

Revenue Strategies Report

Prepared for:

Columbus, Georgia Consolidated Government

November 6, 2008

Prepared by:



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-EXECUTIVE SUMMARY-

TischlerBise, Inc. evaluated the fiscal impact to the Columbus Consolidated Government of two future growth scenarios as part of the Comprehensive Plan 2028 Update conducted by Jordan, Jones and Goulding, Inc. The growth scenarios were prepared to illustrate two growth alternatives: Suburban (a continuation of current development patterns) and Redevelopment (focusing development in Columbus' core areas). The fiscal impact analysis determined whether revenues generated by new growth are sufficient to cover the resulting costs to the Consolidated Government.

Results of the fiscal impact analysis showed a cumulative surplus from new development in the Redevelopment scenario and a cumulative deficit in the Suburban scenario (See *Fiscal Impact Analysis of Comprehensive Plan Growth Scenarios: Columbus, Georgia*, TischlerBise, Inc., November 6, 2008). In the Redevelopment scenario, net surpluses to the operating budget offset deficits to the Capital Budget, resulting in a cumulative surplus of \$21.5 million over the 20-year analysis time frame. The Suburban scenario produces a cumulative net deficit of \$14.3 million, or average annual net deficits of \$719,000. This is primarily due to increased capital costs in the Suburban scenario as development is focused in greenfield areas that require more significant infrastructure investments, particularly for new roads and parks.

Unlike the fiscal findings from most communities, new growth generates net surpluses to the operating budget in Columbus. This is due in large part to the relative diversity in growth-related revenue that accrues to the General Fund. In addition to property tax, the Consolidated Government also receives sales tax revenue from new development along with occupation and insurance premium taxes. Both scenarios resulted in deficits for the Consolidated Government's Capital Budget.

As a supplement to the fiscal impact analysis, TischlerBise evaluated potential revenue sources and funding mechanisms to close the funding imbalance that occurs in the Consolidated Government's revenue structure. This report, together with the fiscal impact results, is intended to foster discussion about revenue enhancement, finance and budgetary issues.

FINANCING MECHANISMS AND EVALUATION CRITERIA

Specifically, this report provides a framework of financing options which can be systematically evaluated using a variety of considerations including financial factors, fair cost sharing between public and private sectors, and marketplace considerations.

Figure 1 below shows the financing mechanisms evaluated in this report indicating those mechanisms TischlerBise recommends that the Consolidated Government consider and/or enhance.

Figure 1. Recommended Financing Mechanisms

Financing Mechanism	Has Revenue Potential	Recommended
Property Tax	√	
General Obligation Bonds	√	
Revenue Bonds	√	
Development Impact Fees	√	√
Special Purpose Local Option Sales Tax	√	√
Tax Allocation Districts	√	√
Special Assessment Districts	√	
Excise Taxes	√	
Charges for Services (User Fees)	√	√
Franchise Fees	√	

The potential financing mechanisms were evaluated according to a defined set of evaluation criteria. The evaluation criteria include:

- Revenue Potential
- Proportionality
- Technical Ease
- Public Acceptability

SUMMARY OF EVALUATION FINDINGS

An overall evaluation of the potential revenue sources and funding mechanisms for Columbus is illustrated in Figure 2. It is important to note that TischlerBise’s review does not include an analysis of legal considerations.

Figure 2: Evaluation of Potential Revenue Sources and Financing Mechanisms

Financing Mechanism	Revenue Potential	Proportionality	Technical Ease	Public Acceptance
Property Tax	Positive	Negative	Positive	Negative
General Obligation Bonds	Positive	Negative	Neutral	Negative
Revenue Bonds	Positive	Negative	Neutral	Neutral
Development Impact Fees	Positive	Positive	Negative	Positive
Special Purpose Local Option Sales Tax	Positive	Negative	Positive	Negative
Tax Allocation Districts	Positive	Neutral	Negative	Neutral
Special Assessment Districts	Positive	Positive	Negative	Positive
Excise Taxes	Positive	Positive	Positive	Neutral
Charges for Services (User Fees)	Positive	Positive	Positive	Negative
Franchise Fees	Positive	Negative	Neutral	Neutral

SUMMARY OF FISCAL FINDINGS

As noted in our previously issued fiscal impact report, the analysis shows that growth pays for itself in the Redevelopment scenario. Both scenarios resulted in deficits for the Consolidated Government’s Capital Budget. The following provides a summary of the major findings from the fiscal impact report.

- It is important to note that the net surplus generated by new growth in the Redevelopment scenario leaves little room for level of service increases. This is particularly relevant as cost reductions in recent years have reduced levels of service particularly for Parks and Recreation and Public Services. Relatively minor increases in certain levels of service will certainly reduce any net surpluses generated by new growth.
- The average annual net deficits generated in the Suburban scenario indicate that the Consolidated Government’s existing revenue structure cannot fully provide current levels of service to new growth if current development patterns continue.
- The FY08 Adopted Budget indicates that Columbus has difficulty meeting existing capital equipment and infrastructure needs, with many justified capital requests going unfunded. There will be increasing demand on the Capital Budget as infrastructure continues to age. Separate funding sources need to be developed to pay for this.
- The fiscal impact analysis shows that future road construction and new park and recreation facilities represent the largest growth-related capital expenditures for the Consolidated Government during the 20-year study period.

- The funding “gap” in the Capital Budget, or the difference between the costs incurred versus revenue that is generated is estimated at \$233.9 million in the Suburban scenario and \$144.6 million in the Redevelopment scenario through 2028.
- The Consolidated Government’s major dedicated sources for funding capital improvements are the Special Purpose Local Option Sales Tax, which expires this year, and General Obligation bonds. Other capital needs are met by way of transfers from the Operating Budget.

OPPORTUNITIES FOR REVENUE ENHANCEMENT

The following bullet points reflect TischlerBise’s recommendations regarding potential funding mechanisms and strategies to correct the projected imbalance in the Consolidated Government’s Capital Budget as shown in the fiscal analysis study. Working within the parameters set out in State law on municipal and county revenue and taxation, there are opportunities for Columbus to enhance its existing revenue structure and add new revenue sources.

Given increased capital costs due to new development and future infrastructure replacement needs, the Consolidated Government will face increased demand on its General Fund. This report evaluates potential revenue sources and financing mechanisms the Consolidated Government may want to consider in order to enhance its revenue structure, with a focus on capital revenue sources. The options presented below provide the Consolidated Government with a number of opportunities to raise revenue.

