon) could raise an additional $800,000.	Yes	Would require legislative action	While higher fuel prices may lead to voter and consumer backlash, motor vehicle taxes can be argued to be consumption taxes, and Aurora's backlog of highway and street projects suggests a real need. A State analysis in 2002 indicated that Colorado ranked 32nd among the states in motor fuel tax collections per $1,000 of personal income.	May take 1-2 years, if at all
	Other Options					
46	Negotiated payments in lieu of taxes by non-profit organizations	This, of course, depends on the level of participation, but in the range of $1 million is not unreasonable	No		While the non-profit community will resist, the services they are provided has to be paid by other taxpayers. Some cities use a carrot-and-stick approach, suggesting that other charges or assessments (such as street frontage assessment) can be utilized if voluntary contributions aren't negotiated. Cities using this approach include Minneapolis, Indianapolis, Pittsburgh, New Haven, and Palo Alto.	May take up to 1 year

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
47	Market-based revenue opportunities	The general rule of thumb is revenue potential of 2% of locally generated general fund income, which would be as high as $4.4 million	No		This category encompasses a variety of concepts, including advertising, exclusivity arrangements, rental agreements, and corporate sponsorships. Among other cities, Huntington Beach, San Diego, Austin, Miami, Oakland, Philadelphia all have programs and Pittsburgh is developing one.	May take up to 1 year
48	Increase audit revenue	Entry level auditor generates a net of $50,000 first year and $200,000 in following years, although there eventually becomes a point of diminishing returns	No		This can be sold as making sure everybody pays their "fair share" and is generally directed at business compliance. A well publicized campaign not only generates additional audit revenue, it also has a deterrent effect in the future.	Can be done relatively quickly
49	Offer tax amnesty program	Cities performance has varied, but $500,000 to $1 million is not unreasonable	No		Best done in conjunction with changes to penalties, or, for example, with stepped up enforcement from additional Auditors. Amnesties should not be offered on property taxes and not done too frequently, or regular collection rates may suffer. This is also one-time revenue and shouldn't be dedicated to ongoing purposes.	Can be done relatively quickly
50	Tax gap project	Uncertain	No		Several governments have increased tax revenue by a public private partnership to upgrade their tax data through purchase of a data warehouse. A vendor creates the warehouse in return for a share of the increased taxes generated.	Up to 1-2 years

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
51	Online advertising	Uncertain	No	Concerns about warranting of advertised products is an issue	While this can be part of a market-based revenue approach, it can also be done as a separate initiative. Generally, a government will use banner ads, featured placement, or sponsorship ads on City websites. Online pricing is expressed in cost per thousand impressions. Charges are based on actual click throughs or the click through rate, which is currently around 1 percent.	Can be done relatively quickly
52	Public private partnerships for FMP II	Uncertain	No		The City has successfully utilized public private partnerships in developing city facilities, and this opportunity may exist for additional FMP II projects.	Up to 1-2 years
53	Corporate sponsorships	Uncertain	No	Concern about connection with private corporations is an issue	Some corporations (Pepsi mentioned specifically in the planning documents for City of Hollister, CA) have programs to fund park and other recreation programs.	Up to 1-2 years
54	Sale and disposition of surplus property	Uncertain	No		In addition to surplus equipment, online auctions are helping cities and counties sell tax-defaulted properties. In May, San Bernardino County, Calif., sold 1,600 parcels and generated $41.7 million in revenue through an online auction. The City of Richmond, VA projects revenues of $2.5 million a year through its surplus sales. There are vendors who will handle the process for a percentage of the sales.	Can be done relatively quickly
55	Asset sales	The City owns, among other assets, a system of golf courses; some or all could be offered for sale to private investors.	No		The courses have an asset value of approximately $37 million, operating revenues of about $8 million, and prices are currently set to yield no additional income to the City. While there may be significant resistance to an outright sale, pricing studies could be conducted, or overhead charges set to yield some return on investment to the City.	Probably 1-2 years

