BBC Research & Consulting

Report

Battlement Mesa Incorporation Financial Feasibility Analysis

Garfield County, Colorado

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Prepared for

Garfield County
108 8th Street
Glenwood Springs, CO 81601

Prepared by

BBC Research & Consulting
3773 Cherry Creek N. Drive, Suite 850
Denver, Colorado 80209-3868
303.321.2547 fax 303.399.0448
www.bbcresearch.com
bbc@bbcresearch.com

BBC RESEARCH & CONSULTING

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EXECUTIVE SUMMARY

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This study addresses the financial feasibility and policy issues associated with the potential municipal incorporation of the community of Battlement Mesa.

Battlement Mesa is an unincorporated subdivision of about 1,650 homes in western Garfield County, Colorado. It was established in 1980 as a residential community largely intended to support the area's then burgeoning oil share industry. The county and a variety of special districts and homeowners associations currently provide public services to the planned unit development subdivision.

Incorporation Issues and Study Objectives

Although financial feasibility and potential fiscal impact are the primary issues addressed in this study, there are a variety of policy and practical considerations in the discussion of Battlement Mesa incorporation. These ancillary issues include: a determination of incorporation process; options for city boundaries; home rule versus statutory charter; implications for public entities currently serving the area; considerations for community governance structure, and impacts on local land use controls. These issues are addressed in the body of this report although this analysis focuses on three specific questions:

- If a new municipality were created, what new revenues would be available to support community functions? What new costs would be incurred and would revenues be sufficient to cover costs and support the functions of a new municipality?

- Does the experience of other community incorporation efforts suggest that this is a practical effort for the citizens of Battlement Mesa?

- Would local control over the character, quality of services and future development of Battlement Mesa development be improved with municipal powers?

Battlement Mesa

Battlement Mesa is a Planned Unit Development (PUD) encompassing approximately 3,300 acres and situated midway between Glenwood Springs and Grand Junction in unincorporated Garfield County, Colorado.

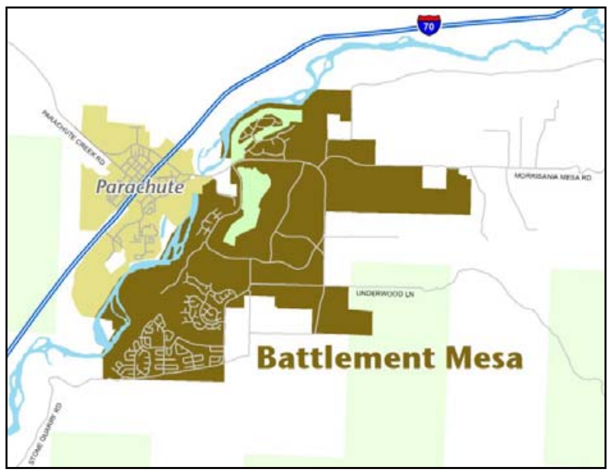
Figure ES-1. Battlement Mesa Region

Source:
BBC Research & Consulting, 2010.

The Battlement Mesa community sits adjacent to I-70 and the incorporated town of Parachute, Colorado.

Figure ES-2. Battlement Mesa Area

Source:
BBC Research & Consulting, 2010.



The Battlement Mesa community currently supports about 1,650 households, 91,000 square feet of commercial development, a golf course and a community recreation/activity center. Under the project's original entitlements, the community could grow to approximately 8,300 dwelling units.

Service Delivery

Shortly after approval of the original Battlement Mesa PUD, the county also authorized the creation of a network of special districts and community associations in order to provide certain local services, and to augment services provided by Garfield County. Presently, community services are provided through three principal entities: Garfield County, the Battlement Mesa Consolidated Metropolitan District (BMMD) and the Battlement Mesa Service Association (BMSA). In addition, Battlement Mesa is included within the Grand Valley Fire Protection District, the Battlement Mesa/Parachute Recreation District, Garfield County School District #16 and the Grand Valley Cemetery District.

The Battlement Mesa Company, which owns the undeveloped land in the Battlement Mesa PUD, as well as the majority of the rental units and commercial space, also provides some common amenities for the broader community, including subsidy of the public golf course and maintenance of certain parks and common areas.

Figure ES-3 summarizes current service provision responsibilities.

Figure ES-3.
Current Service Provision Responsibilities,
Garfield County and Municipalities, 2010