- The property tax rate is capped by the Columbus Charter at 9 mills for “ordinary current expenses,” which includes the general, urban and transportation (transit) components of the millage rate. The Consolidated Government can increase other components of the of the millage rate not subject to the cap, including growth-impacted funds such as Debt Service, Paving and Sewer (stormwater), though increases to property tax rates are politically unattractive. The fiscal impact analysis found that revenues to the Operating Budget offset future growth-related operating expenditures. Given these results, we recommend that the Consolidated Government focus on non-property tax revenue enhancements to the Capital Budget. Potential financing mechanisms include development impact fees, the Special Purpose Local Option Sales Tax and Tax Allocation Districts. To enhance its General Fund, Columbus should also examine its charges for services so that user fees cover a greater share of the cost of programs and services. These recommendations are discussed in the bullet points below and in more detail in the “Potential Revenue Sources” section of this report.
- Owing to Columbus’ structure as a Consolidated Government, there are three urban service districts which have different millage rates. The districts were established at the time of consolidation in 1971. The urban component of the millage rate falls under the

9 mil cap and varies by service district. The sewer and paving components, which are not subject to the cap, also vary by service district. The rates for these three components – urban, sewer and paving – are lower in urban service district #2 (which primarily covers the NW Columbus and Panhandle portions of Columbus) than in urban service district #1 (which covers the more developed areas of the Consolidated Government). Over time, the level of service assumptions that lead to the creation of these districts have changed. With more development in urban service district #2, City services and infrastructure have followed. If Columbus follows the Suburban scenario of growth (a continuation of current development trends), development will continue to focus in district #2. As a result, Columbus would make significant investment in additional infrastructure and services in these areas. It will be important for Columbus to regularly reexamine its urban service districts, particularly as the majority of growth is expected in the short term (through 2015). The fiscal impact analysis assumes that the mil rate is unified in 2018. To the extent that a unified rate can be implemented earlier, the fiscal results found in the study will improve, particularly in the Suburban growth scenario.

- The Consolidated Government should consider adopting development impact fees as a dedicated source of capital revenue. The State authorizes development impact fees for the following facility categories: water and wastewater, roads (including local components of state or federal highways), storm-water facilities, parks, public safety facilities (including police, fire, emergency medical and rescue facilities) and libraries. If the Consolidated Government were to adopt development impact fees at 100% of the maximum supportable amount, up to 95% of growth-related capital expenditures identified in the fiscal impact study would have a dedicated source of revenue. Development impact fee revenues would provide a significant source of dedicated capital revenue for growth projects, freeing up other dollars for repair and rehabilitation.
- Tax allocation district (TAD) financing can be a viable tool to the Consolidated Government as situations present themselves where targeted investment in a geographic area would be beneficial. This funding mechanism identifies increases in property, sales tax or special assessment district revenue within a geographic area that are due to new development or redevelopment. The incremental increases in revenue are earmarked for infrastructure improvements or services needed in that same geographic area. The Georgia Supreme Court recently ruled that school taxes cannot be used for future TAD bond offerings, which may limit to some extent the revenue potential of TADs.
- From an implementation perspective, it is in the Consolidated Government's best interest to encourage or incentivize redevelopment. Redevelopment has the potential to significantly increase property tax values as a result of new infill development, adding to the tax digest. Revenue projections in the fiscal impact analysis are based on a snapshot of new construction property tax value over the last few years. Columbus has

begun to see some redevelopment in its Midtown planning area indicating that redevelopment projects may have significantly higher sales prices than development seen in the last few years. For example, the average sales price for the Eagle and Phenix condominiums was \$325,000. The smallest of these units (680 sq. ft.) sold for \$170,000. This compares with a countywide average of \$95,000 for multi-family housing units. Even a relatively small increase in property tax values in one planning area can have a significant impact on the fiscal results. For example, a 30% increase in property tax values in Midtown in the Redevelopment scenario results in a cumulative revenue increase of \$7 million over the analysis timeframe.

- The Consolidated Government recently received approval from voters for a new, permanent 1% Local Option Sales Tax. These General Fund revenues are expected to be used for public safety, including the hiring of new officers and construction of new public safety facilities (70% of revenues) and roads and other infrastructure (30% of revenues). Columbus' 1% Special Purpose Local Option Sales Tax (SPLOST) expires this year. Columbus may in the future want to consider another SPLOST, with the benefit being that these revenues are dedicated to capital improvements. As a levy on sales tax, a jurisdiction has considerable discretion in its use and is not bound by the use requirements associated with development impact fees. The Consolidated Government may want to consider a combination of SPLOST and development impact fees. With development impact fees dedicated to fund growth-related capital projects, SPLOST funds can be used for capital projects that address existing infrastructure deficiencies and/or raise level of service standards for both existing and new development.
- The Consolidated Government should examine its current fee schedule and recalibrate as needed and evaluate other services for which user fees are appropriate in order to cover a greater share of the cost of programs and services. For example, in FY2008 the Consolidated Government expected to gain \$155,000 in tennis fees. At the same time, cost for the Cooper Creek Tennis Center were expected to total \$271,413. TischlerBise recommends increasing some current fees and evaluating other services for which user fees are appropriate to cover a greater share of the cost of programs and services. Increasing and adding new fees will free up General Fund revenue to be used elsewhere, decreasing pressure on the Operating Budget to address both operating and capital needs.
- The Consolidated Government should lobby to ensure continuation of Community Development Block Grant dollars, which are used to leverage other capital revenues for redevelopment.