	Alternative	Revenue Potential	Voter Approval?	Legal Barriers	Other Issues	Timeframe
56	Grant enterprise management	This may yield additional grant opportunities for the City	No		May be able to find a grant manager to do this on a contingency basis.	Probably a year for results
57	Tax revenue anticipation notes	Unknown	No	Must meet IRS test	In some instances, tax exempt cash flow borrowings can be reinvested in taxable notes and bonds and yield positive arbitrage that meets IRS safe harbor regulations. With right market conditions (current market fits the test), the interest earnings can be significant.	Unknown
58	Tax increment financing (TIF)	This is a mechanism for funding public improvements, particularly in blighted areas	No	To utilize school property tax revenues requires an IGA with the school district	In areas with little or no property tax valuation and sales tax growth, public improvements that stimulate greater property value and activity are paid for with these new revenues. Effective tool used in 48 states that may have applicability to capital projects under consideration in the urban core.	Unknown
59	Securitize existing revenue stream	In most instances, a new or existing revenue stream can be securitized or used to back revenue bonds for capital improvements	No, unless raising a new tax to back the bonds		In general, these issuances will carry ratings a level lower than the City's general obligation bond rating, so will be more costly. On the other hand, this may provide a nexus between a revenue source and valued capital improvements.	Depends on revenue source

Breakdown of State and Local Revenue, 2002-03

	---State---		---Local---	
	($ million)	% of Total	($ million)	% of Total
Colorado	10,009	46.0	11,764	54.0
New York	55,167	46.2	64,189	53.8
Florida	33,854	47.2	37,853	52.8
Texas	40,796	47.3	45,418	52.7
Nevada	4,829	49.4	4,956	50.6
Georgia	17,503	50.0	17,499	50.0
Illinois	28,905	51.3	27,477	48.7
Tennessee	10,303	51.8	9,576	48.2
Wyoming	1,599	52.4	1,450	47.6
Nebraska	4,164	53.1	3,684	46.9
Ohio	27,578	53.3	24,127	46.7
Arizona	10,600	53.5	9,205	46.5
Indiana	13,983	53.6	12,097	46.4
Kansas	6,187	53.6	5,350	46.4
Missouri	11,835	54.5	9,898	45.5
New Jersey	25,220	54.5	21,087	45.5
California	97,620	54.7	80,774	45.3
Maryland	14,456	54.8	11,935	45.2
U.S. Total	**726,882**	**54.9**	**597,359**	**45.1**
Alabama	9,711	55.6	7,767	44.4
South Dakota	1,541	56.0	1,211	44.0
Washington	16,427	56.1	12,877	43.9
Oregon	8,594	56.6	6,593	43.4
South Carolina	9,042	56.8	6,864	43.2
Iowa	7,581	57.2	5,664	42.8
North Carolina	19,771	58.3	14,153	41.7
Idaho	3,045	58.5	2,160	41.5
New Hampshire	3,001	58.7	2,109	41.3
Pennsylvania	32,811	58.7	23,124	41.3
Virginia	19,312	58.9	13,480	41.1
Louisiana	11,610	59.3	7,953	40.7
Wisconsin	15,843	60.7	10,256	39.3
Minnesota	16,483	60.8	10,622	39.2
Maine	3,770	61.0	2,406	39.0
Mississippi	6,509	61.0	4,158	39.0
Connecticut	11,613	61.9	7,153	38.1
Oklahoma	8,641	63.3	5,007	36.7
Rhode Island	3,116	64.0	1,754	36.0
Massachusetts	21,045	64.1	11,781	35.9
Utah	6,345	64.2	3,542	35.8
North Dakota	1,825	64.3	1,013	35.7
Michigan	29,379	64.7	16,019	35.3
Montana	2,294	65.0	1,237	35.0
Kentucky	10,689	67.6	5,129	32.4
Alaska	3,866	71.3	1,553	28.7
West Virginia	5,153	72.5	1,959	27.5
New Mexico	5,623	72.6	2,121	27.4
Arkansas	7,104	73.9	2,510	26.1
Vermont	2,142	77.3	628	22.7
Hawaii	4,675	79.5	1,206	20.5
Delaware	3,711	80.0	930	20.0

