

Gold Hill Mesa Commercial Area Project Memorandum

TO: Mr. Monte McKeehen
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Golden Cycle Investments, LLC

FROM: Anne Ricker
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DATE: 1 June 2015

SUBJECT: GHM Commercial Area Impact on City of Colorado Springs
Project Number: J3671

This memorandum summarizes our evaluation of the fiscal impacts of the proposed Gold Hill Mesa Commercial Area (the Area) on City of Colorado Springs (the City) operating revenues and expenditures. This analysis provides the City with a realistic expectation of the service levels required to efficiently accommodate new residents and/or employees. The analysis considered fiscal operating revenues and expenditures only, and consisted of the following components:

- The Area Development Program
 - ◆ Build-out of retail and rental residential land uses
 - ◆ Value of new development (on a per unit or per square foot basis)
- Fiscal Revenue Estimates
 - ◆ Tax revenues (property, sales)
 - ◆ Franchise fees
 - ◆ Licenses and permits
 - ◆ Fees and charges
 - ◆ Fines and forfeitures
 - ◆ Other revenues
- Service Cost Estimates
 - ◆ Operating expenditures by service department (based on the City's 2015 budget)
 - ◆ Calculated on a per capita basis, including both residents and employees
- Net Fiscal Surplus/Deficit

Methodology and Assumptions

The proposed development program for the Area is summarized below.

Table 1
Gold Hill Mesa Commercial Area
Development Program

	Sq Ft/ Units
New Redevelopment:	
Retail	270,000
Residential (Rental)	75

Source: Golden Cycle Investments, LLC

For the purposes of this evaluation, potential fiscal impacts from the Area were estimated at full build-out, expected to occur within the next five to ten years. This build-out of the Area would potentially bring **net new** residents and employees to the City, effectively increasing its “service” population. New residents tend to have a higher impact on municipal service costs than employees in the community, primarily due to the greater amount of time they spend there. For the purposes of this analysis, this distinction between residents and employees is described in the discussion of operating expenditures which follows.

Table 2 summarizes the total service population generated by the Area. As shown, the Area is expected to generate approximately 113 new residents and 675 new employees, or a total service population of 788.

Table 2
Gold Hill Mesa Commercial Area
Estimated Service Population

Land Use	Total Development	Avg. Sq Ft/Empl Avg. HH Size	Service Population
Retail (sq ft)	270,000	400	675
Rental Residential (units)	75	1.5	113
		Total:	788

Source: Ricker Cunningham

Based on this increase in the City’s service population, estimates of annual City operating revenues and expenditures were prepared. Key assumptions used in these estimates included:

- The City’s current budget (2015) reflects a reasonable balance between revenues and expenditures.
- Future revenues (taxes and fees) are based on current (2015) market values for various development types (retail, rental residential).
- Future expenditures are based on current (2015) service costs per capita, including residents and employees.

Detailed revenue and expenditure assumptions are summarized below.

Operating Revenues

Property Tax Revenue

- Development market values by land use estimated as follows:
 - ♦ Retail: \$ 100 per square foot
 - ♦ Rental Residential: \$100,000 per unit
- Development assessed values determined by applying assessment factors of 29% (non-residential) and 7.96% (residential) to market values
- Property tax revenue calculated by applying City mill levy of 4.279 to assessed values

Use Tax Revenue

- Use tax revenue estimated based on annual new development
- Building construction values by land use estimated as follows:
 - ♦ Retail: \$ 80 per square foot
 - ♦ Rental Residential: \$80,000 per unit
- Building construction values adjusted by 50% to reflect share of construction costs attributable to building materials
- City use tax rate of 2.0% applied to adjusted construction value

Sales Tax Revenue

- Sales tax revenue estimated based on total retail development
- Estimated retail sales from new development based on average retail sales of \$300 per square foot
- Sales per square foot estimate based on experiences of Colorado Springs metro area shopping centers and industry sources
- Total retail sales calculated by applying sales per square foot to total new retail development
- Sales tax revenue calculated by applying City sales tax rate of 2.0% to total retail sales

Other Revenue

- Other operating revenues generated by new residents and employees
- Includes Licenses and Permits, Charges for Services, Fines and Miscellaneous Revenues

Table 3 summarizes estimated City operating revenues resulting from the Area.

