

# Karman Line Fiscal Impact Analysis for the City of Colorado Springs

Prepared by

## Data-Driven Economic Strategies

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**(with City requested updates November 2024)**

# Karman Line Fiscal Impact Analysis

## EXECUTIVE SUMMARY

This report has details on the proposed annexation of “Karman Line” to the City of Colorado Springs. The report has five primary sections aside from this executive summary:

- 1) **Background** and context of the proposed project focusing primarily on housing supply and demand.
- 2) Incremental **City Expenditures** should the annexation occur under two scenarios. One was fashioned off a previous annexation and included select components of city expenditures. This is called Scenario 1. After consultation with the City Budget Office, we decided to include a Scenario 2 where all general fund expenditures were included.
  - a) Scenario 1 was calculated on a per resident basis and includes all city general fund expenditures for police, fire, support services, most park categories (cultural services, design and development, park maintenance and operations, and recreation and administration), and all public works categories (city engineering, forestry, operations and maintenance, traffic engineering, and transit services). This total was divided by the city population given in the 2023 budget report.
  - b) Scenario 2 did the same per resident calculation, but included all city general fund expenditures (e.g., all those listed above and more as detailed in the Expenditures section).
- 3) Incremental **City Revenues** emanating from the annexation including property taxes, specific ownership tax, road and bridge levies, sales tax from residents, sales and use tax on building materials, and miscellaneous revenue.
- 4) An overview of the larger (community-wide) **Economic Impact** from the construction and new household consumption.
- 5) A brief **Conclusion** with the same summary table (below) including commentary. As this table shows, both scenarios yield positive revenues over the 20-year horizon although Scenario 2 has significantly lower revenues. As discussed in the Background section, these financial impacts do not account for the much-needed increase in housing, particularly for military personnel, nor the need for military commercial space.

<u>2025-2044</u> NET FINANCIAL IMPACT—TWO METHODS	
Net Financial Impact (Scenario 1 with SELECT City expenditures)	\$50,556,413
Net Financial Impact (Scenario 2 with ALL City expenditures)	\$7,094,054

- 6) In November 2024, the City requested an analysis over a 10-year time horizon, and that table is below.

<u>2025-2034</u> NET FINANCIAL IMPACT—TWO METHODS	
Net Financial Impact (Scenario 1 with SELECT City expenditures)	\$13,555,659
Net Financial Impact (Scenario 2 with ALL City expenditures)	\$3,855,747

We’d like to express our sincere appreciation to Charae McDaniel from the City and Nina Ruiz and Craig Dossey from Vertex Consulting for their significant contributions towards the completion of this work.

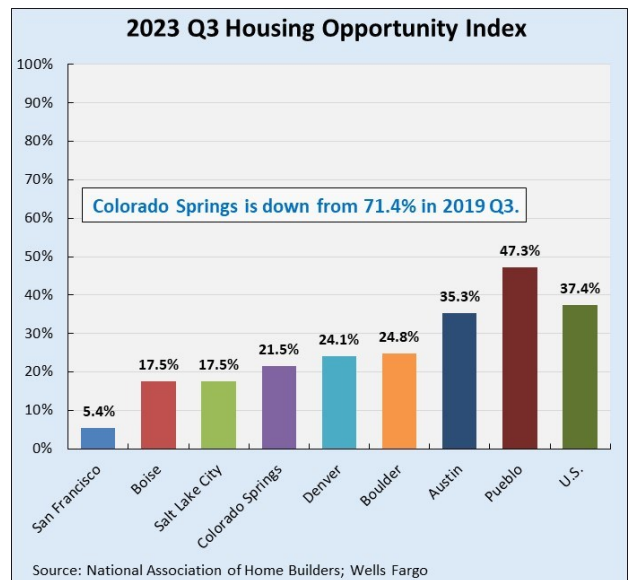
# Karman Line Fiscal Impact Analysis

## BACKGROUND AND CONTEXT

Data-Driven Economic Strategies (DDES) was commissioned by the City of Colorado Springs to conduct a financial and economic impact analysis of a proposed annexation called Karman Line. This report summarizes the in-depth analysis that was done juxtaposing the additional taxation revenues and the additional financial costs to the city should the annexation occur. The time span of financial analysis is from 2025 to 2044 and Appendix A has a map showing the boundaries of the proposed “flagpole” annexation.