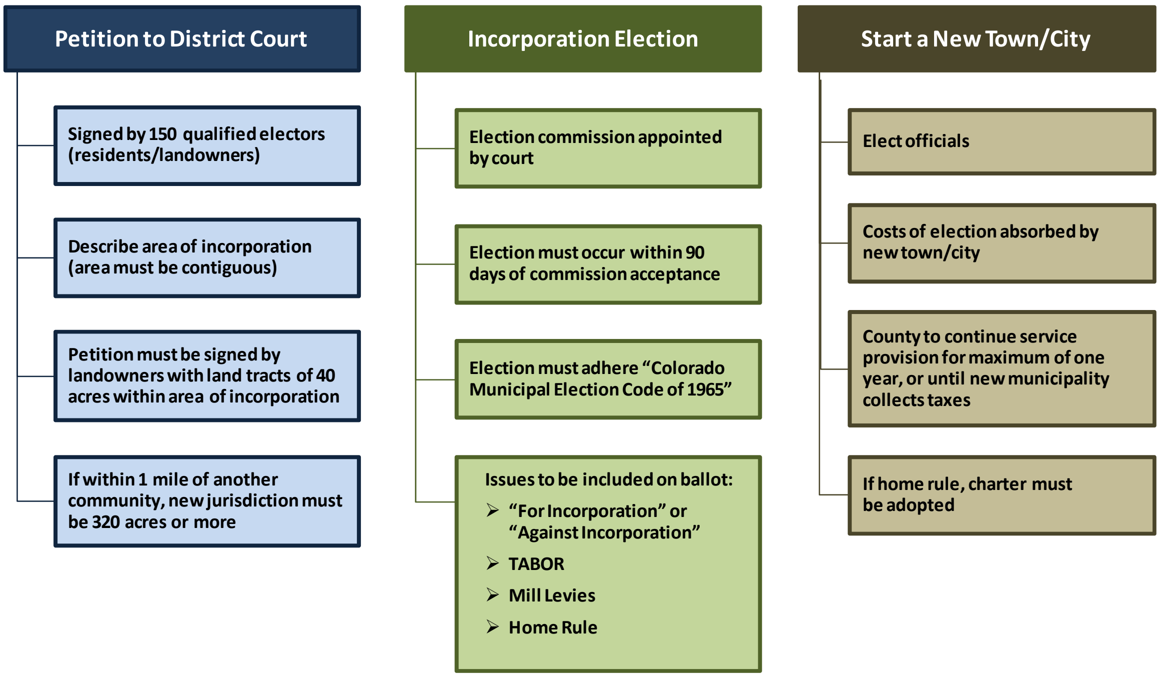
	Garfield County	Battlement Mesa Service Association	Battlement Mesa Metro District	Battlement Mesa Company	Grand Valley Fire Protection
Activity center			X		
Building inspection	X				
Business licenses	X				
Code enforcement	X	X			
Common area maintenance		X			
Court and legal	X			X	
Golf Course Maintenance				X	
Fire and emergency services					X
Garbage and recycling		X			
Libraries	X				
Master HOA administration		X			
Parks maintenance		X			
Planning and zoning	X				
Police	X				
Facilities maintenance		X			
Public health	X				
Road Maintenance	X	X			
Schools	X				
Sewer			X		
Street maintenance	X				
Snow removal	X				
Stormwater collection and disposal			X		
Vehicle licenses	X				
Wastewater collection and treatment			X		
Water			X		

Source: BBC Research & Consulting.

The Incorporation Process

The incorporation process is defined by Colorado statutes and requires three steps: petition, election and organization. This process is displayed below Figure (ES-4).

Figure ES-4.
Steps to Incorporation



Source: The Municipal Incorporation Manual: A Guide for Creating a New Community.

In addition, community organizers must decide early in the process what area of land will be included in the new city—recognizing that large land owners (40 or more acres) can opt out of a new town incorporation effort, if they choose. The organizers must also determine whether any matters related to TABOR will be included on the ballot and what new mill levies and taxes will be imposed. Voters must be registered electors and residents of the proposed new community. Renters and property owners who qualify as residents can vote in the incorporation election. The newly incorporated community must cover all costs associated with the elections.

The county will continue to provide all services to the area for a maximum of one year, or until the taxes levied by the new community are collected.

Colorado Incorporation Experience

In the past decade, Colorado has gained five new municipalities, which are all located on the south and east periphery of the Denver metropolitan area. The tendency for incorporation to occur on the fringe of a large metropolitan area is not coincidental. Recent incorporations have been largely motivated by a perceived need to control local land uses and manage future development in areas under pressure from rapid urbanization.

The experience of recent incorporations is documented in Section III of this report. A number of lessons were gleaned from examining these recent incorporation efforts:

- The resident motivation for incorporation is typically about lifestyle preservation not economy of service provision.
- Operating a "low cost" town, regardless of how plausible at the outset, has proven difficult to achieve. Once a community is established, residents find it is difficult to resist the desire for better and more extensive community services.
- Recent incorporation efforts have tended to use privatization and out-sourcing of service provision while maintaining existing service districts
- Severing existing service relationships (e.g. metro districts) can be challenging and controversial.
- Incorporation does not guarantee significant new revenue unless there are specific highly productive sales or property tax generating land uses in the newly incorporated area.
- Incorporation does not alleviate political conflict.

Financial Analysis.

Section IV of this report provides projections of the new community's operating costs and revenues. For analytical purposes we have assumed that the boundaries will be coterminous with the existing metropolitan district and that existing service providers (homeowners associations and districts) will remain in operation. The assumed governance structure is similar to recent municipal incorporations in the Front Range.

Two basic methodologies are employed in order to measure municipal financial feasibility: a ***community financial comparison***, which assumes that Battlement Mesa will face operating costs and require tax revenues equal to that of similar small rural communities in Colorado; and ***an incremental approach***, which provides more detail municipal costs and revenue estimates based on current land uses and verifiable service delivery costs.

Community Financial Comparison. Using data from fifteen similar Colorado communities as a rough measure of likely municipal costs and revenues, there is evidence that new city operations would require a budget of about \$1.8 – \$2.0 million. Even with the continuation of the present per unit charges that support the Battlement Mesa Service Association, financial support of the new community would require a new sales tax (3.0 percent) and new property tax levies (8+ mills in addition to the 34 mills Battlement Mesa residents currently pay), as well as new fees and charges for service.

Detailed Approach. A second methodology looks at the specific circumstance of Battlement Mesa, the municipal requirements of a new city, and current county service expenses to estimate prospective community operating costs. A revenue strategy is then fashioned using projections of sales and property taxes based on current and specific Battlement Mesa conditions and the redistribution of certain county and state funds that would go to the new city.

