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Article Launched: 6/24/2006 01:00 AM

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Cities strain to pay for growth

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When I was a callow farm boy bent on trading my milk stool for a pad and pencil at the CU journalism school, Professor John Mitchell warned me: "In this business, the urgent drives out the important."

Forty years later, the situation is even worse. The news business has now become so debased that we consider the utterly insignificant - Paris Hilton or that star who had a baby in Namibia - both urgent and important.

Thus, it was all the more refreshing Tuesday to read a truly important story by The Denver Post's astute reporter Jeremy P. Meyer:

Aurora - A plan to tax new homeowners \$25 a month for 10 years needs more discussion before being sent to voters for approval, the City Council decided Monday night. The proposed excise tax would generate about \$3,000 per home to cover the costs of providing city services to new developments ...

Why is this important? Because the posturings of politicians or the inanities of celebrities die with the next turn of the news cycle. But the basic decisions we make about growth and development, mostly at the local level, will shape this state for centuries.

I followed up Meyer's story with Aurora Mayor Ed Tauer. While he stressed that the excise-tax notion is still under study, Tauer was eager to discuss the fiscal realities underlying our efforts to craft "smart growth" policies.

"We all struggle with the question of, 'Does growth pay its own way?'" the mayor said. "In the long run, yes, it does. But in the first few years when you build a new neighborhood, you have to pay for services there \[from revenues collected in other parts of the city\] because until new retail comes on line, you're running at a loss. Retail development follows residential development, it doesn't lead it."

"If you're a Greenwood Village or Denver, you have a large business base to draw from \[to subsidize new residential neighborhoods\]. But most suburban communities don't have that. If you're an Englewood, an Aurora, a Wheat Ridge, you live and die on sales tax. But as people shift to buying \[often untaxed\] services instead of goods, or to buying through the Internet, relying on sales tax isn't a good way to pay for services anymore. That's why in the last four years we've been in a budget-cutting mode," Tauer said.

"Making growth pay its own way" is the holy grail of urban planners. But Colorado's bizarre tax structure makes it very difficult to realize that goal in practice, at least in the first decade.

Initially, the up-front costs of new development such as streets and utilities in "greenfields" suburban areas can be foisted off on the homebuilders through "impact fees" to pay for infrastructure needs that directly serve a development. For example, Tauer notes Aurora charges \$16,000 for a typical water tap on a new home, earmaking that sum to cover the cost of acquiring water rights, building reservoirs and treatment plants.

But while impact fees may pay to build the libraries and police stations that service new neighborhoods, those up-front charges don't pay the salaries of the librarians and police who work there.

In most other states, the cost of providing residential services is covered by property taxes. But most Colorado cities have only modest mill levies because counties and schools get the lion's share of property tax revenues. In addition, Colorado's Gallagher amendment shifts most of the property tax burden to business development, generating only a trickle of cash from new homes.

Cities thus depend overwhelmingly on retail sales-tax revenues. But Tauer notes it may take 10 years for residential housing to reach the critical mass needed to draw the major new retail centers that generate sales taxes adequate to pay for the services needed.

"We were looking at ways we could plug that gap and still get the benefits of housing down the road. One possibility is a fee or tax in the short term when something is a new development. We tabled the idea because we had no hard numbers yet, and if you put an idea to the citizens for a vote, you need to have the details," Tauer said.

Expect to hear more about this idea in the months ahead. Paying for growth is a subject that really is both urgent and important.

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