Table 3
Gold Hill Mesa Commercial Area
Estimated City Operating Revenues

Property Tax Revenue	Total @ Buildout	Market Value Per Sq Ft/Unit	Assessed Value	Property Tax Rate	Annual Property Tax
Land Use:					
Residential Rental (Units)	75	\$100,000	\$597,000	0.00428	\$2,555
Retail (Sq Ft)	270,000	\$100	\$7,830,000	0.00428	\$33,505
			Annual Total:		\$36,059

Use Tax Revenue	Total @ Buildout	Market Value Per Sq Ft/Unit	Taxable Value	Use Tax Rate	Annual Use Tax
Land Use:					
Residential Rental (Units)	75	\$80,000	\$3,000,000	2.00%	\$12,000
Retail (Sq Ft)	270,000	\$80	\$10,800,000	2.00%	\$43,200
			Annual Total:		\$55,200
* One-time tax; averaged over 5 years.					

Sales Tax Revenue	Total @ Buildout	Retail Sales Per Sq Ft/Unit	Total New Retail Sales	Sales Tax Rate	Annual Sales Tax
Land Use:					
Residential Rental (Units)	75	\$0	\$0	2.00%	\$0
Retail (Sq Ft)	270,000	\$300	\$81,000,000	2.00%	\$1,620,000
			Annual Total:		\$1,620,000

Other Revenue*	Total @ Buildout	Avg. HH Size/ Sq Ft/Emp	Service Population	Revenue Per Capita	Annual Other Revenue
Land Use:					
Residential Rental (Units)	75	1.5	113	\$6.69	\$753
Retail (Sq Ft)	270,000	400	675	\$7.71	\$5,203
			Annual Total:		\$5,956
* Includes Licenses and Permits, Charges for Services, Fines and Misc. Revenues.					

Total Annual Revenues: \$1,662,015

Source: City of Colorado Springs and Ricker Cunningham.

As shown, the Area has the potential to generate approximately \$1.7 million annually in operating revenues to the City.

Operating Expenditures

As noted, the source used in formulating assumptions regarding operating expenditures was the City's 2015 budget. General fund service categories reviewed included:

- Administration
- City Council/City Auditor
- Fire
- Parks, Recreation and Cultural Services
- Planning/Development and Public Works
- Police

Using 2015 budget figures, the next step in the analysis was to attribute a share of costs for each of these service categories to residential and non-residential development. For example, it was estimated that 80% of Parks, Recreation, and Cultural Services were attributed to residential development, or residents within the City. The remaining 20% could be attributed to non-residential development, or employees within the City. Once each service category was attributed to land use type, per capita estimates were generated (residential based on a total City population of approximately 450,100, and non-residential based on a total City employment figure of approximately 245,000). Table 4 summarizes the City's 2015 budgeted expenditures and the adjustments described above.

Table 4
City 2015 Operating Expenditures
Residential vs. Non-Residential Share

Service Category	2015 Budget	% Attributable to Land Use		Total		Per Capita	
		Residential	Nonresidential	Residential	Nonresidential	Residential	Nonresidential
Administration	\$80,784,615	70%	30%	\$56,549,231	\$24,235,385	\$125.64	\$98.92
City Council/City Auditor	\$2,340,889	60%	40%	\$1,404,533	\$936,356	\$3.12	\$3.82
Fire	\$47,688,981	20%	80%	\$9,537,796	\$38,151,185	\$21.19	\$155.72
Parks, Recreation and Cultural Services	\$14,603,610	80%	20%	\$11,682,888	\$2,920,722	\$25.96	\$11.92
Planning/Development and Public Works	\$24,295,128	50%	50%	\$12,147,564	\$12,147,564	\$26.99	\$49.58
Police	\$88,982,619	20%	80%	\$17,796,524	\$71,186,095	\$39.54	\$290.56
Total	\$258,695,842	42%	58%	\$109,118,536	\$149,577,306	\$242.43	\$610.52

Source: City of Colorado Springs and Ricker|Cunningham.

For the purposes of this analysis, the share of fire and police expenditures was heavily weighted toward non-residential development in an effort to account for the Area's future build-out as a large-scale commercial center. Once these per capita estimates were formulated, total anticipated City operating expenditures associated with the Area could be determined. Table 5 summarizes estimated City operating expenditures resulting from the Area.

