

Summit Economics, LLC

UPAC Presentation 9/2/09

1. Introduction (Dave Bamberger)
2. Demographic and Tax Base Trends -- Colorado Springs and El Paso County Suburbs (Paul Rochette)
3. Policy Issues -- Discussion and Recommendations EL 10 and EL 13 (Tom Binnings)

Demographic and Tax Base Trends

Colorado Springs and El Paso County Suburbs

Paul Rochette

UPAC

September 2, 2009

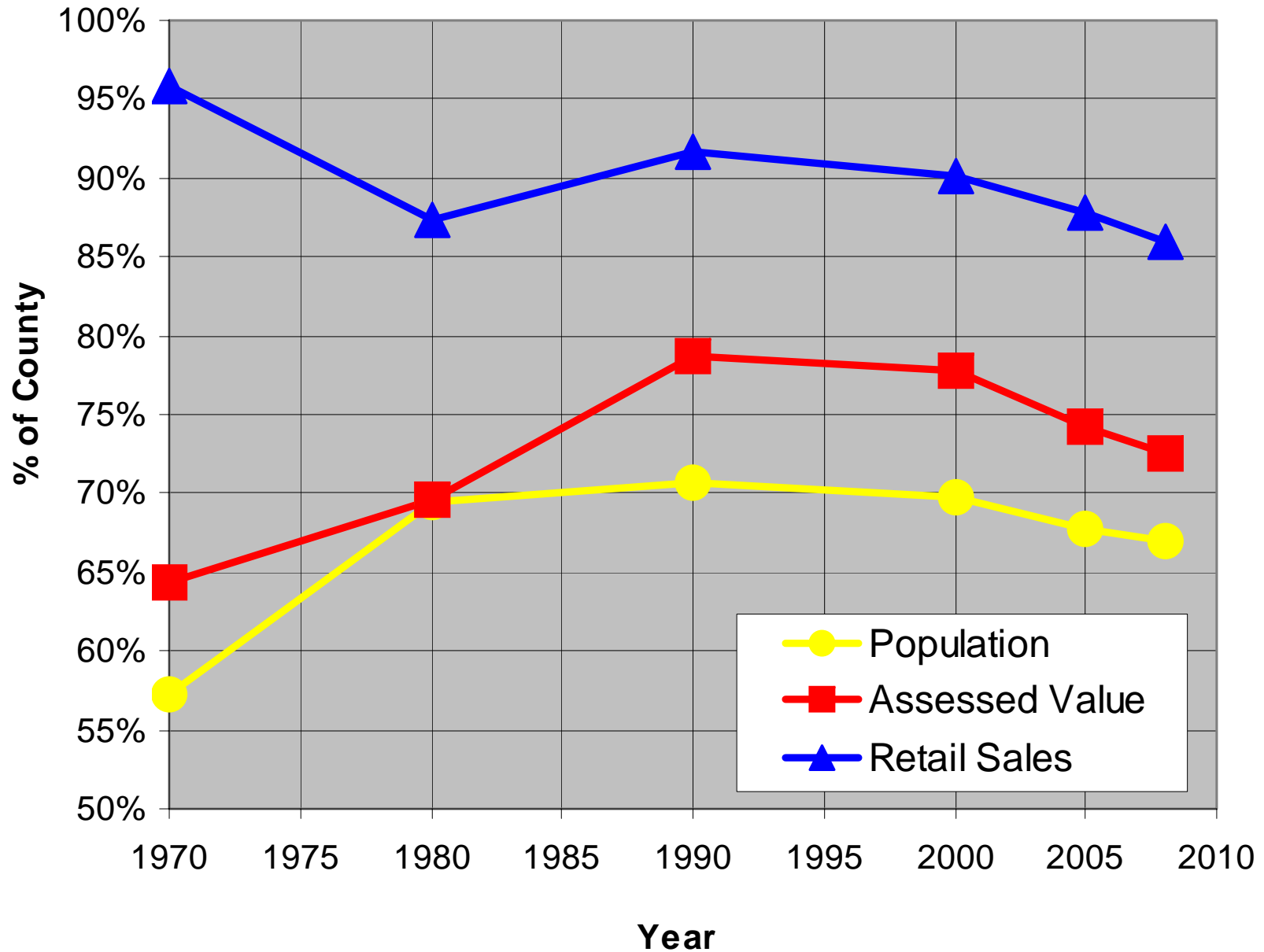
Total Population, 2000 and 2008
El Paso County, Municipalities and Unincorporated Area

