



## MEMORANDUM

**To: Springs Land Ventures**  
**RE: Fiscal Impact of Zoning Request Trailside at Cottonwood Creek**  
**Date: March 17, 2020**

Summit Economics has completed a brief review of the City of Colorado Springs' fiscal impact analysis (FIA) for the above referenced property and draws the following conclusions.

### Fundamentals

Before addressing the City's model, we outline some fundamental issues worth considering:

1. The subject property has apparently been actively marketed for sale for 20 years as commercial while residential and commercial development has substantially completed in the vicinity indicating the general inferiority of the site which was acquired twice as surplus property for adjacent development (Cook Communications originally and mini-warehouse more recently).
2. Given the marketing challenges of the property, the El Paso County Assessor has appropriately valued the property at \$0.60/square foot due to both market inferiority for commercial at the location and the high cost of development due to topography. In contrast, the Assessor's land valuation model (based upon historical land sales for commercial development) values taxable retail land sales at an approximate average of \$8.50/s.f. and non-taxable (sales tax) commercial land at approximately \$5.75/s.f.
3. Major changes are underway societally in both the office and retail sectors. Office and other commercial demand will be driven more by the emerging virtual world thereby decreasing the need for new commercial space. Within ten years, online retail sales will double in market share and end up comprising 20% to 25% of all retail sales. This trend elevates the importance of residential addresses to governments given the recent Supreme Court ruling requiring online sales tax remittance to local governments. The new paradigm places greater emphasis on communications infrastructure and delivery efficiency and less on consumer transportation.
4. New housing demand derives from job and population growth which facilitates the creation of new households originating from within or external to a community. New household formation occupies new housing and fills existing housing. This creates additional spending on taxable goods and services. Even when the new housing is purchased by existing households in the community, it frees up housing supply



elsewhere. Hence, new housing development promotes more affordable housing by increasing the overall supply of housing.

### Summit vs City Model

The Colorado Springs City Finance Department ran a fiscal impact model (FIA) demonstrating the net change if the subject property were developed as residential versus commercial. Summit Economics attempted to emulate the City model with its own FIA model and made changes only where there are substantially different assumptions. A comparison of the results is shown below.

Fiscal Impact Model Revenue Comparison over 10 Years		
	Summit Economics	City Finance Dept
Residential versus Commercial Development		
Annual Sales Tax Generated (res-com)	\$ (12,418)	\$ (75,465)
Ten Year Total of Annual Sales Tax	\$ (124,179)	\$ (754,651)
Sales & Use Tax on Construction	\$ 207,440	\$ 92,236
Total Sales & Use Tax (10 Year)	\$ 83,261	\$ (662,415)
Property Tax (10 year)	\$ 71,206	\$ 49,239
Miscellaneous Revenue (10 Year)	\$ 151,069	\$ 151,069
Other Revenues (10 Year)	\$ 8,321	\$ 8,321
<b>Total Revenue Change General Fund</b>	<b>\$ 313,858</b>	<b>\$ (453,786)</b>

In total, the City's FIA model shows a decrease of \$453,786 in revenues to the City over a ten-year period if the property is developed as residential instead of commercial. In sharp contrast, Summit's model shows a \$313,858 gain. This represents a difference of \$767,644 between the two models. A side by side comparison of all line items can be found in Exhibit A while a summary discussion follows.

A major difference between the models is the City's FIA assumes commercial development occurs in year 1. Given our analysis as outlined under the fundamentals, we think commercial development on the site is highly questionable. While Summit accepts 13,800 square feet of retail being developed on the site, we make a general adjustment assuming taxable retail development occurs in Year 10. This adjustment reflects a 25% discount of Summit's estimated retail sales taxes collected from commercial development based upon a present value calculation.



Due to the lack of information, Summit Economics does not attempt to estimate miscellaneous and other revenues (specific ownership taxes and road and bridges). We use the City's numbers.

#### Annual Sales Tax Generated:

- The City model appears to assume 100% of the \$3.6 million in annual commercial sales are taxable while Summit's model assumes only 50% are taxable based upon the 15-year average from 2000 to 2015 of total square footage developed for commercial uses. Note our definition of commercial uses are non-residential, non-public, and non-industrial uses. The City model therefore dramatically overestimates likely sales tax receipts from the property.
- The City model underestimates the increase in sales tax receipts from new residential development by using very low average household incomes compared to census data for the surrounding zip codes (80918, 80920, 80923). Summit uses \$100,000 in average household income which is slightly higher than the mean of the three zip codes. Research finds new home buyers most commonly have higher incomes than surrounding averages since such buyers are buying higher priced new homes (versus resale homes of comparable size) and homebuying households exclude apartment renters. Note Summit discounts its calculated residential sales taxes accepting the City's 60% discount for new residents although we believe the discount is too aggressive given the dynamics of housing markets and household growth.

#### Sales & Use Tax on Construction:

The City model provides net numbers on all revenue line items based upon revenues generated from residential development less revenues lost from no commercial development. Based upon apparent assumptions like the average price of new homes and materials as a percent of new home price (40%) made in the City model, we were able to approximate the City number under the residential development scenario. The City model result is substantially below the Summit model largely due to differing estimates on the cost of materials during construction.