Although the purpose of this report is to provide the details of the financial and economic impact, the context of the annexation also greatly matters. This is especially true in this era of housing shortages and unaffordable housing, especially in high-growth regions such as Colorado Springs. Points to consider include the following:

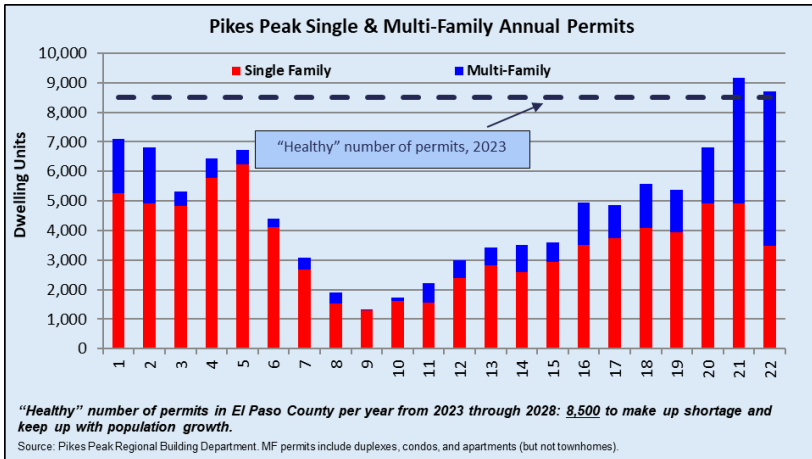
- ◆ The Housing Opportunity Index (HOI) for Colorado Springs was at 71.4% as recently as 2019 Q3 and has drastically fallen to 21.5% in 2023 Q3 as the graph shows. The HOI measures the percentage of new and existing homes sold in a region that are affordable to that region’s median household income.
- ◆ The corresponding median home prices in the region increased by \$151,000 (up 47%) during that four-year span (from \$319,000 to \$470,000). *Average* home prices in the region are over half a million dollars primarily because of the million dollar (plus) homes being built, which pull up the average.
- ◆ National home prices also increased from 2019 to 2023, although 37.4% of homes in the U.S. are still affordable to the median household income. In 2023 Q3, the U.S. median home price was \$388,000.
- ◆ With input from the State Demography Office and The Common Sense Institute, DDES has estimated that the Colorado Springs region has a shortage of roughly 11,500 dwellings.
- ◆ Current permitting for both multi-family and single-family homes is nowhere near where it needs to be in order to close the supply gap. The standing shortage of 11,500 dwellings does not incorporate future residents who move here. On average, El Paso County has had an additional 10,000 to 11,000 new residents per year. At current building levels, most new residents cannot be accommodated.
- ◆ If we incorporate the standing shortage and new in-migration into the county, approximately 8,500 new units need to be built *per year* through at least 2028. However, even with the housing “boom” during the pandemic (and prior to the drastic increase in interest rates), the average number of new permits per year were 4,800—far short of what is needed to match demand. The graph on the next page illustrates this point.



BACKGROUND & CONTEXT

# Karman Line Fiscal Impact Analysis

## BACKGROUND AND CONTEXT (continued)



◆ The region also has five military installations, and the proposed Karman Line annexation is one-half mile southwest of the Shriever Air Force Base main entrance gate and approximately seven miles from Peterson Air Force Base. Military personnel, in particular, are challenged to find affordable housing in the tight real estate market in high-growth cities like Colorado Springs. On-base housing is limited and military salaries are not conducive to \$1m+ homes.

- ◆ The Karman Line annexation would provide a mixture of multi-family and single-family housing in a variety of price ranges including homes that are affordable to the (military) median income.
- ◆ Shriever Air Force Base currently has a shortage of office and industrial space. The proposed Karman Line annexation includes mixed use space to meet the need for office and light industrial space. If approved, Karman Line will include nearly 2 million square feet of industrial/light office space. The aim will be to quickly provide critical office space for this section of region, in particular.
- ◆ By the end of the project timeline (2044) almost 5 million square feet of additional commercial space is planned. Some additional commercial space is in the phasing plan from Vertex Consulting Services to be completed by 2050. Due to the close proximity to Schriever Air Force Base, the commuting military personnel and contractors, and the new community of residents in Karman Line, investments in the build out of all types of commercial structures (including retail) should be beneficial to investors as well as residents and (non-resident) workers.
- ◆ In theory, there should be benefits of less commuting traffic as military and military-related personnel can live and work in a community that has contiguous residential and commercial spaces.