Area	2000	2008	Change
Calhan	896	894	-2
Colorado Springs	360,890	400,282	39,392
Fountain	15,197	23,065	7,868
Green Mtn. Falls(part)	727	914	187
Manitou Springs	4,980	5,651	671
Monument	1,971	5,111	3,140
Palmer Lake	2,179	2,539	360
Ramah	117	125	8
Unincorporated Area	129,972	158,668	28,696
Total	516,929	597,249	80,320

Source: Bureau of the Census (Apr 1, 2000) and Colorado State Demographer (July 1, 2008)

Note: 2008 numbers are preliminary estimate.

City of Colorado Springs Share of El Paso County



**Long Term Trends - Population, Assessed Value, Retail Sales
El Paso County, City of Colorado Springs, and Suburbs**

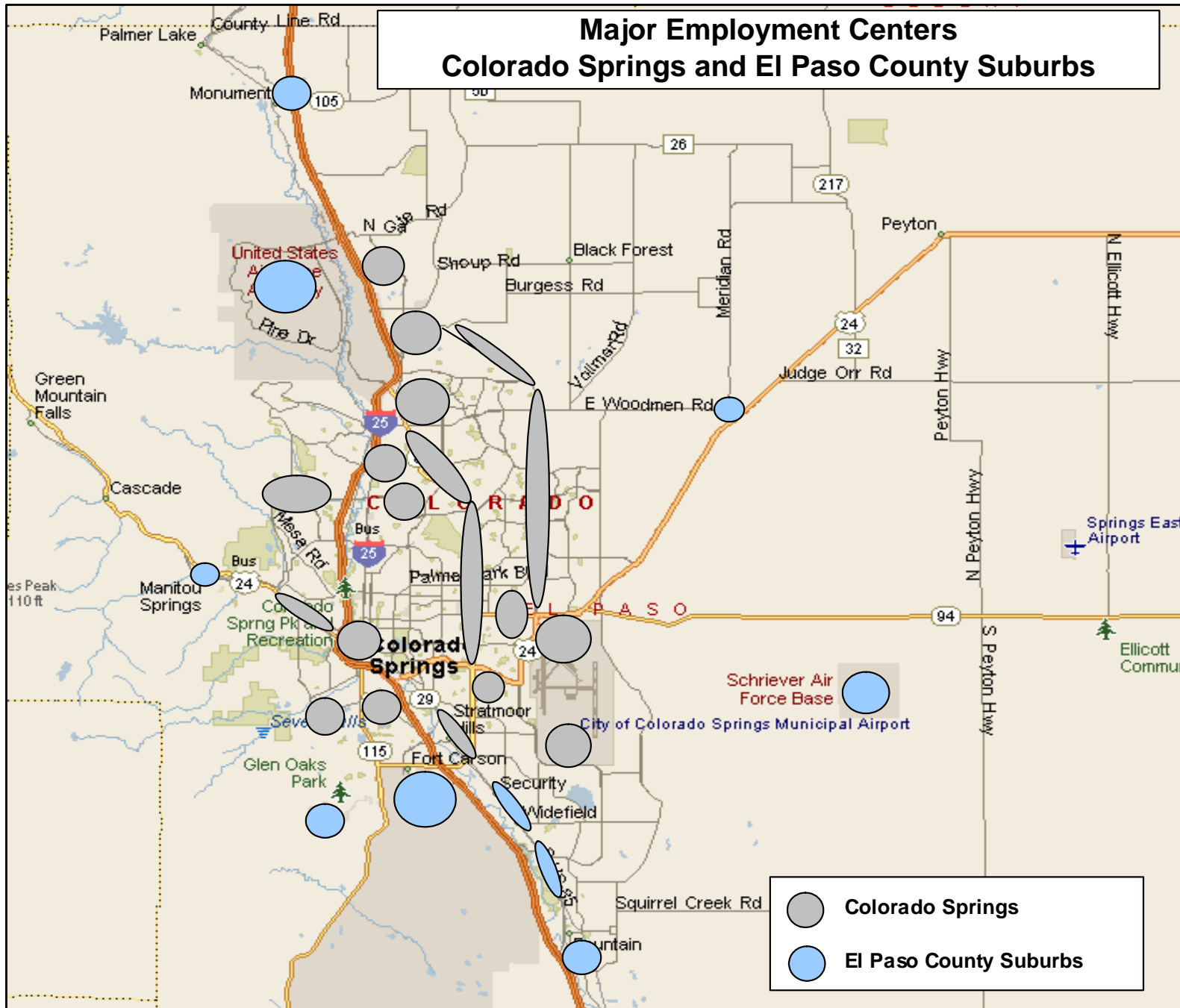
Population							
Year	El Paso County	City of Colorado Springs			Suburbs		
	Amount	Amount	Share	Change	Amount	Share	Change
1950	74,523	45,472	61%		29,051	39%	
1960	143,742	70,194	49%	24,722	73,548	51%	44,497
1970	235,972	135,060	57%	64,866	100,912	43%	27,364
1980	309,424	215,105	70%	80,045	94,319	30%	(6,593)
1990	397,014	280,430	71%	65,325	116,584	29%	22,265
2000	516,929	360,890	70%	80,460	156,039	30%	39,455
2005	568,424	385,312	68%	24,422	183,112	32%	27,073
2008	597,249	400,282	67%	14,970	196,967	33%	13,855