City operating costs. Based on the incremental approach analysis, new costs of operating the city of Battlement Mesa are projected to near $1,235 per household, or approximately $2.0 million annually.

Figure ES-5
Projected New Expenditures for the City of Battlement Mesa

Source:
BBC Research & Consulting.

	Per Household	Total
Administration/General Operations	$ 300	$ 495,000
Law Enforcement	$ 455	$ 750,000
Road Maintence	$ 473	$ 780,000
Judicial	$ 10	$ 16,500
Total Expenditures	**$ 1,237**	**$ 2,041,500**

Revenues. Estimates of new city revenue are developed based on assumptions about new taxes, existing land uses and the required redistribution of state and county revenues to a new municipality. The results of this process are shown in Figure ES-6.

Figure ES-6
Battlement Mesa Revenue Summary

Source:
BBC Research & Consulting.

	Total
Sales Tax (3 percent)	$ 185,000
Use Tax (3 percent)	$ 180,000
Property Tax (8.0 mill levy)	$ 275,000
Franchise Fees	$ 132,000
Specific Ownership Tax	$ 66,000
County Sales Tax Reimbursement	$ 150,000
Intergovernmental Revenues	
Cigarette Tax	$ 16,500
Highway Users Trust Fund	$ 115,000
Conservation Trust Fund	$ 38,000
State Energy Funds (Severance Tax and FML)	$ 460,000
County Road and Bridge Fund	$ 49,000
Other Revenue Sources	$ 20,000
Total Revenues	**$ 1,686,500**

Achieving the above results would require the imposition of significant new taxes on Battlement Mesa residents, including a 3.0 percent sales/use tax on retail goods, groceries, automobile purchases, and building materials. A 22.0 percent increase in the local mill levy, and various new franchise fees and service charges would also be required.

Financial Feasibility

We believe that the new community of Battlement Mesa would spend about 2.0 million dollars a year in order to replicate current county sheriff protection and road maintenance services, as well as develop required new municipal services. At this level of expenditure, service levels would be maintained, new services provided, local land use controls strengthened and, in all likelihood, a more locally responsive government instituted.

With the imposition of specified new taxes, fees and charges, most notably a new 3.0 percent sales tax and a new 8-mill property tax, the community would produce about $1.69 million in revenues yet still fall short of adequate municipal funding by about $300,000. In addition, the community would have start up costs, and substantial initial capital investment requirements. This assumes continuation of current BMSA and BMMD changes.

The fiscal challenge of Battlement Mesa is largely associated with the community's low retail sales and thus similarly low sales tax expectations. The absence of commercially assessed property also produces modest property tax revenues. In short, the community's largely residential land use base would not produce strong local revenues under Colorado's municipal taxation structures.

Contrary to common perception, incorporation does not divert substantial amounts of ***existing*** tax revenues to the new community. New cities and towns must raise new revenues by way of new fees, charges and taxes. In this instance, a new municipality of Battlement Mesa would get a share of county sales tax and road and bridge fund redistributions; some state highway users tax fund receipts; a share of state cigarette tax funds; and a share of state conservation trust fund revenues. Most notably, in Garfield County, the new municipality would get a share of severance tax receipts, which are distributed to cities, towns, counties and certain districts based on a complex formula involving population, road mileage and residence of energy workers. In Garfield County, these severance tax receipts are substantial, roughly $275/household, but they are also uncertain and have varied widely in recent years. The value of this revenue source fluctuates with resource prices and local gas drilling activity levels. These funds are also subject to diversion by the state legislature.

County Financial Implications

Garfield County would continue to collect existing sales and property taxes from Battlement Mesa residents. The county would lose automobile sales tax revenue, certain planning and building permit revenues, and some state shared revenue. The sharing of state severance tax receipts would be the most prominent loss, although the burden of paying for the new municipality's share of severance tax receipts would be spread among all jurisdictions in the county, not just the county.

Most importantly, the county would lose responsibility for providing street maintenance, snowplowing and police protection services as well as the administration of land use and building controls. Battlement Mesa is the largest concentration of population in the unincorporated county and is generally viewed as a service intensive area for all county administrative services.

County expenditure data suggests that the county sheriff and road and bridge departments currently spend roughly $1.2 million a year in Battlement Mesa in direct services for snowplowing, police and road maintenance. The county receives modest property taxes, very minor sales taxes, auto use tax and severance tax redistributions in return. The sales and property taxes would remain with the county after incorporation. Only vehicle purchase use tax and severance tax redistributions, as well as a few minor fees, charges and state redistributions would be lost. Providing county services to Battlement Mesa is considerably more expensive than the taxes and fees recovered from the area. Garfield County would be significantly fiscally benefited by the Battlement Mesa incorporation.

SECTION I.
Introduction

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Introduction

This study addresses the financial feasibility and public policy issues associated with the potential incorporation of Battlement Mesa as a new municipality. Battlement Mesa is presently an unincorporated enclave of about 1,650 homes. Garfield County, special districts and various homeowners associations currently provide community services.

In 1995, a committee was formed to investigate the feasibility of municipal incorporation for Battlement Mesa. The resultant study did not recommend incorporation, stating that there was "no services justification and no desirable financial reasons to pursue incorporation of a City of Battlement Mesa."[1] However, the study did recommend that Garfield County and Battlement Mesa continue to monitor population growth and potential tax base volumes to determine when incorporation may be more feasible and timely.