# Karman Line Fiscal Impact Analysis

## ADDED EXPENDITURES TO THE CITY OF COLORADO SPRINGS

### General Fund

The general fund expenditures for the Karman Line annexation were derived using two methodologies. Scenario 1 used select items from the City of Colorado Springs 2023 budget of expenditures in the general fund to closely match what was used for a previous study in 2017. General fund spending for police; fire; support services; and parks categories covering cultural services, design and development, park maintenance and operations, and recreation and administration were included. The previous study included “Infrastructure” expenditures, which we believe translates to the “public works” in the City’s budget. Hence, all of the public works categories—city engineering, forestry, operations and maintenance, traffic engineering, and transit services—were also included in Scenario 1. This total (\$266,945,868) was divided by the population given in the 2023 budget report (495,298 people) yielding a projected expense per person in Colorado Springs at \$538.96 in 2023. This per person expense was multiplied times the projected number of new people who will reside in the Karman Line annexation each year from 2025 through 2044 for a total general fund added expense of \$75,272,463 from 2025 through 2044. This amount is in 2023 dollars and does not include inflation, which is also the way that revenues are calculated in this report.

Scenario 2 did not make assumptions about which city expenditures should or should not be included in the analysis. Instead, Scenario 2 assumed new (Karman Line) residents would incur all city expenditures as is assumed for existing city residents. Hence, this calculation took the City of Colorado Springs 2023 total budget of expenditures in the general fund (\$421,080,552) and divided by the population given in that same report (495,298 people). This gives the projected expense per person in Colorado Springs as \$850.16 in 2023. This per person expense was multiplied times the projected number of new people who will reside in the Karman Line annexation each year from 2025 through 2044 for a total general fund added expense of \$118,734,823 from 2025 through 2044. This amount is in 2023 dollars and does not include inflation, which is also the way that revenues are calculated in this report.

GENERAL FUND EXPENDITURES—TWO METHODS	
Scenario 1 with Select General Fund Items	\$75,272,463
Scenario 2 with All General Fund Items	\$118,734,823

### Public Safety Sales Tax (PSST) Fund, 2C Road Tax Fund, and Trails, Open Space & Parks Programs (TOPS) Fund

The City of Colorado Springs recommended that PSST, 2C and TOPS not be included in the fiscal impact analysis because money is collected and spent for specific purposes. The City made this recommendation because from an accounting perspective these funds go in and out towards their respective purposes.

ADDITIONAL REVENUE/EXPENDITURES	
Public Safety Sales Tax (PSST) Fund	\$15,192,446
2C Road Tax Fund	\$11,523
Trails, Open Space & Parks Programs (TOPS) Fund	\$3,798,112

# Karman Line Fiscal Impact Analysis

## REVENUE NOTES

### Karman Line Annexation

### General Fund Fiscal Impact Analysis, 2025—2044

#### Property Tax

The Karman Line property is currently agricultural grazing land, valued at \$0.09 per square foot and currently assessed at 26.4% based on data provided by the vacant land manager at the El Paso County Assessor's Office. The acres of vacant land were converted to square feet based on the distribution of the Land Use Plan and multiplied by that value and assessment rate and then by 4.279 mills, which is the 2022 levy amount without any temporary TABOR credits. This is the calculation that is still used during the year residential properties will be built, based on the phasing estimate from Vertex Consulting Services, as well as the following year when the new construction will be assessed. Two years after the construction, the new residential property taxes are calculated using details below. For commercial and industrial/light office property, this is the calculation that is used until the property zoning changes—see details below.

Single-family market values for the various kinds of dwellings were provided by the Land Use Plan for 2025 and then increased each year starting in 2026 by 5.44%, which is the average of the year-over-year monthly percent changes from January 2011 through August 2023 without including 2020 and 2021 due to the pandemic impacts during those two years. For Karman Line, single-family attached property market values begin at \$400,000 per dwelling in 2025, small lot single-family properties and mixed use/loft properties begin at \$500,000, traditional suburban properties began at \$650,000, estates began at \$1.5 million, and ranches with over 1 acre began at \$2 million.

