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The Growth Dividend: How Has It Been Allocated?

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A Bureau of Business Research Report
From the University of Nebraska–Lincoln

Final Report

The Growth Dividend: How Has It Been Allocated?

Prepared for the Lincoln Chamber of Commerce

April 23, 2007
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Executive Summary

A growing economy and population in Lincoln, Nebraska have generated an expanding tax base for the city. Growth has been especially rapid in the property tax base. As noted in a recent report by the UNL Bureau of Business Research (2005), the average new housing unit generates annual property taxes for the City of Lincoln substantially greater than does the average existing housing unit. This additional property value is referred to as the "growth dividend" in the Bureau of Business Research report. This growth dividend is available for a variety of uses, including capital outlays on infrastructure, tax relief, or increases in non-capital expenditures by the City of Lincoln. This report examined how the city's growth dividend has been allocated.

The main findings of the report are as follows:

- Government expenditures rose at roughly the same rate as personal income in Lincoln during the 1990 to 2005 period. In other words, city government is approximately the same share of the Lincoln economy in 2005 as it was in 1990.

- There was a significant decline in the City of Lincoln's property tax levy during the period. The city's wheel tax, however, increased in the mid-1990s.

- At the same time that expenditures rose and property tax rates fell, the city also was able to rapidly increase capital outlay on infrastructure beginning in 1999. Much of the increase in capital outlay was for road infrastructure. Capital investment in roads occurred in both new neighborhoods and in existing areas such as downtown neighborhoods surrounding the Antelope Valley Project

- Lincoln's property and sales tax base, including the growth dividend, contributed to capital outlay for parks, fire, library, storm sewer infrastructure, and street lights, but did not contribute to other types of infrastructure for streets and highways.

- The increase in capital outlay for streets and highways was largely fueled by rapid increases in intergovernmental transfers to the city, although local funding sources also expanded during the 1990 to 2005 period. The city raised the wheel tax, instituted impact fees, and increased property taxes for the county-wide Railroad Transportation Safety District (RTSD). Part of the increase in wheel tax, however, was devoted to fund snow removal, rather than street infrastructure.

- Options to maintain capital spending at the current level could include efforts to maintain recent large increases in intergovernmental transfers. Another approach would be for the City of Lincoln to allocate a larger portion of the growth dividend toward funding street and highway infrastructure while continuing to also use a portion for tax relief or non-capital expenditures.

Table of Contents

Section **Page**

Executive Summary i

Table of Contents ii

List of Figures and Tables iii

1. Introduction 1

2. The Growth Dividend, Expenditures, and Taxes 2
   A. The Role of Budget Caps 2
   B. City Expenditures 4
   C. Tax Rate Reduction 10
   D. Capital Outlay 11

3. Sources of Revenue for Capital Outlay in Lincoln 13
   A. Sources of Funding for Streets and Highways 16
   B. Capital Expenditures within the City 18

4. Conclusion 21

References 23

List of Figures and Tables

Figure **Page**

Figure 1: Trends in Lincoln's Government Expenditure, Tax Base, Personal Income, Intergovernmental Transfers…….....5

Table 1: Lincoln's Government Expenditures, Tax Base, Personal Income, and Intergovernmental Transfers…….....6

Figure 2a: Trends in Government Expenditures by Department…….....7

Figure 2b: Government Expenditures by Department…….....7

Figure 3a: Annual City Expenditures per Person: Major Funds…….....8

Figure 3b: Annual Non-Capital Expenditures per Person: Major Funds…….....9

Figure 4: City of Lincoln's Property Valuation vs. Tax Levy Growth…….. 10

Figure 5: City of Lincoln Capital Outlay 1990 through 1995…….....11

Figure 6: Capital Outlay Per Capita: Lincoln and Des Moines, Iowa…….....12

Figure 7: Capital Expenditures Authorized in Lincoln's CIP for Selected Departments Funded by General Revenue 14

Figure 8: Capital Expenditures Authorized in Lincoln's CIP for Streets Highways Funded by General Revenue.....15

Table 2: City of Lincoln's Street Light Investment Costs 16

Figure 9: Capital Expenditures Authorized in Lincoln's CIP for Streets Highways from Local Sources.....17

Figure 10: Lincoln's Snow Removal Funding 18

Figure 11: Expenditures of the Joint Antelope Valley Authority 2001-2005.....19

Figure 12: Railroad Transportation Safety District (RTSD) Spending on Antelope Valley Compared to Total RTSD Spending.....20

1. Introduction

A growing economy and population in Lincoln, Nebraska has generated an expanding tax base for the city. The tax base more than doubled between 1990 and 2005 in nominal terms (i.e., without adjusting for inflation). The increase in tax base greatly exceeded inflation during the period (the CPI grew 49% during the period). Growth has been especially rapid in the residential and commercial property tax base.[1] The increase in residential property values resulted both from growth in the number of housing units and from the higher average values of newly constructed housing units. As noted in a recent report by the UNL Bureau of Business Research (2005), the average new housing unit generates annual property taxes for the City of Lincoln approximately $190 greater than the average existing housing unit (Thompson, 2005). This additional property value is referred to as the "growth dividend" in the Bureau of Business Research report. That report also identified other benefits related to growth, such as rising per capita incomes (through faster wage growth) and rising sales tax revenues per person in Lincoln.

The growth dividend is available for a variety of uses. One such use would be to finance investments by the City of Lincoln in roads, parks, public buildings, and other infrastructure required to accommodate new neighborhoods in the city. When the dividend is not devoted to infrastructure, it might be used to expand other types of city expenditures, or to lower tax rates, or both.

This report examines how the growth dividend has been allocated in Lincoln during the 1990 to 2005 period. In the next section, we analyze city expenditures trends in Lincoln from 1990 to 2005 and how those trends may have been affected by state laws pertaining to caps on growth in local government expenditures. In the third section we examine how infrastructure spending has been funded in Lincoln over the period. The fourth section is a conclusion.

[1] The rate of growth was roughly equal for residential and commercial property, but residential property accounted for approximately 70% of the increase.

2. The Growth Dividend, Expenditures, and Taxes

The 2005 report by the Bureau of Business Research estimated that the growth dividend for new housing units has been approximately $190 per housing unit in recent years. The present value of that increase over time was estimated at approximately $2,000 per housing unit. There is also sales tax associated with the building materials required for new housing construction, which the report estimated at approximately $900 per housing unit. Given that around 1,400 new housing units are built in Lincoln in a typical year, this suggests a growth dividend on residential property of at least $4 million per year.

This $4 million figure does not include any type of growth dividend associated with newly constructed commercial property. Such a commercial growth dividend would exist if the average value of newly constructed commercial properties (per square foot) exceeds the average value of existing commercial properties. The 2005 Bureau of Business Research Report did not include an analysis of commercial properties. Data from other sources, however, suggests that there also may be such a commercial growth dividend. In particular, data provided by the State of Nebraska suggests that approximately two-thirds of the increase in commercial and industrial property values in the City of Lincoln from 1995 to 2005 could be attributed to new growth rather than to increases in the value of existing commercial and industrial properties.

The growth dividend therefore makes at least $4 million available to the city for use on infrastructure, new expenditures, or tax relief. Below, we examine trends in all three areas to determine how sources of revenue growth for the City of Lincoln, including the growth dividend, have been allocated. Results indicate that the City of Lincoln in the last 15 years has been able to grow expenditures, cut tax rates, and substantially increase infrastructure spending above previous levels. At the same time, recent increases in capital spending have not been funded by the growth dividend, but by alternative types of local revenue and by rising intergovernmental transfers.

A. The Role of Budget Caps

In allocating the growth dividend or any type of new revenue, there is reason to wonder whether local governments such as the City of Lincoln may be constrained by

state law. In particular, during our 1990 to 2005 study period the Nebraska Legislature adopted a law limiting the growth in spending for local government in the state. On its face, such a law could have a substantial impact on how the growth dividend is allocated between infrastructure investment, operating expenditures for the city, or tax cuts.