2002 State & Local Revenue
As a Percentage of Personal Income

	--Total Own Source Revenue--			--Total Tax Collections--		
	($ million)	% Personal Income	Rank	($ million)	% Personal Income	Rank
New York	119,356	17.6	6	88,878	13.1	1
Maine	6,176	17.6	5	4,541	12.9	2
District of Columbia	4,082	15.9	16	3,228	12.6	3
Hawaii	5,881	16.8	12	4,240	12.1	4
Wyoming	3,050	20.3	2	1,818	12.1	5
Wisconsin	26,100	16.5	15	18,610	11.7	6
Minnesota	27,105	16.7	13	18,456	11.3	7
Rhode Island	4,870	15.1	32	3,622	11.2	8
Ohio	51,704	15.9	18	36,165	11.1	9
West Virginia	7,112	17.0	10	4,641	11.1	10
New Mexico	7,744	17.6	7	4,878	11.1	11
Vermont	2,770	15.6	25	1,965	11.0	12
Louisiana	19,563	17.7	4	12,182	11.0	13
Nebraska	7,848	15.9	16	5,316	10.8	14
Utah	9,886	17.6	8	6,026	10.7	15
Kentucky	15,817	15.6	24	10,781	10.6	16
California	178,394	15.7	22	120,424	10.6	17
Delaware	4,641	18.3	3	2,687	10.6	18
North Dakota	2,838	17.2	9	1,729	10.5	19
Iowa	13,245	16.6	14	8,330	10.5	20
New Jersey	46,307	13.9	42	34,629	10.4	21
Arizona	19,805	14.3	39	14,420	10.4	22
Maryland	26,391	13.8	46	19,874	10.4	23
Arkansas	9,614	15.4	27	6,461	10.4	24
Mississippi	10,667	17.0	11	6,524	10.4	25
Kansas	11,537	14.9	37	7,975	10.3	26
Connecticut	18,766	12.7	50	15,125	10.3	27
Alaska	5,420	26.9	1	2,070	10.3	28
Michigan	45,398	15.2	29	30,644	10.2	29
Illinois	56,382	13.8	45	41,570	10.2	30
Pennsylvania	55,935	15.0	34	37,627	10.1	31
Indiana	26,080	15.5	26	16,987	10.1	32
Washington	29,303	15.1	33	19,514	10.0	33
North Carolina	33,924	15.0	35	22,576	10.0	34
Georgia	35,002	14.5	38	24,058	10.0	35
Idaho	5,204	15.7	21	3,291	9.9	36
Nevada	9,785	15.1	31	6,433	9.9	37
Oklahoma	13,648	15.1	30	8,782	9.7	38
Missouri	21,733	13.8	44	15,123	9.6	39
South Carolina	15,907	15.6	23	9,752	9.6	40
Massachusetts	32,826	13.2	48	23,895	9.6	41
Montana	3,532	15.9	18	2,135	9.6	42
Texas	86,214	13.9	43	58,981	9.5	43
Virginia	32,791	14.0	41	22,131	9.5	44
Florida	71,707	15.0	36	44,840	9.4	45
Oregon	15,187	15.4	28	9,003	9.1	46
Colorado	21,772	14.3	40	13,900	9.1	47
South Dakota	2,752	13.5	47	1,841	9.0	48
Alabama	17,478	15.8	20	9,719	8.8	49
New Hampshire	5,110	12.0	51	3,599	8.4	50
Tennessee	19,880	12.9	49	12,974	8.4	51
U.S. Total	**1,324,241**	**15.2**		**904,971**	**10.4**	