Each of these single-family properties had \$15,000 deducted from the appropriate market value and then values were multiplied by the 2023 assessment rate of 6.765% to find the assessed value. The assessed value was then multiplied by 4.279 mills, which is the 2022 levy amount without any temporary TABOR credits. See the table below for the total single-family property tax amount. (Note: The market value increase of 5.44% was only applied to the newly built properties being assessed based on the phasing estimate from Vertex Consulting Services. Once a market value, assessed value, and levy amount was calculated for each year of new residential building, that levy amount was carried forward into future years without including a reassessed amount.)

Multi-family market values for Karman Line begin at \$217,500 based on input from the budget manager of the City of Colorado Springs and the price of condos and townhomes in the Pikes Peak region from the Pikes Peak Association of REALTORS® (PPAR). This value was then increased each year starting in 2026 by 5.44%, which is the average of the year-over-year monthly percent changes from January 2011 through August 2023 without including 2020 and 2021 due to the pandemic impacts during those two years.

Each of these multi-family properties had \$15,000 deducted from the appropriate market value and then values were multiplied by the 2023 assessment rate of 6.765% to find the assessed value. The assessed value was then multiplied by 4.279 mills, which is the 2022 levy amount without any temporary TABOR credits. See the table below for the total multi-family property tax amount. (Note: The increase of 5.44% was only applied to the newly built properties being assessed based on the phasing estimate from Vertex Consulting Services. Once a market value, assessed value, and levy amount was calculated for each year of new building, that levy amount was carried forward into future years without including a reassessed amount.)

# Karman Line Fiscal Impact Analysis

## REVENUE NOTES (Continued)

Commercial zoning is assumed to happen three years before the estimated building is complete. Once it is zoned commercial, the newly zoned land was valued at \$9.00 per square foot in the analysis based on the input of Jay P. Carlson, founder and managing broker/principal at Front Range Commercial, LLC. This market value was taken times the current assessment rate of 27.9% to get the assessed value of the vacant commercial property, and then multiplied by 4.279 mills, which is the 2022 levy amount without any temporary TABOR credits.

Using the phasing estimate from Vertex Consulting Services, a portion of commercial property is built one year, assessed the next year, and the City of Colorado Springs begins to see the higher revenue the following year. The value of \$265 per square foot for commercial built property as the market value in 2025 was supplied by Jay P. Carlson. The change in the cost of building commercial and office space from the Pikes Peak Regional Building Department (PPRBD) reports for 2011 to 2019 was calculated. This change was 9.1% per year, which is similar to what was found for the change in housing prices in the region. A more conservative increase of 5.44% was applied to the market value of construction starting in 2026 to match residential construction. The appropriate market value based on the year of construction had a deduction of \$30,000 and then was multiplied times the 2022 assessment rate of 27.9%. This assessed value was then multiplied again by 4.279 mills, which is the 2022 levy amount without any temporary TABOR credits. Note: The increase of 5.44% was applied to the market value of the built properties every year even though the actual increases would be seen every two years as properties were reassessed. See the table below for the total commercial property tax amount.

Industrial/light office zoning is assumed to happen two years before the estimated building is complete based on the need for build out space quickly for nearby Schriever Space Force Base. Once it is zoned industrial, the newly zoned land was valued at \$7.50 per square foot based on the input of Jay P. Carlson, founder and managing broker/principal at Front Range Commercial, LLC. This market value was multiplied by the current assessment rate of 27.9% to get the assessed value of the vacant commercial property, and then multiplied again by 4.279 mills, which is the 2022 levy amount without any temporary TABOR credits.

Using the phasing estimate from Vertex Consulting Services, a portion of industrial/light office property is built one year, assessed the next year, and the City of Colorado Springs begins to see the higher revenue the following year. The value of \$170 per square foot for commercial built property as the market value in 2025 was supplied by Jay P. Carlson. The change in the cost of building commercial and office space from the Pikes Peak Regional Building Department (PPRBD) reports for 2011 to 2019 was calculated. This change was 9.1% per year, which is similar to what was found for the change in housing prices in the region. A more conservative increase of 5.44% as applied to the market value of construction starting in 2026. The appropriate market value based on the year of construction had a deduction of \$30,000 and then was multiplied by the 2022 assessment rate of 27.9%. Note: The increase of 5.44% was applied to the market value of the built properties every year even though the actual increases would be seen every two years as properties were reassessed. See the table below for the total industrial/light office property tax amount.