Legislation imposing spending caps was passed in 1996, and several revisions were made by 1998. In particular, Legislative Bill 299, passed in 1996, created new spending guidelines for all governmental units, excluding state government itself. Effective for all fiscal years on or after July 1, 1998 the governing unit spending is to conform to State Statutes 13-518 through 13-522. The statutes define budget and spending to limit the growth of governmental units. Budgets may include:[2] last year's total budgeted restricted funds,[3] plus the basic allowable growth percentage of base limitations,[4] plus allowable growth.[5] According to the statutes, a governing unit's spending cannot expand beyond the unit's increase in current annual property valuation. If the property valuation grew less than 2.5% (the base limitation) or declined, the governing unit can expand the budget no more than 2.5%. Further, the law allows governing units to exceed the cap by 1% every year[6] or by any percentage with the approval of the voters.[7]

Thus, one aspect of the spending cap legislation is that a local government such as the City of Lincoln can expand spending along with growth in the property tax base as the city develops. This suggests that the City of Lincoln would have substantial flexibility in allocating revenue such as the growth dividend between tax cuts versus spending increase or infrastructure investments. Flexibility is even greater because many types of

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[2] State Statute [13-519(1)].

[3] Restricted funds are: property tax, payments in lieu of sales tax, local option sales tax, motor vehicle tax, state aid, transfer of surpluses, funds not spent on capital improvement in the previous year and are no longer budgeted for capitol improvement, any excess tax collections [13-518(6)].

[4] The basic allowable growth percentage of base limitations is a 2.5% annual growth limit imposed by the state on local government growth [77-3346].

[5] Allowable growth is the current annual property valuation in excess of the base limitation of 2.5% [13-518 (1)].

[6] The limitation can be exceeded by 1% by a vote of 75% of the governing unit's body [13-519 (2)].

[7] The limitation can be exceeded by any amount if approved by the majority of voters in a special election [13-519 (3)].

spending are not subject to this rather flexible spending cap. Funds not limited by the budget cap are:

- Funds budgeted for capital improvement
- Sinking funds[8]
- Funds pledged to retire bonded indebtedness[9]
- Funds budgeted for agreed upon services[10]
- Funds budgeted to pay for infrastructure repair from natural disasters
- Funds budgeted to pay for judgments.

Given these exemptions and the general flexibility regarding spending caps, it seems likely that local governments fortunate enough to have a growing tax base would have significant leeway to use growing revenues either to expand spending, cut tax rates, budget for capital improvement, or some combination of these choices.

B. City Expenditures

With this background, Figure 1 shows patterns in growth for government expenditures, tax base, personal income, and intergovernmental transfers in the City of Lincoln from 1990 to 2005. Table 1 shows the actual dollar amounts. Government expenditures for the city include the expenditures of the city's five governmental funds: the general fund, the street construction fund, the federal grants fund, the health endowment fund, and other governmental funds.[11] Enterprise funds such as Lincoln Water Systems or Lincoln Electric Systems are not included in government expenditures figures, as these enterprises primarily earn revenue from customers rather than taxes.

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[8] The term "sinking fund" means a fund maintained separately from the general fund to pay for acquisition or replacement of tangible personal property with a useful life of five years or more that is to be undertaken in the future, but is to be paid in advance using periodic payments into the fund [13-(5)].

[9] Including a special provision for public airport bonds [13-520 (3)].

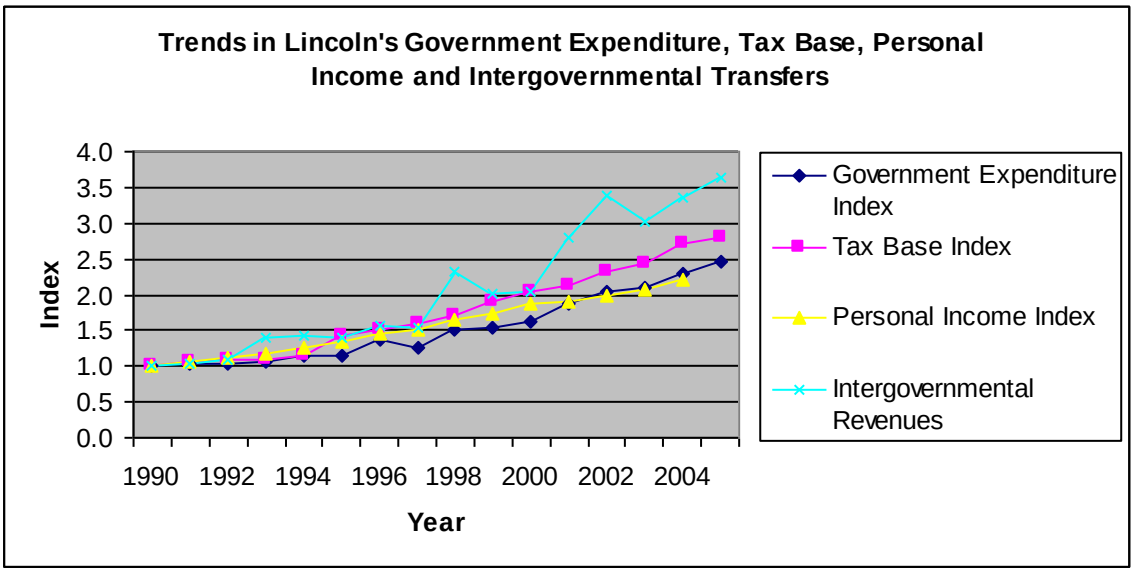
[10] Funds budgeted in support of a service which is the subject of an agreement or a modification of an existing agreement whether operated by one of the parties to the agreement or by an independent joint entity or joint public agency [13-520 (4)].

[11] Based on Statement of Revenues, Expenditures, and Changes in Fund Balances in the Comprehensive Annual Financial Report of Lincoln for the years 1990 to 2005. The Statement of Activities was not used, as this was only available toward the end of the 1990 to 2005 period.

Data are presented as an index in Figure 1, where 1990 values are set equal to 1.0, and values in all future years are relative to this base year value. Therefore, if the value for personal income is 2.0 in the year 2001, that means that personal income doubled between 1990 and 2001. Note that all of these indexes are in nominal terms; that is, the indexes are not adjusted for inflation. Increases, therefore, reflect, in part, a general increase in the level of prices from 1990 to 2005 (the CPI rose 49% during the period), as well as real increases in tax base, intergovernmental transfers, government expenditures, and personal income.

The tax base measure used in Figure 1 is the sum of the value of (commercial and residential) property and taxable sales. Thus, this is a partial measure of the tax base that includes just the two largest sources.[12] Personal income is the estimated income of the residents in the Lincoln Metropolitan Area. Data in the figure come from the Comprehensive Annual Financial Report of the City of Lincoln over the 1990 to 2005 period.

Figure 1



Source: City of Lincoln *Comprehensive Annual Financial Reports*, 1990-2005, and U.S. Bureau of Economic Analysis (personal income data).

[12] The property and sales base are taxed at different rates, but it is feasible to combine the two in a single index since there growth rate is similar.

Note that tax base and government expenditures have risen in tandem over the period. This suggests that sources of revenue growth in Lincoln, such as the growth dividend, have been used in part to fuel increases in city government expenditures in Lincoln. It is also true that both tax base and intergovernmental transfers (from the federal or state government) have grown faster than government expenditures. This raises the possibility that the growth dividend and other factors that have helped grow Lincoln's tax base also have been used to reduce taxes. Lastly, it is worth noting that government expenditures have risen roughly in line with personal income in Lincoln. This implies that city government is approximately the same share of the Lincoln economy in 2005 as it was in 1990.