Since incorporation was last examined in 1995, the community of Battlement Mesa has grown and circumstances have changed, making a re-examination of this issue appropriate and timely:

- The community has grown to over 4,000 residents and diversified its land use base.
- Road maintenance and service provision in Battlement Mesa have become increasingly expensive for the county.
- Some Battlement Mesa residents have expressed dissatisfaction with the quality or quantity of local service provision.

With recent proposals for nearby gas drilling activity, local land use control has become a more prominent issue. Self-direction and increased local control of land decisions are common motivations for incorporation.

Incorporation Issues and Study Objectives

The financial issues of incorporation and the feasibility of transition to a new municipality raise a host of the issues beyond simple cost and revenue implications of new city operations. Certain issues need to be addressed prior to determining municipal feasibility.

Incorporation issues are highlighted below:

- **Process—**What is the process of incorporation? How long does it take? Who gets to vote on an incorporation decision? Can certain properties, neighborhoods or other holdings opt out of incorporation?
- **Municipal options—**Is there a difference between a city and a town? What is a "home rule" municipality versus a "charter" municipality?
- **Benefits—**What could a municipality accomplish that isn't being done now?

[1] "Incorporation Feasibility Study" prepared by the Battlement Mesa Incorporation Feasibility Study Committee, 1995.

- **Boundaries—**Which specific areas would be incorporated? Who decides the boundaries?

- **Implications for other entities—**What happens to the current metro district, fire district and the Battlement Mesa Service Association with incorporation? How would Garfield County or Parachute be affected by this decision?

- **Control—**How would community decision-making change in the transition from the current management structure to a municipal structure?

In addition to the above issues, the following questions are at the center of the key financial issues addressed by this analysis:

- If a new town or city were developed, what new revenues would be available to support community functions? What new costs would be incurred and would revenues be sufficient to justify incorporation?

- Is community growth, or lack there of, a factor in considering the financial impacts of municipal incorporation?

- Would local control over the character, quality and future of Battlement Mesa be improved with municipal powers?

Study Approach

BBC Research & Consulting (BBC) was hired by Garfield County to complete this analysis. Interviews were conducted with residents and local service providers in August 2010. Additional interviews were completed with Garfield County service providers in November 2010. Case studies of other recently incorporated communities were completed and results are provided elsewhere in this report. Two basic methodologies were employed in order to measure municipal financial feasibility: a ***comparable communities analysis***, which assumes that Battlement Mesa will face operating costs and require tax revenues equal to that of similar small rural communities in Colorado; and ***an incremental analysis***, which projects municipal costs and revenues based on current land uses and current service delivery costs.

Report Organization

Following this Introduction, this report has four remaining sections:

- Section II discusses how Battlement Mesa is currently functioning as an unincorporated community; how residents receive services; and what issues exist within the community that may impact its ability to incorporate;

- Section III provides a case study of other Colorado communities that have recently incorporated in order to better understand incorporation issues and solutions chosen elsewhere. This section also describes the process communities must undertake in Colorado when they choose to incorporate;

- Section IV describes the financial details of Battlement Mesa incorporation, including likely service providers and expenditures and revenue sources. This section quantifies incorporation feasibility and describes the impact on Garfield County.

SECTION II.
Unincorporated Battlement Mesa

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This section describes current conditions in Battlement Mesa, identifies current service providers and details the various fiscal and service provision issues that lead to this analysis.

Battlement Mesa

Location. Battlement Mesa is a Planned Unit Development (PUD) encompassing approximately 3,300 acres and situated midway between Glenwood Springs and Grand Junction in unincorporated Garfield County, Colorado.

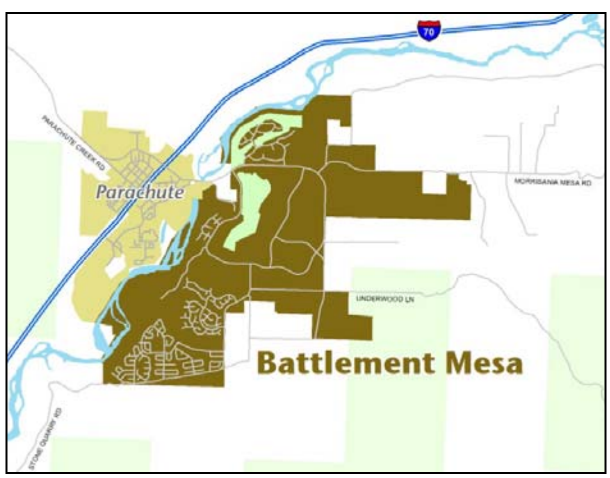
Figure II-1.
Battlement Mesa Region

Source: BBC Research & Consulting, 2010.

The Battlement Mesa community sits adjacent to I-70 and the incorporated town of Parachute, Colorado.

Figure II-2.
Battlement Mesa Area

Source:
BBC Research & Consulting, 2010.



The Battlement Mesa community currently supports about 1,650 households, 4,300 residents, 81,900 square feet of commercial development, a golf course and a community recreation/activity center.[1] Under the project's original entitlements, the community could grow to approximately 8,300 dwelling units.

Origins. Battlement Mesa has a unique history. Exxon Corporation initiated the project in the early 1980s with the objective of providing employee housing and associated community services in support of the company's nearby Colony Oil Shale Project. Battlement Mesa was conceived as a full service community with the ability to support 25,000 residents. Exxon invested heavily in the initial water, sewer, streets, parks, schools and recreation infrastructure in order to jump-start this isolated subdivision, which was perceived as a critical component of the company's broader efforts to create a multi-billion dollar oil shale production industry in the region.