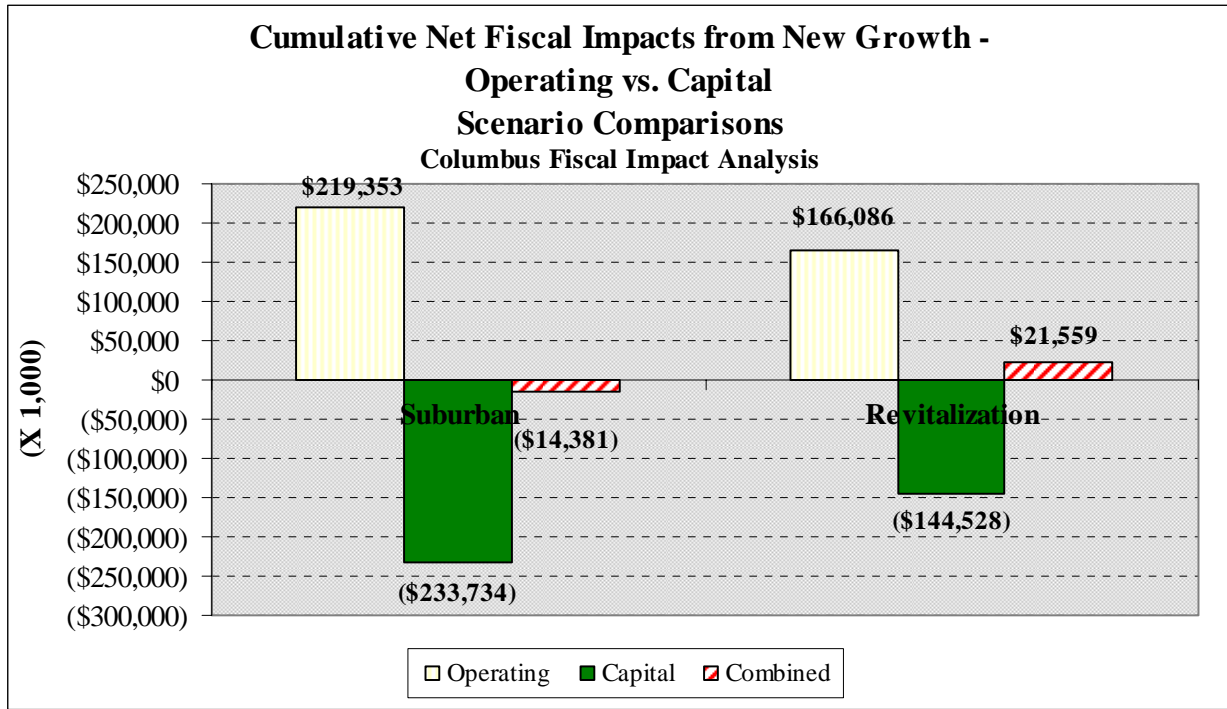
-FISCAL IMPACT RESULTS-

As noted in our previously issued fiscal impact report, the analysis shows that growth pays for itself in the Redevelopment scenario. The findings show that Columbus is in a position to provide current levels of service to new development in the Redevelopment scenario under the current revenue structure. The average annual net deficits generated in the Suburban scenario indicate that the Consolidated Government's existing revenue structure cannot fully provide current levels of service to new growth if current development patterns continue without finding new or enhanced revenue sources.

It is important to note that the net surplus generated by new growth in the Redevelopment scenario leaves little room for level of service increases. This is particularly relevant as cost reductions in recent years have reduced levels of service particularly for Parks and Recreation and Public Services. Relatively minor increases in certain levels of service will certainly reduce any net surpluses generated by new growth. Additionally, given that Columbus faces obstacles in meeting the current demand for infrastructure replacement and maintenance, there will be increasing demand on the Capital Budget as infrastructure continues to age. Separate funding sources need to be developed to pay for this. This report addresses mechanisms to fund growth-related capital expenditures. To the extent that new or enhanced revenue sources address growth-related capital projects, dollars currently allocated to capital projects can be used to focus on improvements to Columbus' existing infrastructure.

Based on Columbus' current funding structure, both scenarios examined in the fiscal analysis study resulted in deficits to the Consolidated Government's Capital Budget. As shown in Figure 3, the cumulative deficit to the Capital Budget for the Suburban scenario was \$223.9 million over the 20-year study period and \$144.6 million for the Redevelopment scenario.

Figure 3: Fiscal Impact Analysis Study Results - Cumulative Net Fiscal Impacts (x \$1,000)



The fiscal impact analysis shows that future road construction and new park and recreation facilities represent the largest projected capital expenditures for the Consolidated Government during the study period. Cumulative capital expenditures by category and scenario are presented in Figure 4. In the Suburban scenario, capital expenditures total \$198.2 million for roads and \$26.8 million for parks and recreation over the study period. In the Revitalization scenario, capital expenditures total \$106.5 million for roads and \$20.2 million for parks and recreation over the 20-year analysis timeframe.

Figure 4: Cumulative Capital Expenditures by Scenario (x \$1,000)

Cumulative Capital Expenditures from New Growth - Scenario Comparisons (x\$1,000)
Columbus, GA Fiscal Impact Analysis

Category	SCENARIO			
	Suburban	%	Revitalization	%
General Government	\$13,238	5%	\$13,238	8%
Roads	\$198,200	75%	\$106,575	63%
Police	\$4,705	2%	\$4,611	3%
Fire	\$14,188	5%	\$15,988	10%
Sheriff	\$7,246	3%	\$7,246	4%
Marshall	\$330	0.1%	\$330	0.2%
Recreation and Parks	\$26,817	10%	\$20,298	12%
TOTAL	\$264,724	100%	\$168,287	100%

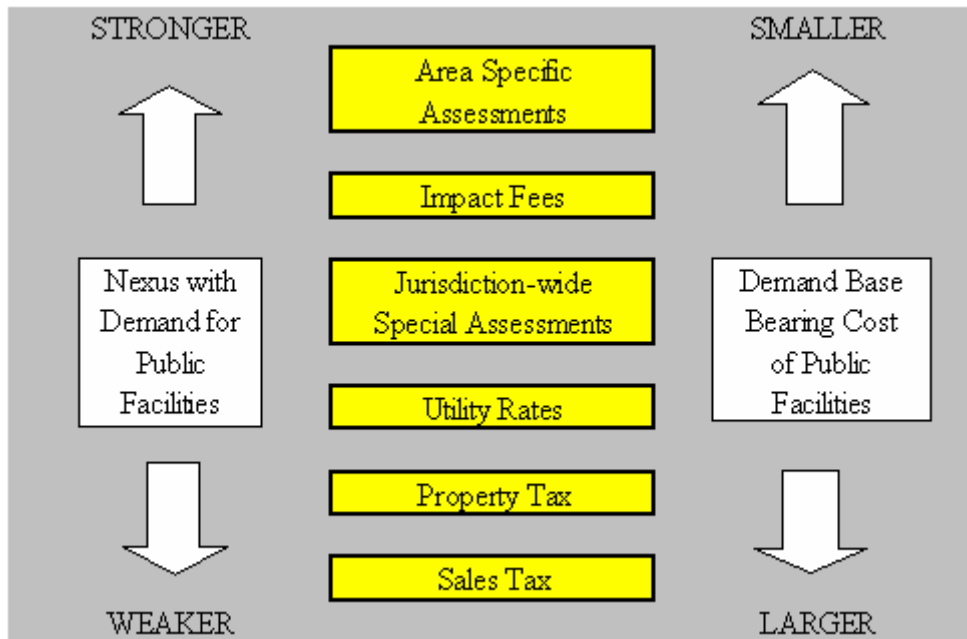
The Consolidated Government’s major dedicated sources for funding capital improvements are the Special Purpose Local Option Sales Tax, which expires this year, and General Obligation bonds. General obligation bonds are financed over a period of 15-20 years and paid back through the debt service millage of the property tax. Other capital needs are met by way of transfers from the Operating Budget. The FY08 Adopted Budget indicates that Columbus has difficulty meeting existing capital equipment and infrastructure needs, with many justified capital requests going unfunded. As documented in the fiscal impact study, new growth in Columbus will place significant demand on the Consolidated Government for new capital facilities. Without financing mechanisms identified, these growth-related demands may go unmet, resulting in level of service reductions for existing residents.