Table 1

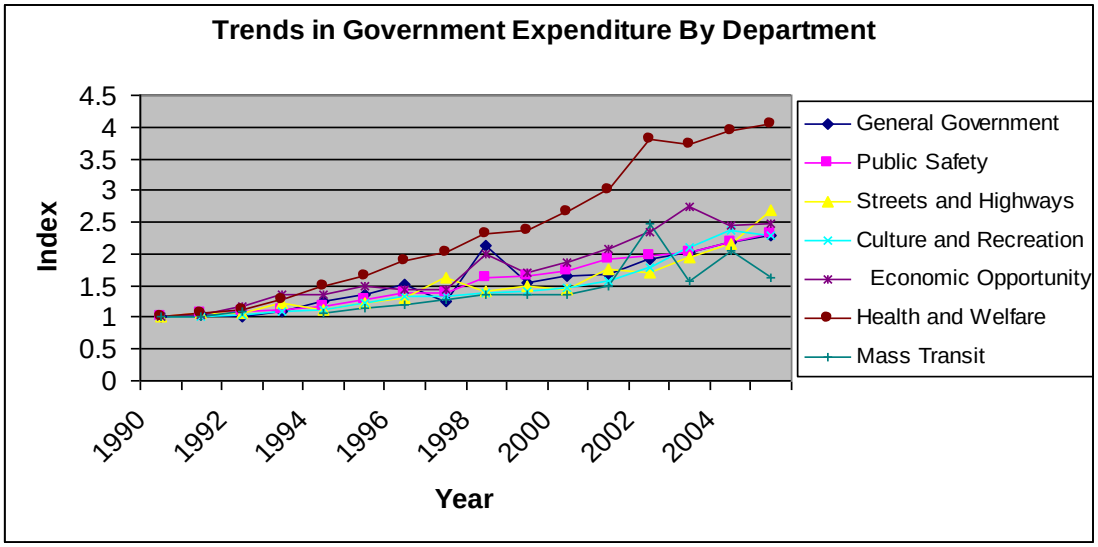
Lincoln's Government Expenditure, Tax Base, Personal Income, and Intergovernmental Transfers					
	1990	**1995**	**2000**	**2004**	**2005**
Total Expenditures	$96 million	$109 million	$158 million	$232 million	$249 million
Tax Base	$6.0 billion	$8.6 billion	$12.4 billion	$16.5 billion	$17.0 billion
Taxable Sales	$1.5 billion	$2.1 billion	$3.2 billion	$3.7 billion	$3.8 billion
Property Value (Total Assessed)	$4.5 billion	$6.5 billion	$9.1 billion	$12.7 billion	$13.1 billion
Personal Inc ('00s) Lincoln MSA	$415 million	$561 million	$777 million	$912 million	N/A
Intergovernmental Revenue	$17 million	$24 million	$35 million	$58 million	$63 million

Source: City of Lincoln *Comprehensive Annual Financial Reports*, 1990-2005, and U.S. Bureau of Economic Analysis (personal income data).

Growth in city government expenditures in Lincoln has been broad-based, as is evident in Figure 2a. The figure shows that expenditures have been rising in all departments of government. The indexes in Figure 2a indicate that the rate of growth from 1990 to 2005 has been similar in most departments or areas of government. Expenditures growth was slowest for Star Tran. Growth was fastest for health and welfare, but this result is not surprising. Health care costs and spending are a rising component of the budgets of most organizations, whether public or private. Health and welfare funds the Lincoln/Lancaster County Public Health Department, which runs a public clinic including nursing, dental services, and WIC (Women, Infants and Children). It provides funding for animal control, disease prevention, environmental regulation, food safety, and other family services. The component services of other departments are detailed in a footnote below.[13]

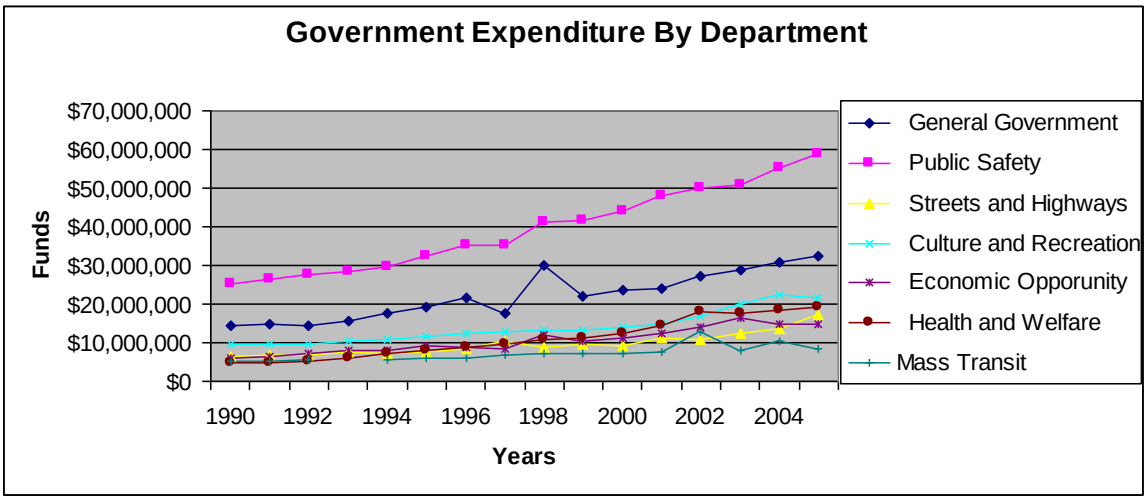
[13] General government expenditures allocate funds for legislative, executive, and financial administration. These general expenditures provide for the city attorney's office, personnel administration, planning and

Figure 2a



Source: City of Lincoln *Comprehensive Annual Financial Reports*, 1990-2005.

Figure 2b



Source: City of Lincoln *Comprehensive Annual Financial Reports*, 1990-2005.

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zoning, along with some urban development, Social Security, unemployment insurance payments, and other miscellaneous appropriations.

Public safety funds are allocated for the Lincoln police and fire departments along with 911 communications. Money also goes toward building safety, transportation, and traffic engineering,

Streets and highways expenditures provide for street maintenance, street lighting, snow removal, and storm sewer construction.

Culture and recreation pays for public parks, trail, gardens, recreation and community centers, public golf courses, swimming pools, and libraries.

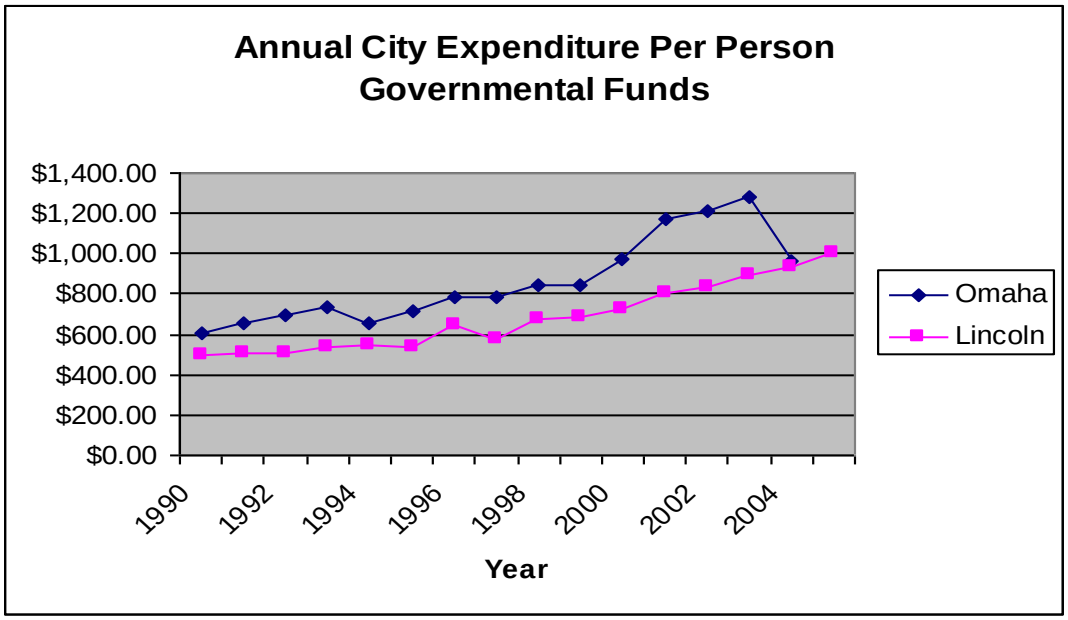
Economic opportunity expenditures fund the Lincoln Area Agency on Aging and the Workforce Investment Program. Money also goes to the Urban Development Department which provides community revitalization, housing rehabilitation, and job creation programs.