# Karman Line Fiscal Impact Analysis

## REVENUE NOTES (Continued)

PROPERTY TAX REVENUE, 2025—2044	
Vacant Residential Property	\$4,252
Single-Family Property	\$6,686,126
Multi-Family Property	\$2,175,975
Vacant Commercial Property— Before and After Zoning Combined	\$220,330
Commercial Real Estate	\$12,136,470
Vacant Industrial/Light Office Property — Before and After Zoning Combined	\$71,242
Industrial/Light Office Real Estate	\$10,764,047
<b>TOTAL PROPERTY TAX REVENUE</b>	<b>\$32,058,443</b>

*Note: Numbers above are rounded so they may not sum exactly to the total.*

### Specific Ownership Tax

This tax is based on the value of vehicles and is paid each year that a vehicle is registered in Colorado. The 2023 budget for the City of Colorado Springs had this tax at 11.93% of the assessed value of residential property tax after the mill levy is applied. We kept this percentage (as a proxy for vehicle ownership), and applied it to the residential property tax for Karman Line residents using 4.279 mills. (Note: This is impacted by the annual market value increases of 5.44% on new residential builds.)

SPECIFIC OWNERSHIP TAX REVENUE, 2025—2044	
<b>TOTAL SPECIFIC OWNERSHIP TAX REVENUE</b>	<b>\$1,057,249</b>

### Road & Bridge Tax

The levy from 2022 that is applied during 2023 for the Colorado Springs share of Road and Bridge Tax was 0.165. This amount was applied to the assessed value of vacant property in Karman Line each year and to new developments two years after they were built to allow for assessment the year after construction and taxes to begin the following year. (Note: This is impacted by the annual market value increases of 5.44% on new residential builds.)

ROAD & BRIDGE TAX REVENUE, 2025—2044	
<b>TOTAL ROAD &amp; BRIDGE LEVY REVENUE</b>	<b>\$1,026,095</b>



# Karman Line Fiscal Impact Analysis

## REVENUE NOTES (Continued)

### Sales Tax from Residents

Sales tax collections were totaled for the City of Colorado Springs in 2018, 2019, and 2022 after removing building materials, business services, commercial machines, hotel/motel, and utilities. These totals were divided by the number of residents for each year given in the City budget reports to get a per person sales tax amount for each year. These three amounts were averaged to get a sales tax per person without the years impacted by the pandemic.

Using the Land Use Plan for Karman Line and a phasing estimate from Vertex Consulting Services for residential construction along with the number of people per dwelling submitted to Colorado Springs Utilities (2.5 persons per single-family dwelling and 1.9 persons per multi-family dwelling), the number of people in this area was calculated. This new population was taken times the average sales tax per person to calculate their impact on the City's sales tax.

RESIDENTS' SALES TAX REVENUE, 2025—2044	
<b>TOTAL SALES TAX FROM RESIDENTS REVENUE</b>	<b>\$39,674,830</b>

### Sales Tax on Building Materials

Single-family and multi-family sales tax on building materials was calculated based on the market values during the years the structures are scheduled to be built using the phasing estimate from Vertex Consulting Services. These market values increase each year after 2025 at a rate of 5.44% per year (see details above under "Property Tax"). Based on input from Rob Fuller, CEO of ROI Property Group, LLC, the cost of construction is approximately 60% of the residential market value. This calculated cost of construction was then multiplied by 40% for the construction items that are sales taxable based on research done by the Chief Financial Officer at the City of Colorado Springs. Finally, the taxable amount was taken times the 2% sales tax for the City of Colorado Springs to obtain the residential portion of sales tax revenue from (Karman Line) building materials.

Commercial and industrial/light office sales tax on building materials was calculated by multiplying the square feet of property each year using the phasing estimate from Vertex Consulting Services and a rate of \$275 per square foot as the average cost provided by Jordan Montoya, field engineer at iiCON Construction Group. This cost is likely to go up over time, but it has been held constant for this 20 year analysis. The calculated construction cost was also multiplied by 40% for the construction items that are sales taxable, and that amount was taken times the 2% sales tax for the City of Colorado Springs.

BUILDING MATERIALS' SALES TAX REVENUE, 2025—2044	
<b>TOTAL SALES TAX ON BUILDING MATERIALS REVENUE</b>	<b>\$36,287,400</b>

# Karman Line Fiscal Impact Analysis

## REVENUE NOTES (Continued)

### Additional Fees and Charges

Charges for Services, Fines, and Intergovernmental categories were combined from the City of Colorado Springs 2023 budget and divided by the City’s population estimate to get a per person amount.