This report evaluates potential revenue sources and financing mechanisms the Consolidated Government may want to consider in order to enhance its revenue structure. The majority of revenue sources and financing mechanisms evaluated in this analysis are for the funding of capital facilities. This is because it is much easier to solve deficits generated to the Capital Budget because 1) capital costs are one-time in nature and are frequently debt financed, and 2), the larger on-going operating expenses associated with capital facility construction are typically funded by some form of a tax (i.e. property tax, sales tax, etc.), which elected officials are hesitant to raise.

-EVALUATION CRITERIA-

Infrastructure funding alternatives force decision-makers to wrestle with a dynamic tension between two competing desires. As shown on the left side of Figure 5, various funding options have a strong to weak connection between the source of funds and the demand for public facilities. For instance, area-specific assessments are based on known capital costs in a specific location and are paid by those directly benefiting from the new infrastructure. In contrast, property tax revenue may be used by the Consolidated Government to fund infrastructure with very little, if any, connection between those paying the tax and the need for capital improvements. It is unfortunate that the funding options with the closest nexus to the demand for public facilities also have the smallest demand base to bear the cost of the public facilities (see the right side of the diagram). Using sewer as an example, only new utility customers pay capacity fees, which are similar to development impact fees. In contrast, all existing customers, plus the new customers that are added each year, pay sewer user charges. Therefore, the base of utility user charges continues to increase over time, but the increase in new development is relatively constant from year to year.

Figure 5: Conceptual Framework for Funding Alternatives



EVALUATION CRITERIA

An array of potential funding tools to address cost-of-growth issues are available to the Consolidated Government, some of which Columbus already has in place or has utilized in the past. They include property taxes, general obligation bonds, revenue bonds, development

impact fees, special purpose local option sales tax, tax allocation districts, special assessment districts, excise taxes, charges for services (user fees) and franchise fees. An important consideration for the Consolidated Government is whether it is maximizing its current revenue, given statutory limits. This is discussed for each revenue category examined.

In focusing on a funding strategy to address the funding imbalance in the Capital Budget generated by new development, it is important to begin by prioritizing or identifying the funding tools that provide the most realistic opportunities to achieve the goals of the Consolidated Government. It is suggested that in considering which tools are most appropriate, four principle criteria be considered:

- Revenue Potential: Whether the tool can generate substantial sums of monies to fund capital infrastructure;
- Proportionality: The relationship between the source of funds and demand for public facilities;
- Technical/Administrative Ease: The ease of administering the tool; and,
- Public Acceptability: How residents will accept the funding mechanism.

The funding needs and funding “gap” for infrastructure is substantial, consequently, it is important when considering revenue tools that they have the capacity to generate substantial revenue over time. Usually, revenue tools that can be applied across the Consolidated Government have the capacity to generate more substantial sums of revenue. As discussed previously, it is important to consider the connection between those paying the tax and the need for capital improvements. Some revenue tools are easier to administer than others, in terms of the time and resources that have to be committed from staff to keep the program current. Finally, the public acceptability of a revenue tool is important, especially when it has to be approved by voters.

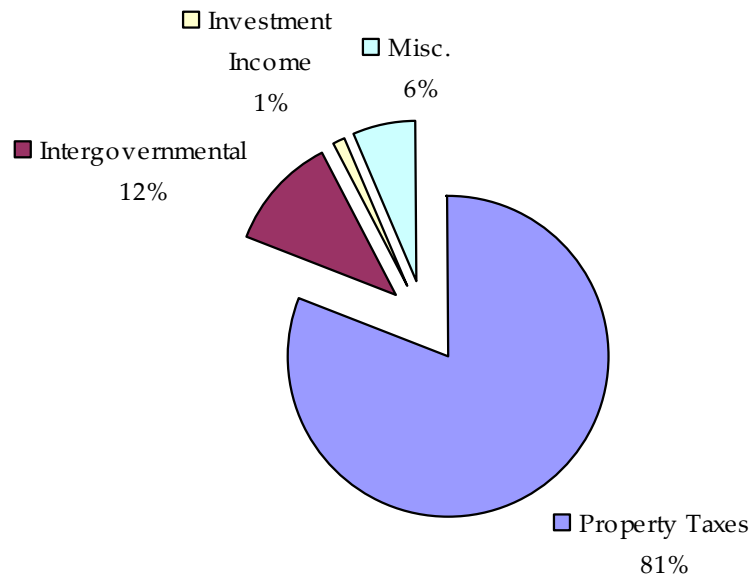
-POTENTIAL REVENUE SOURCES-

In this section, potential funding mechanisms are discussed in order to address the projected deficits to the Capital Budget as identified in the fiscal impact analysis. The funding “gap” in the Capital Budget, or the difference between the costs incurred versus revenue that is generated is estimated at \$233.9 million in the Suburban scenario and \$144.6 million in the Redevelopment scenario through 2028. Before addressing potential mechanisms to address this funding gap, we first examine the Consolidated Government’s current capital funding sources.