Mass transit expenditures pay for Star Tran buses and handivans.

Figure 2b reported the same data as Figure 2a, but in the form of dollar expenditures rather than as an index. Data in Figure 2a indicate that the largest category of spending was public safety, which includes police and fire. General government, which includes administration, the city attorney's office, administration, and planning and zoning is the next largest spending category. Spending on culture and recreation topped $20 million annually in recent years.[14]

Overall, Figures 1 and 2 indicate that the City of Lincoln has undertaken a steady expansion of spending in most departments during the 1990 to 2005 period. Expenditures have not grown out of proportion to income or the tax base. The growth dividend, which is composed of both property and sales tax revenues, has helped finance this spending.

Figure 3a



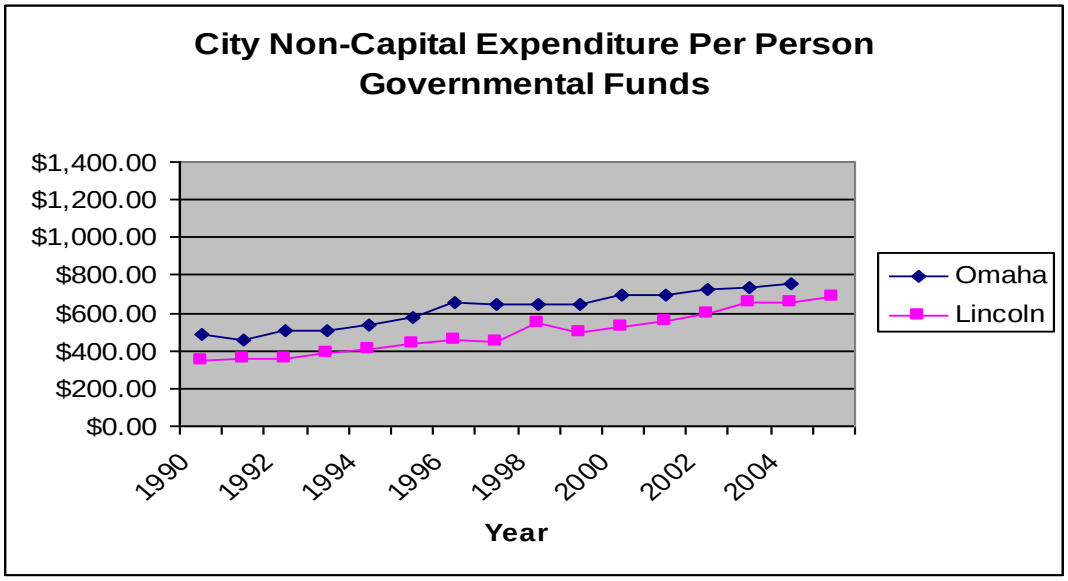
Note: Cost of solid waste disposal removed from Omaha figures and Star Tran removed from Lincoln figures in order to facilitate comparisons between Lincoln and Omaha.

Figures 3a and 3b provides another indicator of growth in city expenditures in Lincoln. Figures 3a and 3b compare growth in expenditures per person in Lincoln and Omaha, Nebraska. Expenditure data for Omaha also come from that city's Comprehensive Annual Financial Reports. The first figure compares growth in all expenditures of governmental funds in Lincoln and Omaha, while Figure 3b focuses on

[14] Staff with the City of Lincoln Department of Finance indicated that the increase in spending in several departments in 1998 was due to costs associated with a natural disaster.

non-capital expenditures (that is, all expenditures beside debt service and capital outlay). Figure 3b is the more appropriate comparison between Lincoln and Omaha because the common practice of using Sanitary Improvement Districts in the Omaha area influences the level of capital outlay reported in the City of Omaha Comprehensive Financial Reports. In both Figures 3a and 3b, estimated expenditures on solid waste disposal were removed from total expenditures figures for the City of Omaha. This was done to facilitate comparisons between Lincoln and Omaha, as the City of Lincoln does not provide this service. Similarly, expenditures on mass transit were removed from the total expenditures for the City of Lincoln, since Omaha does not include mass transit in their city expenditure data.

Figure 3b



Note: Cost of solid waste disposal removed from Omaha figures and Star Tran removed from Lincoln figures in order to facilitate comparisons between Lincoln and Omaha.

Focusing on Figure 3b, we see that non-capital expenditures per person in Omaha historically have exceeded such spending in Lincoln. In the beginning of the 1990 to 2005 period (from 1990-1992) non-capital expenditures per person were $125 greater in Omaha than in Lincoln.[15] By the end of the period, from 2002-2004, the gap had closed to just $100 per year in nominal terms. These results again suggest that Lincoln was able

[15] The City of Omaha provides post-employment health benefits whereas the City of Lincoln does not. This will likely effect Omaha's City expenditures in future years.

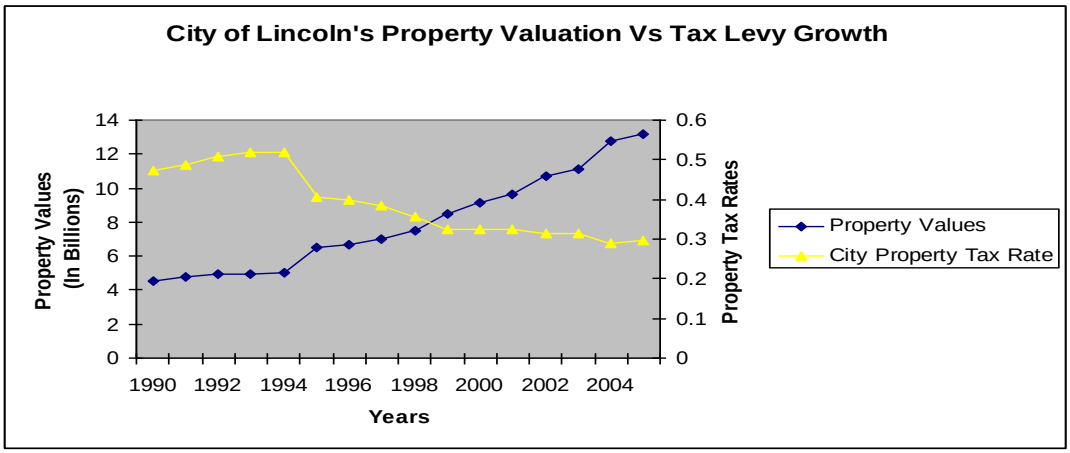
to expand expenditures at a healthy rate during the 1990 to 2005 period. Non-capital expenditures growth per person was in line with or a bit faster than per person expenditure growth in the City of Omaha. Looking further at Figure 3b, the gap widened during the mid-to-late 1990s before narrowing beginning around 1998. An examination of tax rate information for the City of Lincoln reveals that tax rates declined in Lincoln during the mid- and late-1990s, but less so after the year 2000. Revenue growth was utilized more for tax relief during this earlier period.

C. Tax Rate Reduction

As was indicated in Figure 1, growth in the tax base and rising intergovernmental transfers in Lincoln exceeded growth in government expenditures. Rising revenue, including the growth dividend, therefore may have been used in part to reduce tax rates in Lincoln. To examine this, we look at tax rates for the sales and property taxes, two major components of the local tax base for Lincoln. Sales tax rates have held steady in Lincoln at 1.5% during the 1990 to 2005 period.