Assessed Value							
Year	El Paso County	City of Colorado Springs			Suburbs		
	Amount (in Millions \$)	Amount (in Millions \$)	Share	Change	Amount (in Millions \$)	Share	Change
1970	\$422.1	\$271.9	64%		\$150	36%	
1980	\$1,073.8	\$746.8	70%	\$474.9	\$327	30%	\$176.9
1990	\$2,892.1	\$2,277.5	79%	\$1,530.7	\$615	21%	\$287.5
2000	\$4,270.3	\$3,322.5	78%	\$1,045.0	\$948	22%	\$333.3
2005	\$5,523.8	\$4,103.9	74%	\$781.4	\$1,420	26%	\$472.1
2008	\$6,578.1	\$4,773.8	73%	\$669.9	\$1,804	27%	\$384.3

Retail Sales							
Year	El Paso County	City of Colorado Springs			Suburbs		
	Amount (in Millions \$)	Amount (in Millions \$)	Share	Change	Amount (in Millions \$)	Share	Change
1970	\$626.1	\$599.9	96%		\$26.1	4%	
1980	\$2,024.5	\$1,768.0	87%	\$1,168.1	\$256.5	13%	\$230.3
1990	\$4,038.9	\$3,701.9	92%	\$1,933.8	\$337.1	8%	\$80.6
2000	\$9,185.2	\$8,281.8	90%	\$4,580.0	\$903.4	10%	\$566.3
2005	\$11,830.9	\$10,395.8	88%	\$2,114.0	\$1,435.0	12%	\$531.7
2008	\$13,653.1	\$11,732.0	86%	\$1,336.2	\$1,921.1	14%	\$486.1