In the early 1980s, oil prices fell sharply and Exxon withdrew from its active oil shale development program. On Sunday, May 2, 1982—known locally as Black Sunday—Exxon announced cessation of its Colony Oil Shale Project, which resulted in the elimination of nearly 2,000 local jobs, and the end of its financial participation in Battlement Mesa.

Post oil shale era. With the demise of the 1980s oil shale efforts, the small community of Battlement Mesa faced an uncertain future. At the time of Exxon's disengagement, many predicted that Battlement Mesa would become a modern ghost town. In fact, Exxon's extensive capital investment in Battlement Mesa left a financially secure and competitive new community. Exxon had provided the basic water, sewer and street infrastructure—scaled for a much larger community—without leaving any long-term debt. In addition, the company had completed a large recreation center and golf course, again without any residual debt obligations. As a result, Battlement Mesa quietly emerged as a high amenity, low cost residential community that was particularly appealing to retirees who were attracted by the low cost housing, temperate climate, dramatic scenery and surrounding recreational opportunities.

Exxon eventually sold its interest in the Battlement Mesa development to the current Battlement Mesa Company (BMC). The Battlement Mesa community grew slowly from the late 1980s through 2000, when the county's emerging natural gas industry entered a multi-year period of very rapid growth and spurred dramatic new housing demand in western Garfield County. Battlement Mesa, which occupies a strategic location near the center of Garfield County's gas fields, was well positioned to accommodate new development and the community grew rapidly. Beginning in 2008, this new resource-based economic expansion, much like the preceding oil shale boom, slowed dramatically—the result of declining gas prices and new, low cost resource competition. Housing demand declined in response and today, Battlement Mesa has similar housing issues as the remainder of Garfield County: soft demand, foreclosures and high rental vacancy rates.

Overview of Current Service Provision Networks

Shortly after approval of the original Battlement Mesa PUD, Garfield County also authorized the creation of a network of special districts and community associations in order to provide certain local services and to augment those services provided by the county. In 1991, a committee of local residents and property owners analyzed service provision practices and completed a series of management

[1] Household, population and vacancy statistics from Battlement Mesa Metro District.

reforms that consolidated neighborhood community associations into the current configuration and merged two separate metropolitan districts into the current consolidated metropolitan district. Certain service funding practices were also modified to ensure ongoing financial support for the Battlement Mesa Activity Center (the "Center").

Presently, community services are provided through three principal entities: Garfield County, the Battlement Mesa Consolidated Metropolitan District (BMMD) and the Battlement Mesa Service Association (BMSA). In addition, Battlement Mesa is part of the Grand Valley Fire Protection District, the Battlement Mesa/Parachute Recreation District, Garfield County School District #16 and the Grand Valley Cemetery District. The BMC, which owns the undeveloped land in the Battlement Mesa PUD, as well as the majority of the rental units and commercial space, also provides some common services including subsidy of the public golf course and maintenance of certain common areas.

Figure II-3 summarizes current service provision responsibilities.

Figure II-3.
Current Service Provision Responsibilities, Garfield County and Municipalities, 2010

	Garfield County	Battlement Mesa Service Association	Battlement Mesa Metro District	Battlement Mesa Company	Grand Valley Fire Protection
Activity center			X		
Building inspection	X				
Business licenses	X				
Code enforcement	X	X			
Common area maintenance		X			
Court and legal	X			X	
Golf Course Maintenance				X	
Fire and emergency services					X
Garbage and recycling		X			
Libraries	X				
Master HOA administration		X			
Parks maintenance		X			
Planning and zoning	X				
Police	X				
Facilities maintenance		X			
Public health	X				
Road Maintenance	X	X			
Schools	X				
Sewer			X		
Street maintenance	X				
Snow removal	X				
Stormwater collection and disposal			X		
Vehicle licenses	X				
Wastewater collection and treatment			X		
Water			X		

Source: BBC Research & Consulting.

The following provides a brief synopsis of services currently provided to unincorporated Battlement Mesa by the major service providing entities. The cost of services provided by these entities is discussed in greater detail in Section IV.

Garfield County. According to the Colorado Department of Local Affairs' (DOLA) 2009 population estimates, Garfield County presently provides services to approximately 58,000 residents, which are roughly split evenly between incorporated and unincorporated communities. Battlement Mesa represents about 18 percent of the county's unincorporated population and arguably the largest concentration of residents in the unincorporated area. It should be noted that population estimates have a high degree of uncertainty given the recent employment boom—and the more recent bust—and the accompanying in and out migration of county workers and residents.

Figure II-4.
Garfield County Population by Municipality, 2009

	2009 Population
Carbondale	7,026
Glenwood Springs	9,250
New Castle	3,848
Parachute	1,354
Rifle	9,531
Silt	2,637
Unincorporated Area	24,000
Battlement Mesa	**4,300**
Remainder of unincorporated county	**19,700**
Total Garfield County	**57,646**

Source: DOLA, 2009.

Figure II-4 displays Garfield County's 2009 population, broken down by municipality.