The property tax levy did fall rapidly, as is evident in Figure 4, which shows both property tax base and property tax levies for the City of Lincoln. The figure indicates most of this decline in the city property tax levy occurred during the 1994 to 1999 period. This suggests that the growth dividend and other factors growing the property tax base were devoted to lowering tax rates for a period from the mid- to late-1990s. A rising tax base kept taxes low even after expenditures grew more quickly during the current decade.

Figure 4

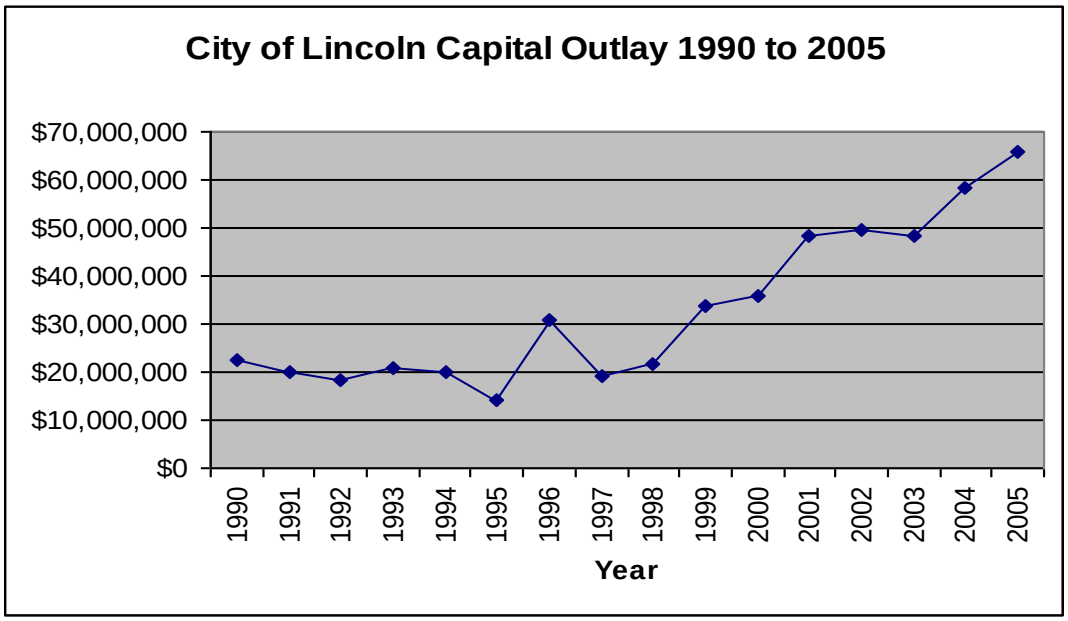


Source: City of Lincoln *Comprehensive Annual Financial Reports*, 1990-2005.

D. Capital Outlay

As Figure 5 indicates, one reason for the increase in City of Lincoln expenditures in the current decade was capital outlay by the city. The figure illustrates that capital outlay in Lincoln, while essentially flat from 1990 to 1998, began to grow rapidly in 1999. Capital outlay more than tripled in the period from 1999 to 2005. By 2000, levels of capital outlay per capita in Lincoln had reached a level that is comparable with the City of Des Moines, Iowa. As is seen in Figure 6, capital outlay in Lincoln, averaging between $200 and $300 per capita each year during the 2000-2005 period, was nearly as high in Lincoln as in Des Moines. Recall that Des Moines is used as our point of comparison because the widespread use of Sanitary Improvement Districts in Omaha makes comparison with that city inappropriate.

Figure 5

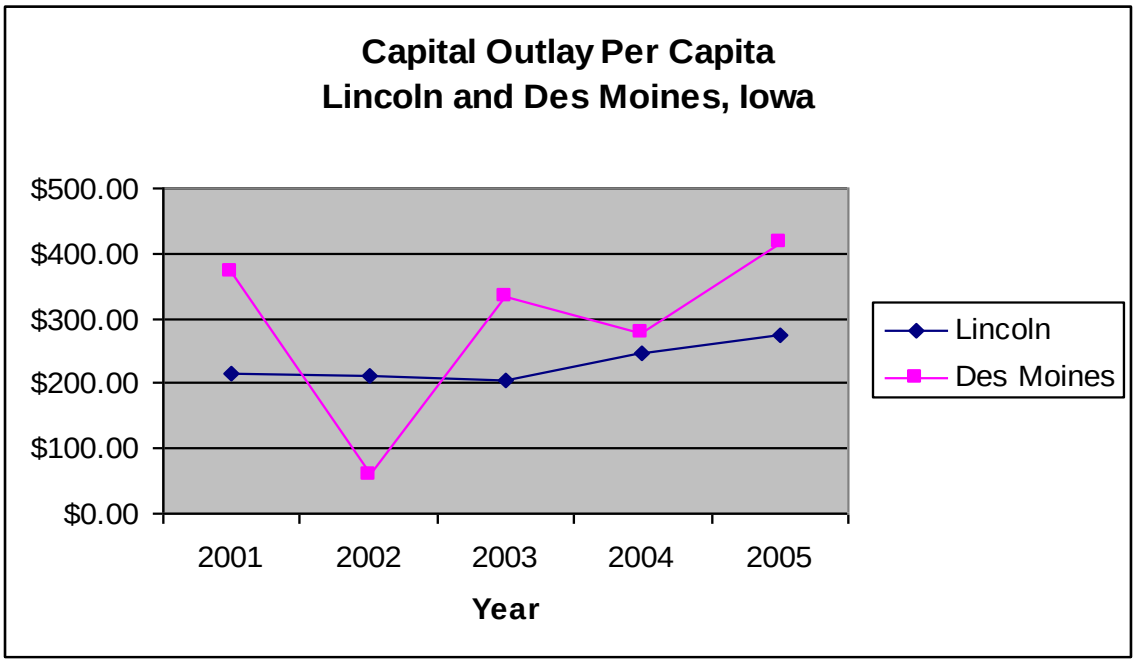


Source: City of Lincoln *Comprehensive Annual Financial Reports*, 1990-2005.

Thus, from 1990 to 2005, the City of Lincoln was able to use its growth dividend and other factors to increase expenditures, lower property tax rates, and (thanks in part to surging intergovernmental revenues) rapidly increase capital outlay beginning in 1999. The surge in capital outlay, however, does not necessarily mean that the growth dividend

was utilized directly for capital outlay projects. As we will see below, there are a variety of sources of revenue for capital outlay projects other than local property and sales tax revenue. Growing intergovernmental revenues from the state road fund, for example, or other local sources, such as Lincoln's wheel tax, explain the increase in capital outlay spending in the Lincoln from 1990 to 2005. The sources of revenue for capital outlay in Lincoln are considered in detail in the next section.

Figure 6



Sources: City of Lincoln *Comprehensive Annual Financial Reports*, 2001- 2005 and City of Des Moines. *Comprehensive Annual Financial Reports*, 2001-2005.

3. Sources of Revenue for Capital Outlay in Lincoln

This section considers sources of revenue for capital expenditures of the City of Lincoln on streets and highways, parks and recreation, police and fire, storm sewers, urban development, and libraries for the 1990 to 2005 period. One data source for this analysis is the City of Lincoln's annual Capital Improvement Program (CIP). This six-year plan is developed annually for each of the city's departments. Years 2 through 6 of the plan are simply that: a plan. However, funds for planned capital expenditures in the first year of each plan are authorized by the City Council annually when it approves the CIP for that year. Our analysis of the Lincoln CIP in the section that follows is therefore based exclusively on the first year of the plan that is released each year. We also utilize capital outlay figures for the Joint Antelope Valley Authority which were provided to us by the City of Lincoln.

One important issue when examining the CIP is whether general revenues or general obligation bonds are a funding source for capital improvement expenditures in Lincoln. If so, this would suggest that the growth dividend and other portions of property and sales tax revenues in Lincoln are contributing to capital outlay in the city. General obligation bonds would be as relevant as general revenues because a portion of the city's property tax revenues is raised to pay principal and interest on such debt.