State & Local Tax Collection by Source, 2002

(Percentage of Total)

	Property	Sales	Selective Sales	Individual Income	Corporate Income	Other
Alabama	15.2	30.5	18.8	21.9	3.3	10.3
Alaska	40.1	5.9	9.1	n.a.	13	31.9
Arizona	29.5	40.1	9	14.5	2.4	4.5
Arkansas	15.5	39.3	12.4	24.2	2.7	5.8
California	25.1	26	8.5	27.4	4.4	8.5
Colorado	**29.9**	**29.7**	**8.4**	**25**	**1.5**	**5.4**
Connecticut	39.6	20.1	9.7	24.4	1	5.1
Delaware	14.9	n.a.	12.1	28.4	9.4	35.2
District of Columbia	24.9	17.3	11.7	29.4	6.5	10.2
Florida	35.1	33.5	17.6	n.a.	2.7	11
Georgia	27.6	31.1	7.9	27	2.4	4
Hawaii	14.5	38	14.9	26.2	1.2	5.1
Idaho	29.1	24.2	10.3	25.6	2.3	8.4
Illinois	38.2	18.1	15.3	18	3.3	7.1
Indiana	35.2	22.4	10.1	24.3	4.2	3.9
Iowa	34.5	24.2	10.4	21.8	1.1	8
Kansas	31.7	28.8	9.7	23.3	1.5	5.1
Kentucky	18.3	21.4	15.1	32.4	2.8	9.9
Louisiana	15.9	39.7	17.3	14.7	2.2	10.2
Maine	42.1	18.4	8.9	23.6	1.7	5.2
Maryland	27.2	13.5	11.5	38.5	1.8	7.5
Massachusetts	36.5	15.5	7	33.1	3.4	4.5
Michigan	32	25.4	8	21.5	6.7	6.4
Minnesota	28.3	20.5	11.6	29.5	2.9	7.3
Mississippi	25.2	35.9	14	15.1	3	6.8
Missouri	25.7	28.1	11.9	26	2	6.4
Montana	39.9	n.a.	17.5	24.2	3.2	15.1
Nebraska	32.9	24.2	10	21.7	2	9.2
Nevada	26.5	34.5	25.2	n.a.	n.a.	13.8
New Hampshire	60.3	n.a.	16.8	2	10.5	10.4
New Jersey	46.3	17.3	8.1	19.8	3.2	5.2
New Mexico	15.5	36.2	11.4	20.2	2.5	14.2
New York	30.2	18.7	6.6	34	5.7	4.8
North Carolina	24	21.7	13	32.2	3	6.1
North Dakota	30.8	22.8	17	11.5	2.9	14.9
Ohio	29.4	21.3	8.5	32.6	2.1	6.1
Oklahoma	16.9	29.6	9.6	26	2	15.9
Oregon	34.9	n.a.	9.9	40.8	2.2	12.3
Pennsylvania	29	19.9	10.1	25.3	3.2	12.5
Rhode Island	40.4	20.2	12	22.7	0.8	4
South Carolina	31.8	25	10.1	24.1	1.6	7.4
South Dakota	36.3	36.5	14	n.a.	2.2	11
Tennessee	26.6	45	12.5	1.1	3.9	10.9
Texas	41.6	31.1	17.5	0	n.a.	9.9
Utah	23.6	32.7	10.8	26.6	1.8	4.5
Vermont	41.9	10.9	18.2	20.8	1.9	6.3
Virginia	30.3	16.2	13.4	30.3	1.4	8.4
Washington	29.7	47.3	14.1	n.a.	n.a.	9
West Virginia	19.4	20.7	21.9	22.3	4.7	10.9
Wisconsin	34.7	21	9.6	26.7	2.4	5.5
Wyoming	38.1	31.9	6.1	n.a.	n.a.	23.9
U.S. Total	**30.8**	**24.6**	**11.2**	**22.4**	**3.1**	**7.8**