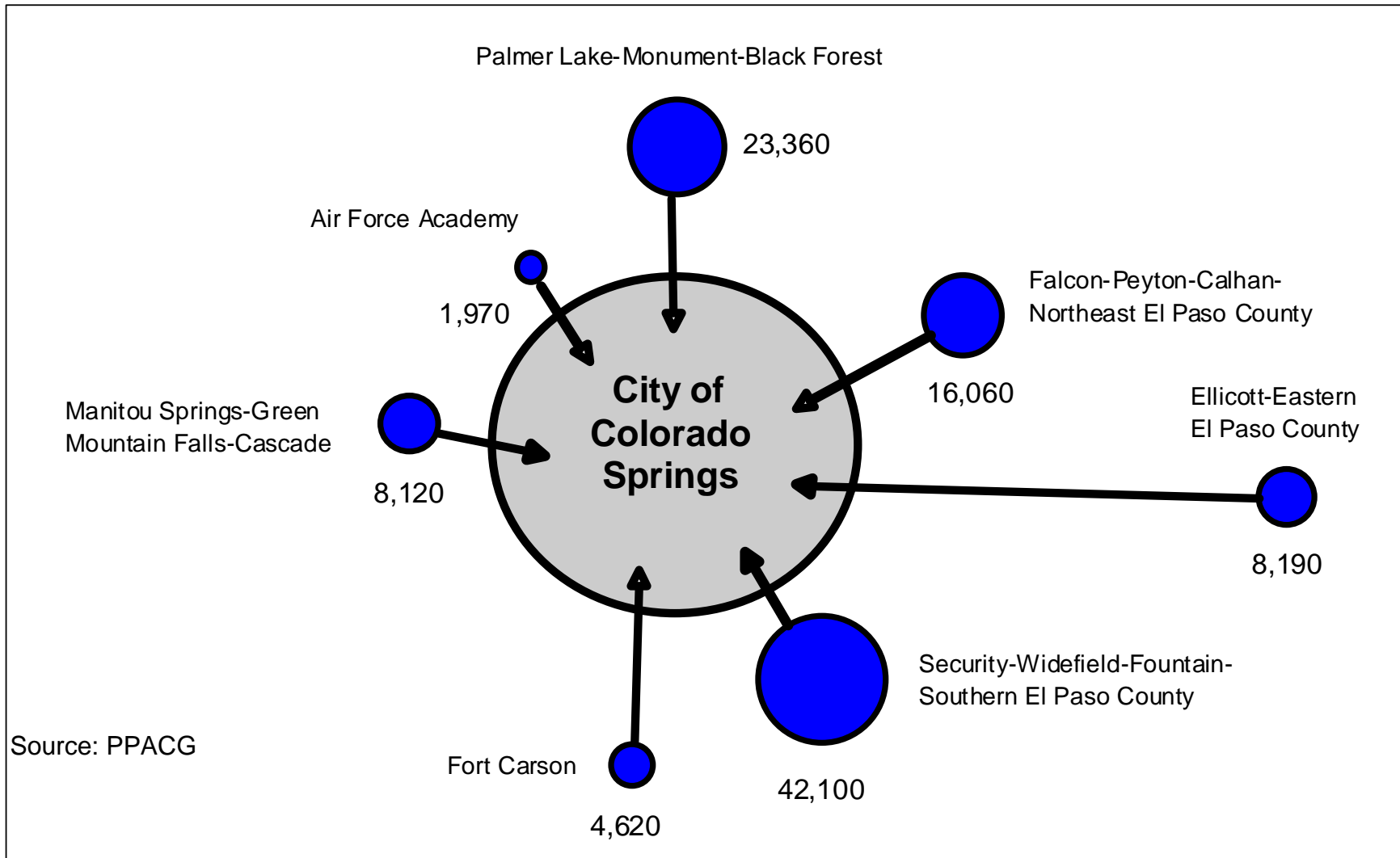
Sources: Population - US Bureau of the Census and Colorado state Demographer; Assessed Value - El Paso County Assessor; Retail Sales - Colorado Department of Revenue.