CURRENT CAPITAL REVENUE SOURCES

Columbus’ FY08 capital projects were funded using operating funds, the 1999 Special Purpose Local Option Sales Tax (expires in 2008) and the Debt Service Fund. At present, Columbus’ only dedicated capital revenue is the debt service portion of the property tax millage (\$1.23 per \$1,000 assessed valuation for all urban service districts). The property tax revenues from the debt service millage totaled \$5.05 million in FY08. Other debt service revenues include intergovernmental transfers from Columbus Water Works, Bull Creek Golf Course, and the Housing Authority along with investment income and miscellaneous revenues, totaling \$829,139 in FY08. This brings Debt Service Fund revenues (excluding fund balance transfers) in FY2008 to \$6.4 million. The distribution of funds by source is shown in Figure 6 below, illustrating that Debt Service Fund revenues are predominately from property tax.

Figure 6. Columbus FY 2008 Debt Service Fund Revenue Distribution - \$6,413,546



While Debt Service revenues in FY08 totaled \$6.4 million, the fiscal impact analysis projected *annual* capital expenditures of \$13.2 million in the Suburban scenario and \$8.4 million in the

Redevelopment scenario for *growth-related* projects through 2028. Combined with the Consolidated Government's backlog of capital projects for its existing infrastructure, the current capital revenue structure does not support existing or growth-related demand for capital improvements. Given these results, the focus of this report is on methods to maximize the Consolidated Government's capital revenues in order to address the anticipated capital funding gap. To the extent that capital revenues can be enhanced, this can relieve pressure on the Operating Budget and prevent diminishing levels of service. The following presents potential funding mechanisms along with a discussion of each revenue source's advantages and disadvantages.

PROPERTY TAX

When a community needs to increase revenue, the first source usually considered is the community's largest revenue source, which is generally property tax. This is true with Columbus, as property tax is the largest revenue source, totaling \$66.8 million in FY08 including all operating funds. Of this, \$5.05 million was dedicated to the Debt Service Fund. Given the significant amount of development expected in Columbus, the property tax will increasingly be looked to as a source for capital dollars for growth-projects in lieu of other dedicated revenues for capital. This is particularly problematic given that the Consolidated Government struggles to meet demand for infrastructure replacement, which will likely accelerate in the years to come.

Columbus faces significant hurdles related to raising property taxes. First, the property tax rate is capped by the Columbus Charter at 9 mils for "ordinary current expenses," which includes the general, urban and transportation (transit) components of the millage rate. Components of the millage rate not subject to the cap are the Medical Center, Debt Service, Paving, Sewer (stormwater), and Economic Development Authority Funds. The cap is required by the Columbus Charter as a condition of collecting a Local Option Sales Tax, which is the 3rd largest source of revenue for Columbus.

Another unique characteristic, owing to Columbus' structure as a Consolidated Government, are urban service districts which have different millage rates. The urban component of the millage rate varies by service district. For example, while urban service district #1 is at the 9 mil cap for "ordinary current expense," urban service district #2 is 7.54 mils. In addition, the Sewer and Paving components, which fall outside the cap, vary by urban service district. The fiscal impact analysis assumes that the millage rate will be unified in 2018. Given that growth in the Suburban growth scenario is focused in planning areas that largely fall with urban service district #2 where the millage rate is significantly lower, fiscal results will improve in the Suburban growth scenario if the rate is unified earlier.

Property tax revenues are also limited by a number of exemptions, including the standard homestead exemption, which freezes the fair market value of homeowner occupied residential properties. The exemption does not apply to the Debt Service portion of the millage rate.

Advantages

- Property tax is a stable and predictable source of revenue.
- The monies collected from property tax can be used for any governmental purpose, including construction, maintenance, and operation of new public facilities.
- Redevelopment efforts may encourage growth in property values and a commensurate increase in tax revenues as a result, without increase to the property tax rate.

Disadvantages

- Increases to property tax rates are politically unattractive.
- There is a poor relationship between the source of funds and demand for public facilities, while other capital funding sources such as development impact fees pass on specific capital costs to future development.
- Exemptions from property tax can lead to a shrinking tax base (for example, non-profits, governments, schools and churches). In Tax Year 2008, the gross non-taxable assessed value in Columbus totaled \$584.8 million. If these properties were to be included in the tax digest, they would represent 14% of Columbus' assessed value. In addition, the Tax Assessor indicated that recent changes to State law regarding property exemptions for non-profits may encourage the use of the exemption and result in decreases to the taxable assessed digest.

GENERAL OBLIGATION BONDS

If a locality is not paying cash for infrastructure, a primary consideration is probably general obligation or revenue bonds. General obligation bonds are secured by property taxes and other General Fund revenue. Accordingly, they are backed by the "full faith and credit" of the jurisdiction.

The State of Georgia mandates that a local government's debt cannot exceed 10% of its assessed valuation. In FY08, that equated to a debt limit of \$418 million for Columbus. As of FY08, the Consolidated Government had \$20.7 million in general obligation bonds, which represents only 5% of this debt limit. As discussed in the FY08 Budget, this is well within the threshold considered acceptable by credit industry standards (below 20%).

The fiscal impact analysis reflects the cash flow to the Consolidated Government. Depicting cash flow captures the actual cost to Columbus during the projection period, which includes the assumption that capital costs are pay-as-you-go. The cash flow analysis allows policymakers and staff to further discuss financing options and tradeoffs regarding pay-as-you-go versus debt financing as it relates to operating and capital needs. As an example, of the \$14.8 million in

growth-related Fire/EMS capital expenditures shown in the Suburban scenario of the fiscal impact analysis, \$9.6 million of that was for new or expanded stations and land acquisition. If the Consolidated Government were to finance the cost of these facilities over 30 years at 4.5% interest rate, annual debt service payments would be \$589,000/year, with total payments through 2028 of \$11.7 million. Through 2038, totally payments would be \$17.6 million, including \$8 million in interest. While the Consolidated Government benefits from the upfront cash needed to built the facilities, its total costs are increased due to interest payments. At the same time, the payments are deferred to future years when growth has stabilized. If the Consolidated Government were to finance these improvements over a shorter time frame, interest payments would be reduced. Assuming the same interest rate and a 20-year bond, annual debt service payments are \$738,000 and total debt service payments for the Fire/EMS improvements through 2028 would total \$14.7 million. Of that, \$5.6 million of that would go toward interest. While annual payments are higher, the Consolidated Government would save \$2.4 million in interest with a 20-year bond. These are among many considerations local governments take into account when weighing the use of bond financing versus pay-as-you-go.

The following addresses the advantages and disadvantages of general obligation bonds.