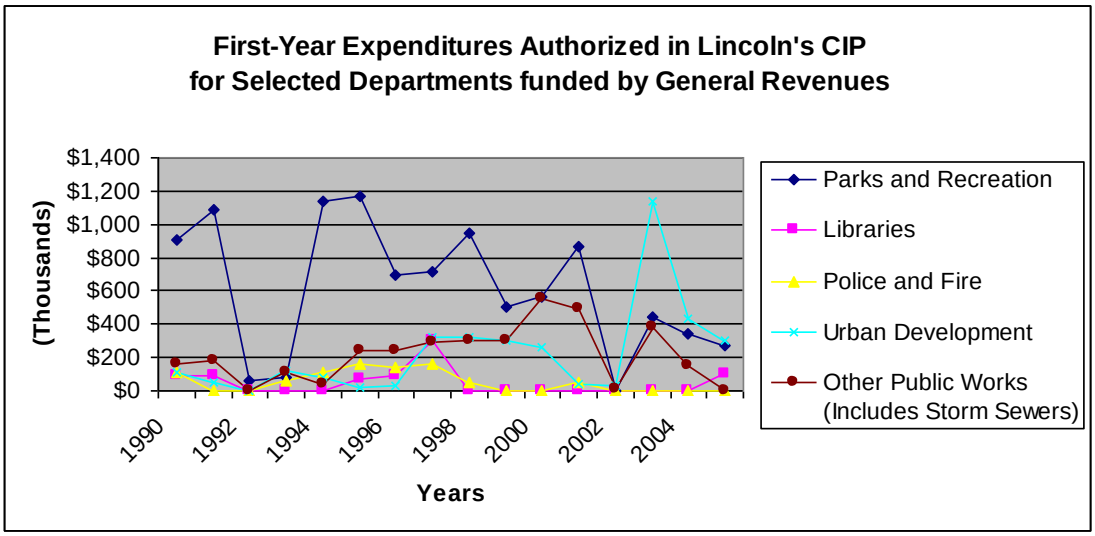
Figure 7 shows authorized expenditures in the first year of each CIP that are supported by general revenues in selected departments. The departments shown include parks and recreation, libraries, police and fire, urban development, and public works other than streets and highways and Star Tran (storm sewer is a major component). A later figure (Figure 8) reports authorized expenditures for streets and highways.

The authorized expenditures in Figure 7, while substantial, are a modest share of the total capital outlay of the city, which (as was seen in Figure 5) averaged around $20 million per year from 1990 to 1999 before rising steadily toward $60 million a year from 2003 through 2005. Other sources of revenue that account for the remaining capital improvement expenditures include federal grants, Lincoln's allocation of the state road fund, and other local sources such as the wheel tax or keno revenue.

As is seen in Figure 7, the largest authorization typically went to parks and recreation. An average of nearly $600,000 of capital improvement expenditures was

authorized annually from general revenues during the 1990 to 2005 period. Authorizations for capital improvement expenditures averaged just over $200,000 per year for both urban development and for other public works. Authorizations for capital expenditures averaged approximately $50,000 per year for both libraries and police and fire.

Figure 7



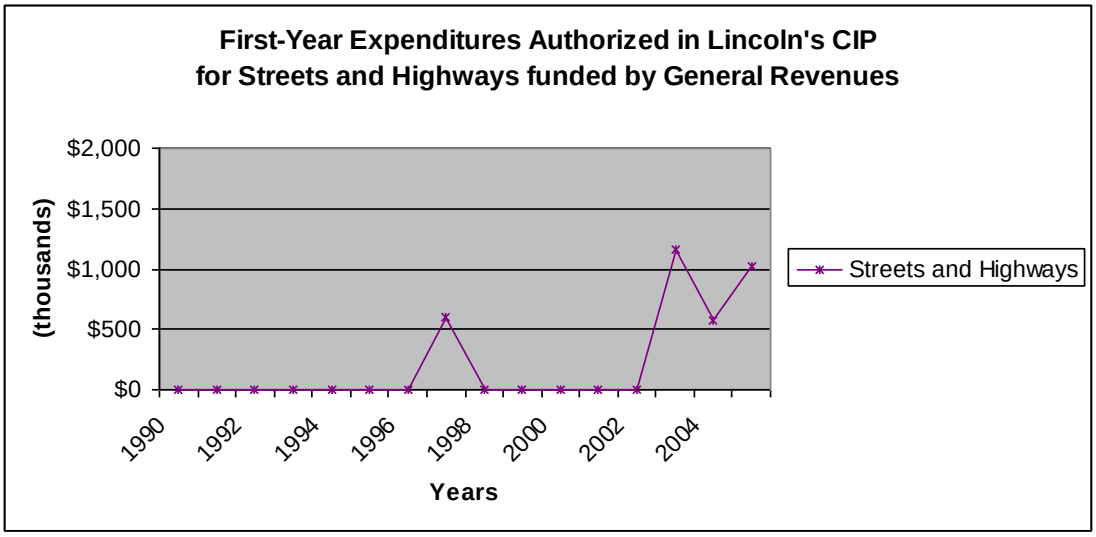
Sources: City of Lincoln *Capital Improvement Program for the periods* 1990-1996 to 2005-2011.

In addition to the general revenue data in Figure 7, there were also periodic authorizations for capital improvement expenditures for these departments supported by general obligation bonds. The general obligation bonds supporting these authorizations were not always brought to or passed by the public in referendums. The City of Lincoln provided a "History of General Obligations Bond Elections" for the 1990 to 2005 period. Those election results indicated that a number of general obligation bonds were passed. Two general obligation bonds totaling $6.5 million supporting capital improvement expenditures for the fire department (including a fire station) or for improvements to the emergency communications system were passed in 1995. General obligation bonds to support library construction were passed in 1991 ($2.5 million) and 1998 ($15.2 million). General obligation bonds to support the parks and recreation department were passed in 1998 ($6.6 million, including $1.7 million for the Children's Museum). There were

numerous general obligation bonds passed for storm sewer projects in 1991 ($2.9 million), 1993 ($4.0 million), 1997 ($8.3 million), 2001 ($7.5 million), 2003 ($10.0 million), and 2005 ($10.0 million). These bonds that were passed by the public by referendum also were part of the first-year authorizations in the Lincoln CIPs from 1990 through 2005.

General obligation bonds to support capital spending on streets and highways were not passed in the City of Lincoln during the 1990 to 2005 period. City government did place a $75.0 million dollar general obligation bond for streets and trails on the ballot in 2004, but the measure was defeated. Turning back to general revenues, Figure 8 shows authorizations for capital improvement expenditures for streets and highways supported by general revenues in the first year of the Lincoln CIP for 1990 through 2005. The authorization was $0 in 11 of 15 years, though there were authorizations in each of the last three years. There was an authorization of $600,000 in 1997, but this was dedicated to a building project rather than a roadway.

Figure 8



Sources: City of Lincoln *Capital Improvement Program for the periods* 1990-1996 to 2005-2011.

There was a $1,200,000 authorization in 2003, but two-thirds of this was for sidewalk maintenance, community development or parks projects associated with the Antelope Valley Project. All first-year authorizations in the 2004 and 2005 CIPs were for

sidewalk repair and maintenance or administrative costs, urban development, or parks projects associated with the Antelope Valley Project.

General revenue from the City of Lincoln does go to support the purchase and installation of street lights, however. Table 2 below shows annual street light investment costs for the City. These costs were not reported in the Lincoln CIP as being supported by general revenue, but staff with the City of Lincoln Department of Finance indicated that general revenue is the ultimate source of this funding. Table 2 refers to the capital costs for street lights rather than operating costs (i.e., electricity). Annual costs range between $1.0 million and $2.5 million per year. A portion of street light investments go to replacing or upgrading street lights on existing streets, but a large share of costs go to new street lights for new or widened streets, according to City staff. The City was not able to separate costs for replacement and new lights.