Using the Land Use Plan for Karman Line and a phasing estimate from Vertex Consulting Services for residential construction along with the number of people per dwelling submitted to Colorado Springs Utilities (2.5 persons per single-family dwelling and 1.9 persons per multi-family dwelling), the number of people in this area was calculated. This new population was taken times the per person payment for the three combined categories of additional charges and fees.

<b>MISCELLANEOUS REVENUE, 2025—2044</b>	
<b>TOTAL ADDITIONAL FEES &amp; CHARGES REVENUE</b>	<b>\$15,724,860</b>

### Public Safety Sales Tax (PSST) Fund, 2C Road Tax Fund, and Trails, Open Space & Parks Programs (TOPS) Fund

These three funds have not been included in the fiscal impact analysis because the associated revenues go directly to and are expended for their respective purposes. Note that the 2C Road Tax Fund will sunset soon after Karman Line begins development. Excluding these amounts from calculations in this fiscal impact analysis was the recommendation of the City of Colorado Springs. However, we include the amounts below

<b>ADDITIONAL REVENUE/EXPENDITURES</b>	
Public Safety Sales Tax (PSST) Fund	\$15,192,446
2C Road Tax Fund	\$11,523
Trails, Open Space & Parks Programs (TOPS) Fund	\$3,798,112

because annexation of Karman Line will indeed bring additional revenues to these funds for public safety, roads, and trails and open spaces. This would be a positive externality of the proposed annexation. In addition, Karman Line developers plan to build several community parks and roads, which all city residents can utilize without additional taxation to all city residents.

# Karman Line Fiscal Impact Analysis

## ECONOMIC IMPACT

An additional and vital aspect of this project includes the community wide impact of the Karman Line annexation. This relates to the new economic activity and the associated jobs that emanate from the roughly 18 years of construction (only years where actual construction occurs were included). There is the “direct” impact of the *construction-related spending* tied to both the residential (single and multi-family) and commercial construction and the direct construction jobs required by that activity. In addition, there is the “indirect impact” from the business-to-business activity (e.g., suppliers that provide construction materials) and those associated jobs (e.g., people who work at those construction supplier firms). Lastly, there is the “induced impact” which is the spending by all the associated employees within the community as well as the additional jobs that economic activity creates (e.g., revenues and jobs associated with grocery stores used by project-related employees). The total economic impact is the sum of the direct, indirect, and induced impacts.

The economic impact analysis for Karman Line was conducted using RIMS II, an economic impact analytical tool available for purchase from the U.S. Bureau of Economic Analysis. The tables below summarize the results with the first table showing aggregate impacts for the duration of the construction (18 years) and the

<b>ECONOMIC IMPACT FROM CONSTRUCTION, 2025—2044 (in 2023 dollars)</b>				
	Total Output (Revenue)	Net Contribution to GMP	Associated New Jobs	Associated Labor Income
Residential	\$6,733,083,673	\$ 3,764,944,781	17,789	\$1,259,742,388
Commercial	\$4,882,608,718	\$2,730,212,946	12,900	\$913,523,352
<b>TOTAL</b>	<b>\$11,615,692,391</b>	<b>\$6,495,157,727</b>	<b>30,689</b>	<b>\$2,173,265,740</b>

<b>ECONOMIC IMPACT FROM CONSTRUCTION, AVERAGE PER YEAR (in 2023 dollars)</b>				
	Total Output (Revenue)	Net Contribution to GMP	Associated New Jobs	Associated Labor Income
Residential	\$374,060,204	\$209,163,599	988	\$69,985,688
Commercial	\$271,256,040	\$151,678,497	717	\$50,751,297
<b>TOTAL</b>	<b>\$645,316,244</b>	<b>\$360,842,096</b>	<b>1,705</b>	<b>\$120,736,986</b>

second table showing the average impacts per year. As the tables show, over the life of the eighteen year project, total revenue generated for both the residential and construction components is \$11.6 billion with a net contribution to GMP (gross metropolitan product) of \$6.5 billion. Over this timespan, new jobs generated would be 30,689 with \$2.2 billion in new labor income for workers. This translates to an average salary of \$70,816 per year. All figures are in 2023 dollars.

The second table shows the same information but on an average annual basis.