Advantages

- General obligation bonds lessen the need for the Consolidated Government to upfront its own General Fund dollars.
- General obligation bonds provide a significant infusion of revenues to fund large capital projects.

Disadvantages

- State law requires that a general obligation bond referendum must be approved by voters in a special election.
- With general obligation bonds, costs to individual property owners will be proportional to property value rather than demand for the facility and will be applied to all Consolidated Government property owners.
- While interest rates are typically low for municipalities, there are trade-offs in using general obligation bonds versus pay-as-you-go.

REVENUE BONDS

In contrast to general obligation bonds which are secured by property tax and other General Fund revenue, revenue bonds are retired with revenue received from the users of the capital improvement. These bonds are backed by revenue from sources more specifically defined than those backing general obligation bonds. Examples include user fees, sales taxes, development impact fees, special district assessments, etc. State law identifies the revenue-producing activities of a local government that can be used to secure a revenue bond, including bridges,

causeways, tunnels, transportation facilities, water supply and treatment, wastewater collection, gas and electric generating and distribution facilities, public parking and other activities.

State law authorizes local governments to create public authorities to promote the development of trade, commerce, industry and employment opportunities, or for other purposes deemed by the General Assembly. These authorities are able to issue tax-exempt revenue bonds for capital projects that fit specific categories, such as air and water control facilities, sewer facilities, airports, sport facilities, convention or trade show facilities, mass commuting facilities, among other categories. Jurisdictions are able to enter into intergovernmental contracts with public authorities, such as a lease. The jurisdiction then leases the facility from the authority, with the revenues going toward retiring the revenue bond. The Consolidated Government currently has such a relationship with the Columbus Building Authority and the Board of Water Commissioners for revenue-back bond issuances by these entities. The Consolidated Government services the Building Authority's debt in lieu of making rental payments. Payments to the Board of Water Commissioners are made to satisfy Columbus' share of debt service for River Walk.

Advantages

- Revenue bonds lessen the need for the Consolidated Government to upfront its own General Fund dollars.
- Revenue bonds do not affect the Consolidated Government's debt capacity since they are not backed by the "full faith and credit" of the jurisdiction.
- Revenue bonds can be used in conjunction with another financing mechanism (i.e. special assessment district revenue), with that mechanism pledged to retire the debt.
- In most cases, revenue bonds do not require voter approval.

Disadvantages

- Since dedicated revenue streams are sometimes less predictable and less stable than general revenue, interest rates may be higher for revenue bonds versus general obligation bonds.
- While not considered as part of the jurisdiction's debt capacity limit, the revenue bonds may be perceived as either directly or indirectly guaranteed by the jurisdiction.

DEVELOPMENT IMPACT FEES

Development impact fees can be defined as new growth's fair share of the cost to provide necessary capital facilities. In determining the reasonableness of these one-time fees, the fee must meet three requirements: 1) needed capital facilities are a consequence of new development; 2) fees are a proportionate share of the local government's cost; and 3) revenues are managed and expended in such a way that new development receives a substantial benefit.

Development impact fees cannot be imposed on new development to pay for or provide public improvements needed by existing development. Capital improvements funded by development impact fees must enable the Consolidated Government to accommodate new development by adding facility capacity. To be proportionate, new development should pay for the capital cost of infrastructure according to its “fair” share of impact on a particular public facility. To ensure development impact fees are proportionate, the cost allocation methodology should consider variations by type of development and type of public facility. As appropriate, capital cost assumptions must consider the net cost of facilities after accounting for grants, intergovernmental revenues and other funding sources. The reasonable connection between the development impact fees and the benefit requires that funds be earmarked for use in acquiring capital facilities to benefit the new development. Substantial benefit also requires consideration of when the fees are spent. This substantial benefit test often leads communities to set up collection and expenditure zones for public facilities that have general geographic service areas.

The State of Georgia authorizes development impact fees in the Georgia Development Impact Fee Act. The Act specifies the specific types of facilities categories that can be included in a development impact fee. Those are: water and wastewater, roads (including local components of state or federal highways), storm-water facilities, parks, public safety facilities (including police, fire, emergency medical and rescue facilities) and libraries. Consistent with the development impact fee requirements discussed above, the Act requires that development impact fees only fund system improvements, i.e., those projects that increase service capacity or extend distribution systems to new development. The Act also limits capital improvements to facilities with useful lives of at least 10 years. Currently, the Consolidated Government does not charge any development impact fees.

The fiscal impact analysis identified growth-related capital expenditures through 2028 of \$264.7 million in the Suburban growth scenario and \$168.2 million in the Revitalization scenario. The most significant of these capital costs are roads and parks, totaling \$198.2 million and \$26.8 million respectively in the Suburban scenario. While the Consolidated Government would not be able to enact development impact fees for general government facilities, as it is not allowed in the State Act, other capital facilities considered in the fiscal impact study would be eligible development impact fee categories. This includes roads, parks and public safety facilities. If the Consolidated Government were to adopt development impact fees at 100% of the maximum supportable amount, up to 95% of growth-related capital expenditures identified in the fiscal impact study would have a dedicated source of revenue. Development impact fee revenues would provide a significant source of dedicated capital revenue for growth projects, freeing up other dollars for replacement and rehabilitation projects.

Advantages

- Development impact fees can help meet local capital facility needs due to new growth with less pressure on the tax rate.
- Development impact fees are politically attractive to existing residents and businesses since they pass on specific capital costs to future development.
- Development impact fees coordinate new growth with the facilities demanded.
- Development impact fees are more predictable and equitable than informal systems of negotiated exactions and are likely to generate considerably more revenue.

Disadvantages

- Development impact fees are typically not due until development occurs. As a result, this makes it difficult for the Consolidated Government to use the fees to construct capital improvements prior to or in conjunction with new development.
- Development impact fees are often politically unattractive to developers who can be vocal opponents to the fees.
- Technical studies are required to develop and justify the adopted development impact fee amount. Additionally, the State requires that findings in the technical study be incorporated in the capital improvement element of the Comprehensive Plan. This includes the identification of existing service levels, projections of needed system improvements, a schedule of capital improvements and a discussion of funding for these improvements.
- Rational nexus requirements impose a set of earmarking and accounting controls that limit the use of development impact fee revenue to the categories identified in the study.