Table 2

City of Lincoln's Street Light Investment Costs

Year	Investment Cost
1991	$1.1 million
1992	$1.2 million
1993	$1.3 million
1994	$1.3 million
1995	$1.5 million
1996	$1.6 million
1997	$1.7 million
1998	$1.8 million
1999	$2.0 million
2000	$2.0 million
2001	$2.2 million
2002	$2.3 million
2003	$2.3 million
2004	$2.4 million
2005	$1.9 milllion

Source: City of Lincoln, Department of Finance.
Note: Fiscal year data. For example, 1991 refers to the 1990-91 fiscal year.

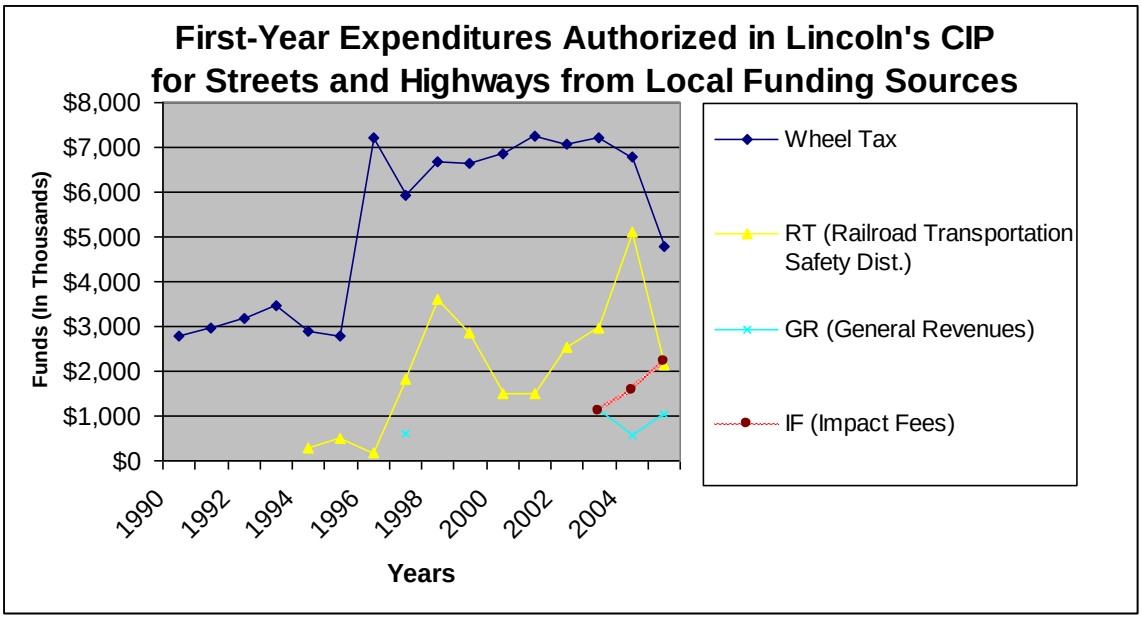
A. Sources of Funding For Streets and Highways

Despite the above findings regarding general revenue and general obligation bonds, the City of Lincoln has used other types of local sources to fund capital

improvements. Figure 9 shows first-year authorizations for capital spending on streets and highway projects from several local funding sources in 1990 through 2005 CIPs.[16] Over the entire period, an average of $8 million per year of first-year authorizations for capital expenditures on streets and highways has been funded by local sources such as the wheel tax, the Railroad Transportation Safety District, and impact fees. The Railroad Transportation Safety District is particularly interesting, as this is funded by a county-wide property tax. This is a recent example of property tax revenues being used to fund capital expenditures on streets and highways.

As is evident in Figure 9, funding from both Wheel Taxes and the Railroad Transportation Safety District leaped to a higher level beginning in 1996. It should be noted, however, that a portion of the wheel tax revenue increase during the 1990s was intended to fund snow removal rather than fund street construction. Further, as is indicated in Figure 10, beginning in 1994, between $600,000 and $800,000 from the street construction fund has been allocated each year to Lincoln's snow removal budget.

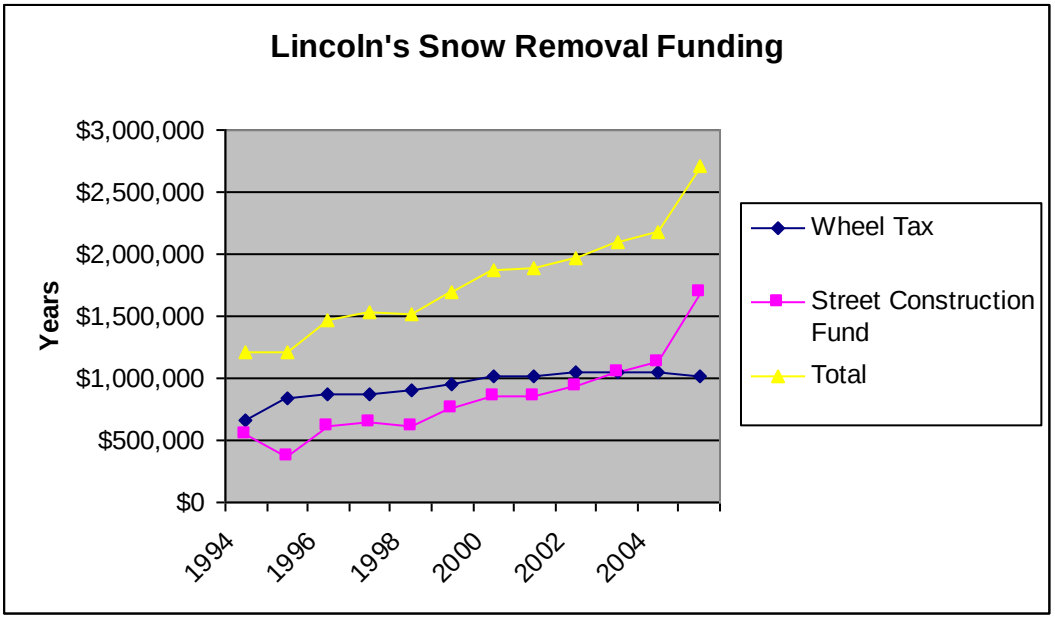
Figure 9



Sources: City of Lincoln *Capital Improvement Program for the periods* 1990-1996 to 2005-2011.

[16] Figure 9 does not reflect city funding for the Haymarket Park baseball stadium that was run through the streets and highways department.

Figure 10



Sources: City of Lincoln *Comprehensive Annual Financial Reports 1994-2001*.and City of Lincoln, Department of Finance (2002-2005).

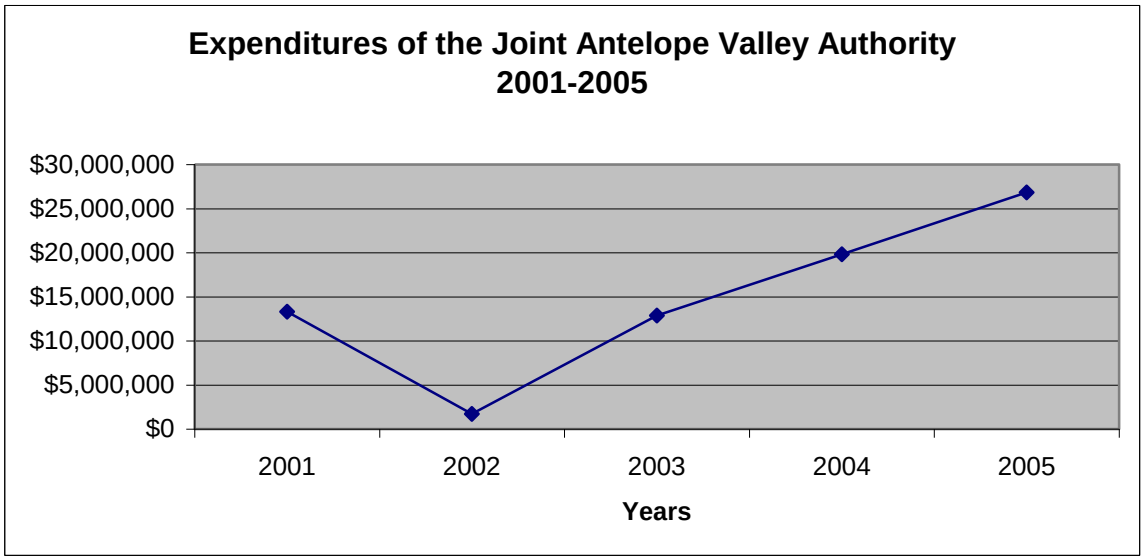
B. Capital Expenditures within the City

Beginning in 1999, capital outlay of the City of Lincoln grew dramatically, particularly spending on streets and highways. A natural question is whether this new capital outlay has occurred throughout the city or whether it has been focused largely on new neighborhoods on the edges of Lincoln. One way to examine this issue is to look at capital outlay associated with the Antelope Valley Project, a significant capital expenditure effort in the downtown neighborhoods of Lincoln that will benefit both these neighborhoods as well as the community as a whole.