Major Employment Centers Colorado Springs and El Paso County Suburbs



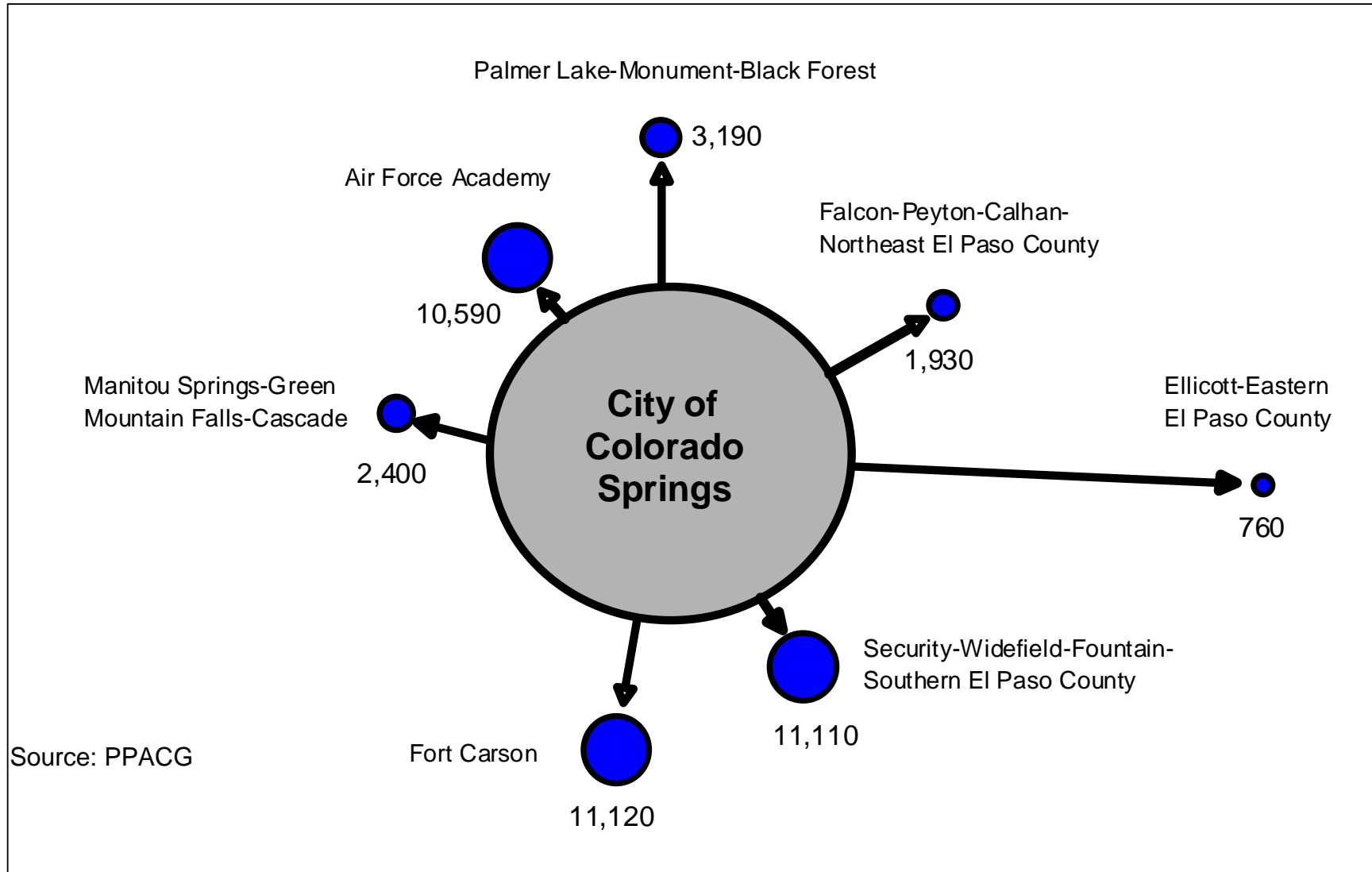
104,420 vehicle trips from suburbs to Colorado Springs each day