#### Property Taxes

Similarly, we compared property tax revenues from residential structures to property tax revenues from commercial/retail. Summit assumes no property tax is collected on retail structures since our model assumes no retail development until the 10<sup>th</sup> year. The major difference between the two models results from estimated housing prices and resulting market values upon which assessments will be based. The City model assumes an average price of



\$230,000 per unit while the Summit model, which is based upon comparable sales in the Mid-Town development next door, all new homes in School District 20, and the proposed pricing in the development by the homebuilder, is \$450,000 per unit. The Summit model does give credit to current property taxes on the commercially zoned vacant land until developed during the 10-year period.

### Concluding Thoughts

Development opportunities react to markets far more than zoning, and over time vacant land is improved in accordance with an economic hierarchy. The more productive land can be, the higher the value and the more likely it will be used. In the case of the subject property, the topography constraints have limited development since the initial development of Cook Communications to the west in 1994. The market dynamics have passed over the subject despite substantial commercial development following residential development along the Woodmen Road corridor both to the east and the west during the last economic expansion period from the early 1990s until 2008.

The desirability of the subject property has resulted in an unusually low appraisal from the El Paso County Assessor's office of \$0.60/s.f. This represents approximately 10% of the average value of non-retail commercial land and 7% of land sold for taxable retail purpose. It is a very telling indicator about commercial potential.

Fortunately, there are strong market trends in the target segment sought by the proposed residential development. Low-maintenance living on small lots with a mix of units, including 50% with walkouts, will appeal to a wide home buyer base. Additionally, access to the trail along Cottonwood Creek is a major recreation asset. Research by Summit Economics conclusively finds a 20% price premium for homes within 500 feet of greenways.

As shown in this memo, the fiscal impact of rezoning from commercial use to residential use will have a significant positive impact and, perhaps more importantly, is far more certain in the coming few years.

	A	B	C	D
1	<b>Exhibit A - Detailed Comparison of Models</b>			
2		<b>Summit</b>	<b>City</b>	<b>Notes &amp; Comments</b>
3	<b>General</b>			
4	General Sales Tax Rate	2.0%	2.0%	
5	Annual Growth Rate	3.0%	3.0%	Summit accepts City's 3% growth although it appears high and Summit typically calculated FI with real rates of 0% growth after normalization
6				
7	<b>Residential</b>			
8	Sale Price	\$ 450,000	\$ 230,000	Recent Avg in SD 20: \$523k, in Classic Mid-Town \$406k, Builder estimates \$470k
9	Material Cost	\$ 200,000	\$ 92,000	Builder's engineered costs = \$234k per unit or about 47%. Summit Standard is 50% of hard construction which is 70% of sale price
10	Household Income	\$ 100,000	\$ 42,360	Average HH Income for 80918, 20, and 23 is \$94,000. 80920 is \$105,000. New home buyers typically have higher average household incomes than zip code which includes many apartment dwellers.
11	Taxable Expenditures	\$ 33,000	\$ 13,979	City uses 33%. Summit accepts number although our number is typically 28%
12	% spent in City	\$ 24,750	\$ 10,484	75% by both although Summit acknowledges it includes online sales with tax remitted to City
13	% New Residents	\$ 14,850	\$ 6,290	City 60%. Summit accepts number although all additional households create higher expenditures and local buyers free up other housing stock for people to purchase who may be new and typically does not adjust for new residents.
14	New Units	56	56	
15	Total Annual Sales Taxes	\$ 16,632	\$ 7,045	Starting
16	Sales & Use on Construction	\$ 224,000	\$ 108,796	City is apparently net of tax on material cost for commercial which Summit estimates at \$16,560
17	Total Market Value for Property Tax	\$ 25,200,000	\$ 12,880,000	Same as sale price
18	Annual City Property Tax Receipts	\$ 7,710	\$ 3,940	Assessed rate .07148 times City Mill levy 4.28 mills
19				
20	<b>Commercial</b>			
21	Potential Retail Sales	\$ 3,643,716	\$ 3,643,716	From City Model
22	Square Feet of Retail	13,800	13,800	From City Model

	A	B	C	D
23	Average Retail sale/S.F.	\$ 264	\$ 264	Calculated from City Model
24	Taxable/Non-Taxable Discount	50%	0%	Summit study of 15 years of commercial property sales shows 50% is generally non-taxable for retail sales.
25	Sales Tax Collections	\$ 36,437	\$ 72,874	Summit cannot concur with any retail use in short-term
26	PV of retail in 10 Years	\$ 27,344		Inflated at 3% discounted at 6%
27	PV of Retail in 20 Years	\$ 20,520		Inflated at 3% discounted at 6%
28	Land Area Coverage	0.2		Summit ratio
29	Land required for retail in acres	1.58		Calculated, but does assume topography is reasonably suitable for commercial development
30	Total land area in acres	15.66		Assessor data
31	Percent Retail	10.1%		Calculated, but does assume topography is reasonably suitable for commercial development
32	Assessor market value	\$ 409,289		
33	Assessor market value/S.F.	\$ 0.60		This is an extremely low valuation reflecting the commercial use of lowest value - warehouse.
34	Material cost	\$ 828,000		Based on Summit estimates of 50% of total improvement cost from new 2019 improvements on Assessor commercial sales from last quarter.
35	Sales & Use on Construction	\$ 16,560		
36	City Property Tax Receipts	\$ 589		Summit assumes vacant commercial land with current taxes
37				
38	<b>Residential versus Commercial Development</b>			
39	Annual Sales Tax Generated (res-com)	\$ (12,418)	\$ (75,465)	Average over 10 years with annual with 3% growth
40	Ten Year Total of Annual Sales Tax	\$ (124,179)	\$ (754,651)	
41	Sales & Use Tax on Construction	\$ 207,440	\$ 92,236	
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