SPECIAL PURPOSE LOCAL OPTION SALES TAX

Sales tax is generally used as a source for general fund operating revenue, but when dedicated to capital facilities it can be a significant source of capital revenue. In Georgia, counties and school districts are authorized to enact a Special Purpose Local Option Sales Tax (SPLOST) to fund capital projects. A SPLOST is a 1% tax on sales, excluding motor fuels. Columbus's most recent SPLOST, enacted in 1999 to renew the 1993 SPLOST, expires this year.

State law authorizes SPLOST revenues to be used for a variety of capital projects, including administrative buildings, bridges and roads (including rehabilitation and repairs), coliseums, civic centers, courthouses, cultural facilities, jails, major equipment, public safety facilities, recreation facilities, transportation facilities, water and sewer facilities and other projects defined in the Georgia Code. SPLOST revenues cannot be used to address current expenditures or maintenance expenses.

Advantages

- As a levy on sales tax, a jurisdiction has considerable discretion in its use and is not bound by the use requirements associated with development impact fees.
- While State law defines the capital facilities categories eligible for SPLOST funding, the list is comprehensive. The list includes the future growth-related capital facilities identified in the fiscal impact analysis, including roads, parks, public safety and general government facilities.
- As a consolidated city/county government, Columbus is at liberty to enact a SPLOST without the distribution negotiations and intergovernmental contracts required for a county containing municipalities.

Disadvantages

- Sales tax levies are subject to voter approval. The Consolidated Government must strictly define the use of the funds in order to secure approval, reducing the flexibility inherent in sales tax revenues.
- Levies are approved for a short time frame of 5-6 years or after such period that the State Commissioner of Revenue determines that the tax has raised the revenue projected upon adoption of the SPLOST. Capital improvement plans may extend over a longer time period.
- There is little relationship between the source of funds and demand for public facilities.

TAX ALLOCATION DISTRICTS

The Georgia Redevelopment Powers Law gives local governments the authority to sell bonds to finance infrastructure and other redevelopment costs within a geographically defined area called a Tax Allocation District (TAD). The designated area must currently suffer from blight or other “economic or socially distressed conditions” and have the potential for redevelopment. This funding mechanism identifies increases in property, sales tax or special assessment district revenue within a geographic area that are due to new development or redevelopment. The incremental increases in revenue are earmarked for infrastructure improvements or services needed in that same geographic area. Throughout the lifetime of the TAD, the tax contribution from the properties in the district remains at the original “baseline.” Meanwhile, the increases in tax revenue that is due to the incremental increase in value over the “baseline” tax assessments is deposited in the TAD fund, which pays for necessary infrastructure improvements.

Advantages

- Tax Allocation District financing is usually accepted by the community and the developers alike as capital improvements are financed using anticipated future tax revenues that would not otherwise be collected were it not for the TAD.

- Tax Allocation District debt does not count against state debt ceiling requirements and does not have to be backed by the full faith and credit of the jurisdiction.
- Unlike some other financing techniques, such as development impact fees, Tax Allocation District financing is not limited to new development only.
- Tax Allocation District financing can encourage new, private investment in an area that may not otherwise have been developed and can be used to promote redevelopment.
- Investments in TADs may reduce jurisdiction service delivery costs by reducing crime as the blighted area improves.

Disadvantages

- There are a number of potential hurdles in obtaining the authority to implement TAD. A local government must receive authorization from the State General Assembly to exercise powers under the law. Then, voters must approve a local act in order to authorize the Consolidated Government to establish TADs. A special election must be held for the purpose of voting on the TAD act.
- Since the Consolidated Government will not receive the tax benefits from the property improvements for an extended period of time, public concern over funding may hamper the approval of a TAD district.
- The Georgia Supreme Court recently ruled that school taxes cannot be used for future TAD bond offerings, which may limit the revenue potential of TADs.
- The jurisdiction is limited in the total area that can be served by TADs, as Georgia law requires that taxable value in the TAD(s) not exceed 10% of the jurisdiction's total current taxable value.
- New development in a TAD is likely to create additional demands for public services, but the jurisdiction will not receive the increased tax revenue from the TAD until the TAD-backed bonds are retired.
- As TAD-backed bonds are not backed by the full faith and credit of the jurisdiction, the bond is likely to have a higher interest rate than a general obligation or revenue bond.
- Despite being backed by the TAD and not the full faith and credit of the jurisdiction, if the jurisdiction were to default on the bond, bond rating agencies may penalize the jurisdiction.
- As with general obligation bonds, costs to individual property owners will be proportional to property value rather than demand for the facility.

SPECIAL ASSESSMENT DISTRICTS

A special assessment district is created by a local government to provide one or several specific public services or improvements. These districts are generally created to link costs and benefits resulting from new or upgraded infrastructure. Typically, the property owners in the benefiting area agree to establish a special district or assessment area. Infrastructure improvements may be bond financed and paid over time by the benefiting property owners, usually by means of an additional charge on the property tax bill. In general, special assessment districts are easier to implement in areas where relatively few property owners control large tracts of land.

Columbus has a Business Improvement District (BID) that was created in 1999 and renewed in 2004. Property owners in the area agreed to assess themselves in order to supplement Consolidated Government services in the way of advertising, promotion, sanitation, security, and business recruitment and retention. BID assessments are for operational purposes and not for capital projects. In addition, Columbus' Downtown Development Authority has the authority to levy and collect taxes, fees or assessments to support capital improvements or services in the downtown area. Georgia law also authorizes the creation of Community Improvement Districts, which like BIDS are for commercial areas, though assessments can be for government services and facilities.

Advantages

- Special assessment districts may be more politically acceptable and equitable because they confine levies to the local users of benefits.
- Special assessment districts have fewer restrictions imposed by federal or state law than development exactions, development impact fees and user fees.
- Unlike some other financing techniques, such as development impact fees, special assessment districts are not limited to new development only.
- The revenue stream from special assessment districts may be more reliable than other financing mechanisms, since it is based on an annual levy.
- Due to the amortization of the debt, an assessment typically results in a lower annual payment.
- The revenue generated from the special assessment district can be used to pay the debt service on a bond issue. With a dedicated revenue stream from the assessment, the Consolidated Government could issue revenue bonds that would not impact its debt capacity.

Disadvantages

- Special assessment districts may be inappropriate to finance projects with far-reaching benefits that are not confined to the assessment area.
- Special assessment districts often require detailed studies to document the direct benefits to each member of the district who will pay the assessment, and to document a

fairly concrete connection between the payment of the assessment and the receipt of the benefit.

- The creation of too many independent special assessment districts in a community can result in the fragmentation of decision-making and lack of government coordination.