Daily Vehicle Trips from Suburbs to the City of Colorado Springs, 2006
(Work, Shopping and Recreation Trips)

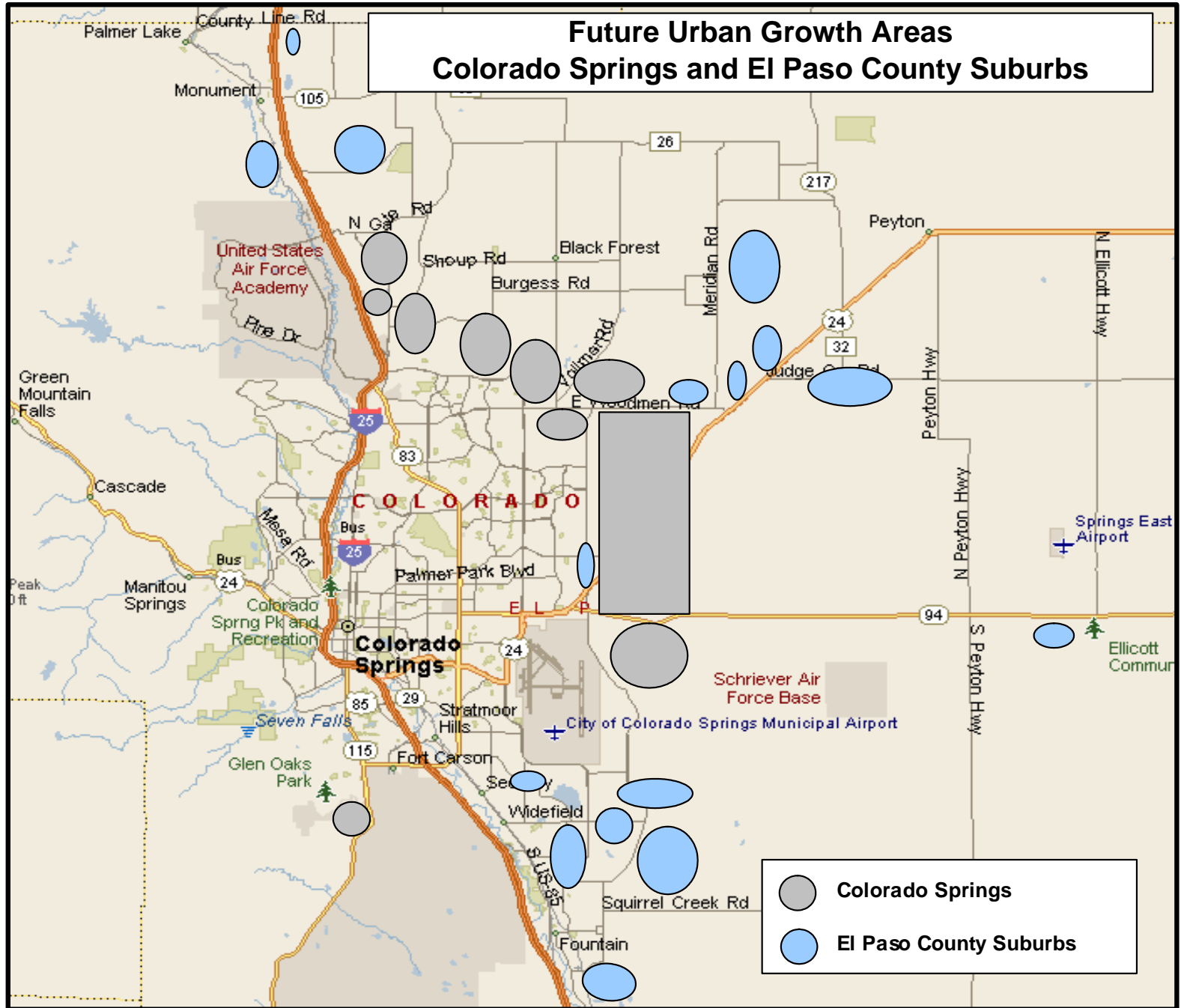


41,100 vehicle trips from Colorado Springs to suburbs each day

Daily Vehicle Trips from the City of Colorado Springs to the Suburbs, 2006
(Work, Shopping and Recreation Trips)



Future Urban Growth Areas Colorado Springs and El Paso County Suburbs



PPACG Regional Growth Projections
 Colorado Springs, Suburbs and El Paso County
 2005-2035

	Change		
	Colorado Springs	Suburbs	Total El Paso County
Population	199,587	162,134	361,721
Total Jobs	204,989	57,146	262,135
Retail Jobs	37,288	10,559	47,847
	Share of Change		
	Colorado Springs	Suburbs	Total El Paso County
Population	55%	45%	100%
Total Jobs	78%	22%	100%
Retail Jobs	78%	22%	100%

Source: PPACG Small Area Forecasts. Data was aggregated from TAZs.

Observations and Thoughts

1. Colorado Springs has in the past and will continue in the future to function as the **hub of urban activity** in the Pikes Peak region.

2. Colorado Springs and its suburbs offer a **wide variety of lifestyle choices** that are typically not available in a mid-sized city.

Colorado Springs and its suburbs are **strongly inter-connected** (recreation, jobs, cultural offerings, work-force and shopping).

3. Suburban growth has recently absorbed and will likely continue to absorb a **slightly larger share of the tax base** (retail sales and assessed value).

4. Suburban growth does not have to be at the expense of Colorado Springs; **the challenge is collaboration and co-operation.**

Policy Issues
Discussion and Recommendations
EL 10 and EL 13
Tom Binnings

UPAC

September 2, 2009

Core Issues

Are the current ELs appropriate given:

- A very substantial step cost as a result the SDS.
- Transfer pricing issues are present between CSU and the City of Colorado Springs.