Battlement Mesa relies on the county for a variety of services. All residents of the county, including both unincorporated and incorporated properties, receive certain county services, such as the assessor; county clerk and recorder; treasurer; county courts and related legal services; public health; and various social services. In addition, as an unincorporated area, Battlement Mesa relies on the county for building inspection, code enforcement, and planning and zoning; although these functions do not have local offices. In addition to general county services, Battlement Mesa receives certain direct county services, including law enforcement (sheriff), street maintenance and limited street cleaning, snow removal, and traffic control signage. The county owns and maintains the major roadways and certain collector streets within Battlement Mesa. Current county regulations require that new Battlement Mesa neighborhoods own and maintain their own street systems through homeowner associations created in part for that purpose.

County services are funded through property and sales taxes and an array of state funds, service charges and user fees.

Battlement Mesa Metro District (BMMD). The BMMD was organized under Title 32 of the Colorado Revised Statues (C.R.S.). A metropolitan district can provide ambulance services, mosquito control, park and recreation support, safety protection (i.e., traffic and safety controls and devices on streets and highways), sanitation (sanitary sewer), street and drainage improvements, television relay and translation, transportation and water development.

The primary role of the BMMD is to provide the area with water and sewer services. The BMMD also has financial responsibility for overseeing and funding the Center, which is a community recreation and activity complex. The previously referenced 1991 governance reform effort created a recreational assessment to “ensure viable long-term funding of the recreational amenity.” The recreational assessment is a per unit charge levied against each Battlement Mesa residents and commercial establishment for support of Center operations.

User fees and tap fees charged to new development fund the water and sewer operations and capital replacement costs. Remarkably, the BMMD has no property tax mill levy, carries no debt and its utility systems have ample capacity for accommodating growth.

Battlement Mesa Service Association (BMSA). The BMSA is a master homeowners association that, in association with the BMMD, serves as the governing body for the community. The BMSA was created in 1991, following a Homeowner Advisory Committee review of municipal service delivery options, which resulted in the consolidation of five separate community associations into one managing entity.

Functions of the BMSA include trash collection, street sweeping (shared with the county), street lighting, parks, trails and open space maintenance (shared with the BMC) and signage maintenance. The BMSA is also in charge of enforcing HOA and community covenants. The service association is supported largely by per unit (or per lot) charges and a small amount of user fees.

Battlement Mesa Company (BMC). The BMC is the principal developer of Battlement Mesa. BMC owns a number of apartment units, most of the commercial development in the community (roughly 91,000 square feet), and virtually all of the remaining private, but undeveloped, property in the PUD. Within reason, there is no zoning or physical limitation to accommodating additional commercial or retail development. BMC plays an active role in the community, most notably operating and maintaining the golf course, which is open for public play, and in maintaining some of the area’s public spaces.

Other districts/service providers. Battlement Mesa is also part of a fire district, hospital district and parks and recreation district. Each of these districts serves areas beyond the Battlement Mesa PUD boundaries. Electric power, natural gas, telephone and cable television are provided by private sources without notable constraints.

Summary

The Battlement Mesa community is home to some 4,300 residents, but limited private commercial space. The community is the largest single concentration of population in unincorporated Garfield County. Public services are provided by a variety of districts, Garfield County and a Homeowners Service Association. The Battlement Mesa Metropolitan District, which provides water and sewer services, has no debt and no property tax levy. The Battlement Mesa Company controls the great majority of undeveloped land in the Battlement Mesa PUD, which could accommodate a near tripling of current development levels.

SECTION III.
Incorporation Experience in Colorado

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Incorporation Experience in Colorado

This section provides an analysis of recent municipal incorporations in Colorado and offers observations relative to Battlement Mesa's situation based on the experience of other recently incorporated communities. The objective of this review is to examine the initial motivations and ultimate practicalities of creating a new town and, based on that experience, recommend how best to organize a new town of Battlement Mesa.

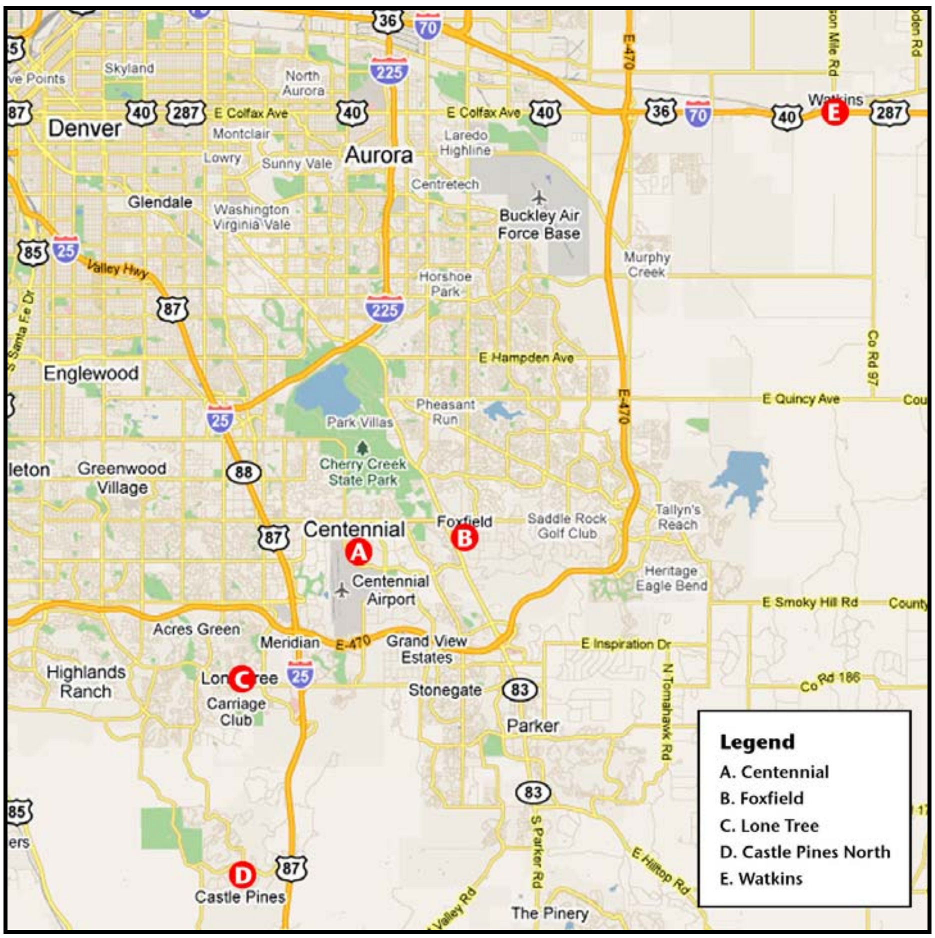
This section also describes the incorporation process and the administrative changes that the Battlement Mesa community might anticipate with incorporation.