Figure 11 shows capital outlay by the Joint Antelope Valley Authority that was funded by the City of Lincoln (as opposed to Natural Resource District or the University of Nebraska) during the 2000 through 2005 period. These figures were estimated by the Bureau of Business Research based on data provided by the City of Lincoln. With the exception of the year 2002, the joint Antelope Valley Project accounted for $13 million to $27 million per year. This accounts for approximately one-third of the capital outlay of the City of Lincoln in the current decade, as compared to total capital outlay figures in Figure 5. Just based on expenditures of the Joint Antelope Valley Authority, it is clear

that existing areas of Lincoln received a significant share of Lincoln's capital outlay in recent years.

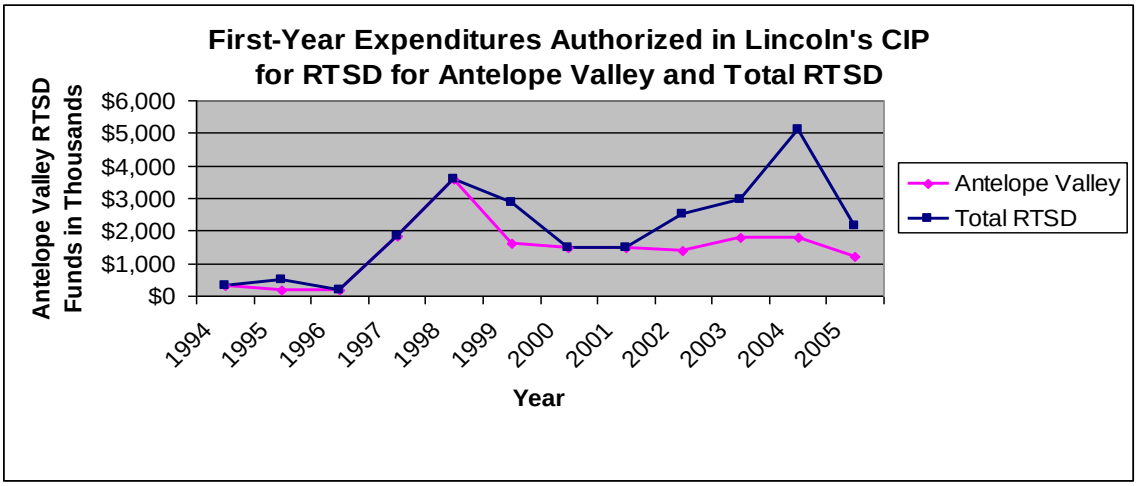
Figure 11



Source: City of Lincoln, Department of Finance

Intergovernmental transfers have been a significant source of revenue for capital expenditures on the Antelope Valley Project. It is interesting to note, however, that much of the recent increase in county-wide property taxes for the Railroad Transportation Safety District also has gone to fund the Antelope Valley Project. Figure 12 presents data on authorizations for capital expenditures in the first year of the CIP funded by the Railroad Transportation Safety District. Data are reported both for all authorizations recorded in the first year of each CIP and authorizations for the Antelope Valley Project. Initially, nearly all authorized spending was earmarked for capital spending on Antelope Valley, but in recent years this funding source has been used for projects both within Antelope Valley and in other parts of the city.

Figure 12



Sources: City of Lincoln *Capital Improvement Program for the periods* 1990-1996 to 2005-2011.

In summary, factors that contribute to Lincoln's property and sales tax base, such as the growth dividend, have been a source of funding for capital outlay on parks, storm sewers, public safety, and libraries in the City of Lincoln. The growth dividend also has been a source of funding for capital spending on street lights, but not for other types of capital outlay for Lincoln streets and highways. Other local funding sources such as the wheel tax, the Railroad Transportation Safety District (funded by a county-wide property tax), impact fees, and intergovernmental transfers have contributed to growing funding for streets and highways in Lincoln.

4. Conclusion

There have been consistent increases in population, employment, and housing units in the City of Lincoln over the 1990 to 2005 period. The city also experienced a surge in property and sales tax base during this time. This occurred in part as Lincoln grew larger and per capita income increased. Recent research by Thompson (2005), however, found that there was a further increase in revenue due to a "growth dividend," which is the additional property and sales tax base generated by new housing units relative to existing units.

This report examined how this growth dividend, as part of the city's general revenue, was allocated among alternative uses such as increasing city expenditures, tax relief, and spending on city infrastructure such as streets and highways that accompanies new growth. Government expenditures were found to have risen at roughly the same rate as personal income in Lincoln during the 1990 to 2005 period. In other words, city government is approximately the same share of the Lincoln economy in 2005 as it was in 1990. It is also true, however, that both tax base and intergovernmental transfers (from the federal or state government) grew faster than government expenditures in Lincoln. This implies that sources of revenue growth in Lincoln, such as the growth dividend, could have been used to reduce tax rates as well as to grow government expenditure.

The city sales tax rates remained steady at 1.5% in Lincoln throughout the 1990 to 2005 period. There was a decline in the City of Lincoln's property tax levy during the period from nearly $0.50 per $100 in property value at the beginning of the period to around $0.30 per $100 at the end. The city's wheel tax, however, was increased in the mid-1990s. Further, at the same time that expenditures rose and property tax rates fell, the city also was able to rapidly increase capital outlay on infrastructure beginning in 1999. This was in part fueled by rapid increases in intergovernmental transfers to the city.

Taking the entire 1990 through 2005 period together, the City of Lincoln was able to grow expenditures in line with income, reduce property taxes, and increase capital outlay on infrastructure. There was a large increase in intergovernmental transfers that supported this increase in capital outlay, however, so the sources of funding for capital outlay in Lincoln were examined in more detail.

The finding was that the growth dividend and other factors that contributed to Lincoln's property and sales tax base had been a source of funding for capital outlay on parks and recreation, storm sewers, public safety, and libraries in the City of Lincoln. The growth dividend and other such sources also has been a source of funding for purchasing and installing street lights but has not been a source of funding for other types of capital outlay for streets and highways in the city. Other local funding sources such as the wheel tax, the Railroad Transportation Safety District (funded by a county-wide property tax), and impact fees have contributed to funding for streets and highways. Further, a recent surge in intergovernmental transfer revenue has fueled an increase in capital outlay in both new Lincoln neighborhoods as well as in downtown neighborhood through the Antelope Valley project. Finally, the city also has bonded future revenues from transfers from the state road fund to push infrastructure spending forward.

It may be possible to maintain recent increases in capital outlay in Lincoln by expanding intergovernmental transfers or through local sources such as wheel taxes. However, in the future it also may make sense to fund more new street and highway infrastructure in Lincoln through general revenue and general obligation bond spending. If more of the growth dividend is allocated for street and highway infrastructure (more than just for street lights), this would help maintain growth with its benefits in terms of rising wages and increased retail choice (Thompson, 2005).

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