- Cooperation vs competition at every level of water policy and development as we move from the local level to the interstate level.

Step Cost Function

- Water development is expensive due to the 6 components – rights, delivery & storage, pipeline, terminal storage, treatment, and local distribution
 - The 3 of the first 4 are large scale regional investments involving high fixed cost
- The magnitude creates justification for a natural monopoly being the most efficient means of development
- Requires higher rate structures and/or collaboration and rapid expansion of the customer base to spread the cost out

Transfer Pricing

- Two companies (City & CSU) under same governance (City Council & Board) selling different products to largely the same customer base.
- Is it OK to raise the price of one product or erode the sales of one product to promote the other (water rates vs sales tax collections)?
- Is there potentially a win/win where both improve?

Competition vs Cooperation

- The Rule of Gangs – even though we compete locally for water taps and sales tax, we must cooperate in order to effectively compete with the Front Range, and even though we compete with the Front Range we must cooperate to compete with other State water interests, and even though we compete with the other interests we must collaborate in order to effectively compete with other States who have claims to water flowing from Colorado.

Regional Growth Prospects

- Colorado has one of the top economies in the world in terms of future positioning for growth.
- Urban Front Range uses 6.8% of state's water for municipal and industrial purposes.
- Pikes Peak region consistently grows by about 100,000 people per decade with more than half coming from natural increase. The forecast is for 125,000 per decade in the coming 30 years.
- Primary growth pattern has been North and NE – changing to ENE with Banning Lewis and even SE with Fountain.