Recent Incorporations

In the past decade, Colorado has gained five new municipalities, all of which are located on the south and east periphery of the Denver metropolitan area.

Figure III-1. Recently Incorporated Communities

Source:
Google Maps and BBC Research & Consulting



The tendency for incorporation to occur on the fringe of a large metropolitan area is not just coincidental. Recent incorporations have been largely motivated by a perceived need to control local land uses and to manage future development in areas under pressure from rapid urbanization. The experience of each new Colorado community is described below.

Castle Pines North

The city of Castle Pines North (CPN), which has about 10,000 residents, is the most recent Colorado incorporation. CPN is located about 20 miles south of central Denver in Douglas County, just north of Castle Rock, Colorado. CPN has many similarities to Battlement Mesa in that it incorporates multiple existing neighborhoods, each with its own set of HOA covenants and declarations; water and sewer services are provided by a common metropolitan district; a master homeowners association provides HOA coordination; and the community has a modest retail base.

During the incorporation process, CPN organizers touted the creation of a low cost city, operated largely by existing districts, contracts with the county for police protection and road maintenance, and contracts with a private consultant for other administrative and planning services. The existing metropolitan district stayed in place, although there is now disagreement over whether there was a long-term intention to eventually consolidate all operations under the municipal umbrella. Three years after incorporation, the relationships between the district and the city are strained, largely over expansion policy and control.

In 2009, Douglas County was the 10th fastest growing county in the country, with much of its growth occurring in and around what is now CPN. In order to ensure future land use control and to avoid annexation by neighboring municipalities, residents opted for incorporation.[1] The organizers of CPN were driven also by the recognition that incorporating the area's one retail center was critical to supporting any new town, and the organizers wished to control that retail center prior to any competitive annexation efforts by neighboring municipalities. Most incorporation supporters were motivated by a desire to preserve a rural lifestyle and a perceived threat from outside the community. In general, the new municipality was a defensive move and not driven by a desire for more services or dissatisfaction with existing services.

Prior to incorporation, services were provided by a system very similar to Battlement Mesa: Douglas County (street maintenance, Sheriff's protection), the Castle Pines Metropolitan District (water, wastewater treatment, storm drainage) and a informal network of neighborhood homeowners associations (HOA) provided public services to the residents of the Castle Pines North area. The metropolitan district is still intact and has continued providing these services since incorporation; however, the city has recently petitioned for the dissolution of the District and absorption into the new town functions. The city continues to partner with Douglas County for law enforcement and animal control services. Most city services, such as finance and land use planning, are provided by contract through the consulting firm CH2MHill. This allows the city flexibility in service provision without committing to full-time staff. The city still relies heavily on its network of HOAs to provide trash collection and code enforcement. A city manager is currently the only full-time city employee.

The city has been active in both annexing new land and positioning itself for future development that will expand its tax base. The city recently annexed 3,300 acres known as The Canyons, which will

[1] 2009 U.S. Census Population Estimates.

allow for both commercial and residential development. This policy decision has been highly controversial. CPN also recently created an Urban Renewal Authority that the city hopes will "play an essential role in assembling sites, upgrading infrastructure, preserving historical buildings and green space, increasing tax revenues and providing financial tools for the completion of projects." This strategy has also been controversial.

Centennial

The city of Centennial incorporated in 2001 from portions of unincorporated Arapahoe County. At the time of its incorporation, the population of the city was 100,000 residents, making it the largest incorporation in Colorado history. Like many other communities choosing to incorporate, Centennial residents incorporated to prevent selective annexation into neighboring Greenwood Village and to garner greater local control over land use and development planning. The organizers envisioned a low cost community with very limited government functions.

Shortly after incorporation, the city contracted with a variety of outside entities for service provision. Arapahoe County continued providing Centennial residents with law enforcement, animal control and public services through an Intergovernmental Agreement (IGA). Additionally, the city contracted with consulting firms to provide the following services: land use planning; building permits; contractor licensing; and finance and accounting. However, the city is now fully staffed and provides nearly all services internally. The city's current sales tax rate of 2.5 percent is higher than the 1.0 percent promised to residents during the beginning stages of incorporation. Centennial has continually expanded services and tax rates, but all with the approval of the electorate. Community surveys indicate a high level of satisfaction with Centennial services; staff express frustration with a relatively low tax base.