EXCISE TAXES

Although usually restricted by state authority, the Consolidated Government is able to levy excise taxes for fund-specific purposes. An example of a special purpose excise tax includes the hotel-motel tax which is dedicated to the Columbus Iron Works Trade and Convention Center Fund and the Civic Center Fund. State law requires that revenues from the hotel-motel tax be used for projects that promote tourism. Columbus collects a 7% hotel-motel tax, the maximum as allowed by State law. The Consolidated Government collects other excise taxes such as on alcohol and car rentals, with these revenues being deposited into the General Fund.

Advantages

- Like user fees, excise taxes may be politically successful because they are restricted to a specific purpose.
- In the case of the hotel-motel tax, the tax burden is shifted almost entirely to nonresidents.

Disadvantages

- Use of hotel-motel tax revenues is strictly limited to supporting a civic center, performing arts facility and/or promoting tourism, convention and trade shows.
- The State requires that funds be accounted for separately.

CHARGES FOR SERVICES (USER FEES)

The Consolidated Government has implemented a number of charges for services, or user fees, to help recover the cost of providing various services. These charges for services include such things as ambulance transports, court fees, report sales and program fees. Like most local governments around the country, the Consolidated Government has had to rely more heavily on this type of revenue over the past several years. These user fees ensure that those who benefit from specific governmental services bear the cost. This is one reason why they are becoming increasingly popular with jurisdictions. Currently, user fees do not cover the costs associated with many of the services provided. For example, in 2008 the Consolidated Government expected to gain \$155,000 in tennis fees. At the same time, cost for the Cooper Creek Tennis Center were expected to total \$271,413. TischlerBise recommends increasing some current fees and evaluating other services for which user fees are appropriate to cover a greater share of the cost of programs and services. Increasing and adding new fees will free up General Fund revenue to be used elsewhere, decreasing pressure on the Operating Budget to address both operating and capital needs.

FRANCHISE FEES

Franchise fees are fees charged to utility companies by a local government for the right to do business in a community. The Consolidated Government currently levies franchise fees to electric, gas, water, cable and telecommunication utility providers. The largest of these revenues is Georgia Power with \$8.5 million in franchise fee receipts in FY 2008. The Consolidated Government has franchise agreements with the various providers. In some cases, State law prescribes the maximum. For example, a 5% gross receipts tax is applicable to cable providers. In the case of natural gas, the Consolidated Government has franchise agreement in which a 4% tax is assessed for the first 4 years of the agreement (through 2009) and that raises to 5% for the following 10 years.

-RESULTS OF EVALUATION-

A general evaluation was conducted of the potential financing mechanisms using the four criteria discussed earlier: revenue potential, proportionality, technical ease and public acceptance. It is important to note again that TischlerBise’s review does not include an analysis of legal considerations. Figure 7 summarizes the evaluation results for each potential revenue source and financing mechanism.

Figure 7: Evaluation of Potential Revenue Sources and Financing Mechanisms

Financing Mechanism	Potential Revenue Yield	Proportionality	Technical Ease	Public Acceptance
Property Tax	High	Negative	Positive	Negative
General Obligation Bonds	High	Negative	Neutral	Negative
Revenue Bonds	High	Negative	Neutral	Neutral
Development Impact Fees	High	Positive	Negative	Positive
Special Purpose Local Option Sales Tax	High	Negative	Positive	Negative
Tax Allocation Districts	Medium	Neutral	Negative	Neutral
Special Assessment Districts	Medium	Positive	Negative	Positive
Excise Taxes	Low	Positive	Positive	Neutral
Charges for Services (User Fees)	Low	Positive	Positive	Negative
Franchise Fees	Low	Negative	Neutral	Neutral

REVENUE POTENTIAL

All of the potential financing mechanisms considered in this report have revenue potential. For the Consolidated Government, selecting a revenue strategy will involve consideration of the amount of potential revenue for each mechanism in light of its proportionality, technical ease and public acceptance. These issues are discussed below.

PROPORTIONALITY

In terms of proportionality, only development impact fees, special assessment districts, excise taxes (hotel/motel) and charges for services relate the amount paid to the direct impact on services. Tax allocation districts are considered neutral. While the revenues collected within the TAD are spent within the district, as a property tax instrument, revenue does not correspond with demand for services. The remaining financing mechanisms do not relate to the direct impact on services and therefore receive a negative score.

TECHNICAL EASE

Property taxes, special purpose local option sales tax, excise taxes and charges for services all rate high on technical ease. Bonds and franchise fees have a neutral rating due to their administrative and legal requirements. Because of the required technical studies and administrative and accounting requirements, development impact fees and special assessment districts score negatively in terms of technical ease. Tax allocation districts receive a negative score as well, due to the administrative burden placed on the jurisdiction.

PUBLIC ACCEPTANCE

Development impact fees score positively because they place the costs of growth on new development. Special assessment districts also score positively because those who pay their assessments know that their assessment is proportionate to the direct benefits received. In our experience, revenue bonds, tax allocation districts, excise taxes and franchise fees are likely to generate a neutral response. Property taxes, general obligation bonds, special purpose local option sales tax and charges for services tend to be less acceptable because they are viewed as causing higher taxes and fees for the general public.

RECOMMENDATIONS

Figure 8 below shows the financing mechanisms evaluated in this report, all of which have the potential to provide additional revenues for the Consolidated Government. The figure also indicates the specific financing mechanisms TischlerBise recommends that the Consolidated Government consider and/or enhance. These recommendations are based on the evaluation criteria discussed above. In addition, the fiscal impact analysis found that revenues to the

Operating Budget offset future growth-related operating expenditures. Given these results, we recommend that the Consolidated Government focus on non-property tax revenue enhancements to the Capital Budget. Potential financing mechanisms include development impact fees, the Special Purpose Local Option Sales Tax and Tax Allocation Districts. To enhance its General Fund, Columbus should also examine its charges for services to cover a greater share of the cost of programs and services.

Figure 8. Recommended Financing Mechanisms

Financing Mechanism	Has Revenue Potential	Recommended
Property Tax	√	
General Obligation Bonds	√	
Revenue Bonds	√	
Development Impact Fees	√	√
Special Purpose Local Option Sales Tax	√	√
Tax Allocation Districts	√	√
Special Assessment Districts	√	
Excise Taxes	√	
Charges for Services (User Fees)	√	√
Franchise Fees	√	