# Karman Line Fiscal Impact Analysis

## CONCLUSION

Cities that have the advantage of population growth and economic vitality almost always suffer from “growing pains.” The most obvious pain typically relates to accessible and affordable housing. The nationwide and regional estimated shortage of housing that began during The Great Recession, is estimated at 6.5 million and 11,500 residential dwelling units respectively. The simple law of economics that low supply equals higher prices is a persistent truism that has stymied in-migration and overall economic growth for many regions across the United States. Colorado Springs is at such a cross-roads with average home prices up 51.9% from 2019 to 2023. From 2017 to 2022, average home prices increased \$221,090 with a doubling of prices from 2015 to 2022. The “rule of thumb” in residential real estate is a doubling of prices in twenty years. Affordability has suffered more so in the Pikes Peak region with a housing affordability index of 21.5% (of homes sold affordable to the median household income) versus an index of 37.4% for the U.S.

Colorado Springs has the added advantage of five military installations that help fuel business growth both in defense-related contractual work, as well as other “B-to-B” activities from the associated household formation. The proposed Karman Line annexation directly addresses the regional shortage of housing, and the military-related shortage of commercial space.

It is important to note that current residential building patterns are not on track to close the housing gap. In 2023, 4,800 dwelling units were built in El Paso County, but approximately 8,500 newly built units are needed a year to accommodate the roughly 10,000 to 11,000 new residents while also closing the existing housing supply gap. Over the course of 20 years, Karman Line will bring 6,500 new single-family and multi-family dwellings to the region (combined), which could make a material difference in terms of more accessible and affordable housing. The 6,500 new dwelling will not close the housing gap, but they represent a meaningful start to increasing supply especially in a region of the city that has particularly high need.

As a result of this analysis, it is possible for the Karman Line annexation to occur without negative impact on the city budget. As the table below shows, the financial impact analysis performed with select city expenditures, as has been done in previous annexation proposals, yields \$13.6 million over 10 years or \$50.5 million over 20 years to the City of Colorado Springs due to the excess of (new resident and business-related) tax revenues over the costs incurred by the city. DDES felt it important to conduct an additional analysis that includes all city expenditures even though there may be some expenditures that do not necessarily apply to the new residents and businesses should the Karman Line annexation occur. That “Scenario 2” analysis still has positive budgetary implications for the city (at \$3.9 million in new revenue over 10 years or \$7.1 million in new revenue over 20 years above costs).

<u>2025-2034 NET FINANCIAL IMPACT—TWO METHODS</u>	
Net Financial Impact (Scenario 1 with SELECT City expenditures)	\$13,555,659
Net Financial Impact (Scenario 2 with ALL City expenditures)	\$3,855,747
<u>2025-2044 NET FINANCIAL IMPACT—TWO METHODS</u>	
Net Financial Impact (Scenario 1 with SELECT City expenditures)	\$50,556,413
Net Financial Impact (Scenario 2 with ALL City expenditures)	\$7,094,054

# Karman Line Fiscal Impact Analysis

## CONCLUSION (Continued)

It is important to note that calculations for both scenarios were relatively conservative. For example, in high growth regions housing appreciation has been in the double digits for the past few years. However, DDES instead used an average historical rate over the past 12 years excluding 2020 and 2021, so the appreciation would not be overstated.

As the economic impact analysis shows, there are also community-wide impacts from the construction-related activity and associated jobs. Those tables show \$11.6 billion in total new gross revenues over the 2025 to 2044 period and a net contribution to the local economy, as measured by GMP, of \$6.5 billion. The corresponding employment impact (including direct, indirect and induced impacts) is 30,689 new jobs with \$2.2 billion in associated labor income. This translates to an average annual salary of \$70,816 per worker.

If we divide these aggregate values by eighteen years, on an average annual basis the total new gross revenues come to \$645 million per year with a net contribution to the local economy, as measured by GMP, of \$361 million per year. The corresponding employment impact (including direct, indirect, and induced impacts) is 1,705 new jobs per year with \$121 million in associated labor income.

In sum, the proposed Karman Line annexation can be a concrete step towards addressing the critical need for housing, commercial space for military installations, and all in the context of the solidified (Colorado Springs) location for Space Command. While doing so, the Karman Line project also generates a community-wide economic benefit from the eighteen years of new construction activity. Implicit in that activity is all the associated spillover (or “multiplier”) impacts to other businesses and employees. The economic impact is a large positive externality that further validates the broader benefit of the proposed project.

# Karman Line Fiscal Impact Analysis

## APPENDIX A

Map showing the boundaries of the proposed “flagpole” annexation.