Table 5
Gold Hill Mesa Commercial Area
Estimated City Operating Expenditures

Administration	Total @ Buildout	Avg. HH Size/ Sq Ft/Empl	Service Population	Expense Per Capita	Annual Expense
Land Use:					
Residential Rental (Units)	75	1.5	113	\$125.64	\$14,134
Retail (Sq Ft)	270,000	400	675	\$98.92	\$66,771
			Annual Total:		\$80,905

City Council/City Auditor	Total @ Buildout	Avg. HH Size/ Sq Ft/Empl	Service Population	Expense Per Capita	Annual Expense
Land Use:					
Residential Rental (Units)	75	1.5	113	\$3.12	\$351
Retail (Sq Ft)	270,000	400	675	\$3.82	\$2,580
			Annual Total:		\$2,931

Fire	Total @ Buildout	Avg. HH Size/ Sq Ft/Empl	Service Population	Expense Per Capita	Annual Expense
Land Use:					
Residential Rental (Units)	75	1.5	113	\$21.19	\$2,384
Retail (Sq Ft)	270,000	400	675	\$155.72	\$105,110
			Annual Total:		\$107,494

Parks, Recreation and Cultural Services	Total @ Buildout	Avg. HH Size/ Sq Ft/Empl	Service Population	Expense Per Capita	Annual Expense
Land Use:					
Residential Rental (Units)	75	1.5	113	\$25.96	\$2,920
Retail (Sq Ft)	270,000	400	675	\$11.92	\$8,047
			Annual Total:		\$10,967

Planning/Development and Public Works	Total @ Buildout	Avg. HH Size/ Sq Ft/Empl	Service Population	Expense Per Capita	Annual Expense
Land Use:					
Residential Rental (Units)	75	1.5	113	\$26.99	\$3,036
Retail (Sq Ft)	270,000	400	675	\$49.58	\$33,468
			Annual Total:		\$36,504

Police	Total @ Buildout	Avg. HH Size/ Sq Ft/Empl	Service Population	Expense Per Capita	Annual Expense
Land Use:					
Residential Rental (Units)	75	1.5	113	\$39.54	\$4,448
Retail (Sq Ft)	270,000	400	675	\$290.56	\$196,125
			Annual Total:		\$200,573

Total Annual Expenses: **\$439,374**

Source: City of Colorado Springs and Ricker Cunningham.

As shown, the Area has the potential to generate approximately \$439,000 annually in operating expenditures to the City.

Net Operating Surplus/Deficit

Based on the proposed development program and the anticipated mix of land uses, the Area has the potential to generate an annual operating surplus for the City of approximately \$1.3 million (See Table 6).

Table 6
Gold Hill Mesa Commercial Area
Annual City Operating Surplus

Indicator	Total @ Buildout
Estimated Development In Place:	
Residential Rental (Units)	75
Retail (Sq Ft)	270,000
Office/Industrial (Sq Ft)	0
Estimated Annual Revenues by Type:	
Property Tax	\$36,059
Use Tax*	\$55,200
Sales Tax	\$1,620,000
Other Revenues**	\$5,956
Total New Annual Revenues to City:	\$1,717,215
Estimated General Fund Expenditures by Department:	
Administration	\$80,905
City Council/City Auditor	\$2,931
Fire	\$107,494
Parks, Recreation and Cultural Services	\$10,967
Planning/Development and Public Works	\$36,504
Police	\$200,573
Total New Annual Service Costs to City:	\$439,374
Total Net Annual City Surplus (Deficit):	\$1,277,841
% Net Annual City Surplus (Deficit):	74%

* One-time tax; average over 5 years.

** Includes Licenses and Permits, Charges for Services, Fines and Misc. Revenues.

Source: Gold Hill Mesa; City of Colorado Springs; and Ricker Cunningham.

Conclusion

The proposed Gold Hill Mesa Commercial Area has the potential to generate significant operating revenues for the City of Colorado Springs, primarily due to the sales tax-generating retail development planned. With respect to service costs or operating expenditures, the residential component of the Area, coupled with the employees of the retail center, do not create a sizable service population for the City. The analysis herein has



been decidedly conservative in estimating service cost impacts, especially those associated with public safety. Even so, the sales tax potential of the Area more than offsets service costs associated with the development, generating an annual operating surplus to the City.

If you have any questions regarding the analysis herein, please do not hesitate to call us at 303.458.5800.

DRAFT AS OF 1 JUNE 2015