EXECUTIVE SUMMARY

Amendment to Sec. 53-540, D.R.M.C. concerning the annual dedication of a portion of the revenue derived from the city's general fund mill levy to the capital improvement fund.

Background

In 2006, the city convened an Infrastructure Priorities Task Force (IPTF) to recommend ways to bolster city resources for capital improvement and capital maintenance. The work of the IPTF resulted in three major initiatives:

- The Better Denver Bond Program. The $550 million in general obligation debt authorized by Denver voters in 2007 represented the largest bond package in the city's history, and has funded numerous capital improvements throughout the city in the last decade.

- A new dedicated property tax for capital *maintenance*. City voters in 2007 also approved a permanent 2.5 mill levy assessment to generate revenue specifically for capital maintenance. The levy was born out of the idea that, in addition to building new infrastructure, the city needed to do a better job of caring for and rehabilitating the infrastructure it already owns. A property tax revenue stream was selected for this purpose because property taxes offer a stable, reliable, and consistently growing source of revenue to the city. The 2.5 mills generated $24.8 million in the first year of collections, and is projected to generate $33.6 million in 2017, with the growth in revenue over the last decade attributable to increases in the city's overall assessed valuation.

- The "OPT Swap-Out." For many years, the city legally dedicated one-half of its OPT revenue (i.e. revenue from the business and employee occupational privilege tax or "head tax" originally adopted in 1968) to the capital improvement fund. Since OPT revenue was relatively stagnant, the city decided to switch to a dedicated property tax revenue stream for capital needs, again because property taxes reliably generate a stable and growing revenue stream. In 2007, one-half of OPT revenue equaled $21.5 million, a figure which grew only to $24.2 million in actual OPT collections by 2015. In contrast, by switching to dedicated property tax revenues for capital improvements in lieu of OPT, the city generated $28.3 million for capital improvements in 2015. For 2017, this dedicated property tax revenue stream is projected to generate $30.9 million.

Proposed Amendment

The proposed amendment focuses entirely on the "OPT Swap-Out" described in the third bullet above. The amendment would conform the code language to our current policies and practices for administering year-to-year property tax revenue adjustments since the adoption of referred measure 2A in 2012.

The original 2007 law was structured to provide for formulaic increases in the annual transfer of a portion of the revenue derived from the city's general fund mill levy to the capital improvement fund. In those days, the city consistently increased its general fund property tax revenue annually to the full extent allowed by TABOR—i.e. by the rate of inflation plus "local growth" (meaning annual increases in the city's property tax base due to new construction). Thus, the original 2007 law was structured to require the transfers from the general fund for capital improvements to increase each year according to exactly the same formula.

In 2012 Denver voters adopted referred measure 2A allowing the city to receive and spend property tax revenues in excess of the old TABOR formulas. In place of TABOR, 2A put into place a new property tax growth limitation equal to 6 percent plus "local growth." Since the passage of 2A, revenue from the general fund mill levy has been increased to the full extent allowed by 2A in certain years, while in other years the city has chosen not to max-out the total amount of revenue growth allowed by 2A.

Now that the city is no longer using the old TABOR formulas as the benchmark for increasing its general fund property tax revenue annually, it no longer makes sense for increases in general fund transfers to the capital improvement fund to be keyed to the TABOR formula. Instead, it is more logical for annual increases in such transfers to be proportional to the overall increase in general fund property tax revenue, whatever that increase may be on a year-to-year basis.