Colorado's National Economic Vitality Rankings out of 50 States

- **4th Most Preferred State to Live in** (Harris Poll)
- 2nd in Entrepreneurial Activity (ITIF Index)
- 3rd Highest Venture Capital per Capita (Beacon Hill State Competitiveness)
- 4th Highest Research and Development Inputs (Milken Institute)
- 6th Best State for Business (Forbes Magazine)
- 8th in High Tech Exports (AEA Cyberstates 2008)
- 10th Most Fortune 500 Company Headquarters (Fortune Magazine)

Colorado, as part of the southern intermountain west, *... is experiencing some of the highest population growth rates and economic and demographic transition of any place in the country.* (Brookings Institute, 2008)

Given the role of the Front Range within the State, Regional, and National economy, the central question is

**WILL STATE & REGIONAL WATER
POLICY SUPPORT OR HINDER
ECONOMIC VITALITY?**

What We Know

- Colorado and the Pikes Peak Region has grown and will continue to grow due to market mechanisms.
- The past strategy has not worked – development has occurred outside the City, often leapfrogging far out to gain access to cheap land and/or water and/or buyer desired amenities.
- As seen in the past Suburban water districts **WILL** acquire water either through:
 - **Collaboration with CSU**
 - **Acquisition and delivery of long-term supplies without CSU**
 - **Short-term interim solutions**

What We Can Assume

- There is substantial potential cost sharing on SDS and the future development of other water supply and delivery systems.
- Collaboration creates more financially viable and sustainable solutions for industries and communities, especially when the group (in this case The Pikes Peak Region) must compete with other regions.
- Municipal fiscal structures are likely to undergo a transformation in the next 40 years due to dramatic demographic, technological, and sector shifts.
- If a water crisis were to develop outside the City, there is a high probability that a higher governmental and/or judicial authority will intervene and the regional image would suffer

What We Can Assume

- Perceptions of retail or tax base erosion negatively impacting the City fiscal structure, focus on the retail losses that occur
- As new households form
 - New income does get spent in the City,
 - Higher populations thresholds attract new stores like Cosco; thereby shifting sales from Denver,
 - New entertainment venues like The World Arena and Skysox develop.

Our Conclusion

- This is a critical decision impacting the next 30 to 50 years of the Pikes Peak Region.
- The City, through CSU, and by virtue of having water with SDS, is in a position to exercise significant control and influence over long-term water policy in the region.
- Failure to take collaborative approaches create significant long-term risks to water costs and availability, thereby potentially hindering economic vitality / growth and positive image development.

In short, as the region gains, the City gains and if one or the other loses, they both lose.

Given These Realities Should the Policies Change?

The true objective for Colorado Springs should be to promote quality, sustainable development while exercising a high degree of long-term control and influence over the regional water supply.

What has Changed since First Considered the Policy in 1999

- UPAC was new and there was a 20 to 30 year policy advocating “forcing” growth in the City.
- SDS had not been formally initiated and the strategic posturing appears to have focused on representing fewer rather than more interests to simplify the process.
- From SDS we have come to realize there is a high step cost associated with it, as well as the substantial legal and political challenges to any future water development
- We have a much greater awareness of State water policy formation which has evolved significantly, including the need for collaboration to contend with larger regions, and the dynamics of Suburban development

E.L. Recommendations

AT THIS POINT AVOID SPECIFICITY IN ORDER TO SEE WHAT OPPORTUNITIES EXIST FOR RATE PAYERS AND RESIDENTS.

Let CSU Staff engage stakeholders and potential partners to see what opportunities are viable.

For Example

- Drop participation fee as a condition for any deal potentially impacting the general fund;
- Supply water in exchange for Suburban commitments for future water;
- Exchange water at different times to recharge the Dawson aquifer.

Bottom Line

- Clearly there are great advantages to taking regional approaches to many urban development issues -- and water is one of them.
- Given regional deals and structures are very likely to require buy-in from many representatives, the ability to go forth and explore and negotiate should not be restricted by demands. **THERE IS TOO MUCH AT STAKE**