Foxfield

The town of Foxfield incorporated in 1994 to "preserve the rural lifestyle and control land development within their community."[2] As neighboring Aurora continued to expand, annexation of the area into Aurora seemed likely. Residents deemed incorporation a more attractive option than annexation by Aurora, and thus the potential to lose the quality of life associated with the rural nature of this area. Since incorporation, the community's character and size have changed very little. The town's population is approximately 900 residents and because the community is land locked, little opportunity exists for residential growth. Eventually, undeveloped land along Parker Road will likely be developed as commercial properties and boost the town's tax base. Homes within Foxfield are still on 2.5 acre lots and rely on individual well and septic instead of shared water and sewer delivery.

Foxfield's public service demands are relatively low, primarily because it has few residents to serve, and because residents provide their own water and sewer. The town maintains minimal staff, although a full-time administrator was recently hired, who will serve as the town's only full-time employee. A local consulting firm provides legal, planning and engineering services on a time and expense basis. When possible, these expenses are passed down to the individual requesting services (ex: a developer or a resident) by a fee for service. Police services are currently provided by Arapahoe County via an IGA. The town contracts with off-duty police officers to supplement law enforcement services along the town's major corridor and to issue municipal speeding tickets, which have provided the town with

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[2] " The Municipal Incorporation Manual: A Guide for Creating a New Community" by University of Denver

additional revenue and improved safety. Animal control services are also provided by Arapahoe County but are only done so on an as-need basis. The town contracts with a community preservation specialist who provides code enforcement services. A resident with a landscaping business provides snow removal and landscaping services on an as-need basis. Foxfield's roads have been only been paved since 2003; and they do not require routine sweeping. The community is nearly built out, which lessens debates over growth policy and growth management.

Despite the town's minimal administration and staffing requirements, costs and town responsibilities have increased. The town operates on a $410,000/per year general fund budget, which represents about $1,400 per household. Recent road paving required a 15-year mill levy. Also, the town purchased two open space properties with grants, which has increased the town's responsibilities. Revenue is generated from six major categories: taxes; licenses and permits; franchise fees (fees paid from Xcel, Comcast and IREA); intergovernmental revenue; charges for services; and miscellaneous revenue such as interest and grants. Total revenue in 2009 was $443,811. The largest percentage of revenue ($197,579 or 45 percent) was generated from sales tax generated from the Foxfield Village Center, a small convenience center.

Expenditures are divided into several categories including: general government, which covers the town clerk, administrative and professional services; town planning; engineering; legal services; roads and trail maintenance; and snow removal. The total expenditures for 2009 were $411,241. The largest portion of expenditures (20%) was for public safety, which was contracted through Arapahoe County. Per an IGA with Arapahoe County, the mill levy of 4.982 on the total of all accessed property values is committed to pay for public safety.

According to the town manager, the incorporation of Foxfield is a success. The community remains separate and distinct from Aurora, rural values and self-control were preserved, and the "bare bones" city operations appears to satisfy local needs. The community is lucky in that it was able to incorporate a small retail center, which provides roughly half of the town's financial support.

Lone Tree

The city of Lone Tree incorporated in 1995 and became a Colorado Home Rule City in 1998. The primary motivation for incorporation was to gain land use control and shape development along the C-470 corridor.[3]

Since incorporation, the city has grown to a population in excess of 10,000 residents and has expanded its boundaries.[4] City growth has included a number of important annexations including: RidgeGate in 2000, which is a 3,500 acre master planned community along I-25 and Lincoln Boulevard; Sky Ridge Medical Center in 2003; Southridge Preserve in 2004; and Park Meadows Mall in 2006. These annexations primarily contain commercial properties, which have provided the city with a strong commercial tax base.

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[3] Taken from the "History of Lone Tree, a city that is growing….carefully", located here: http://www.cityoflonetree.com/index.aspx?NID=276.

[4] DRCOG estimates a 2007 population of 10,700 residents.

The city's original boundaries mirrored the area under the jurisdiction of the Park Meadows Metropolitan District (PMMD). The PMMD still serves its original jurisdiction, and has a good working relationship with the city. Its primary service responsibilities include road maintenance.

The PMMD boundaries have not changed, despite sizeable annexations to the city boundaries. Special revenue funds have been established for areas added via annexation since the city's incorporation. Revenues generated in these areas, such as RidgeGate, via sales and property tax revenues return to these areas for service provision.

Following incorporation, the city existed as a "virtual city" for 10 years, relying exclusively on contractors and other government entities for service provision. The city contracted with Douglas County for law enforcement services; South Suburban Parks and Recreation for its recreational services; and, a variety of private firms provided legal, community development and planning services for the city.

As the city grew and matured, so did resident involvement and interest in service provision. The city no longer felt that services could be adequately provided by outside entities. In 2004, Lone Tree established a local police department, which were the city's first full-time employees. Although Lone Tree still partners with many of its original service providers, including the original PMMD and South Suburban Parks and Recreation, it has added a variety of departments and employees. Its Administration department includes 17 employees, which includes a city manager, administrative support, clerks and human resource personnel. The city's Community Development and Building Division has six employees who are responsible for city planning and building inspections services. Finally, the Public Works department has nine staff dedicated to capital improvements, as well as GIS services. Lone Tree prides itself on being one of two Colorado cities that provides free trash services to residents.

Lone Tree's most notable characteristic is its eventual incorporation of the Park Meadows Mall and its surrounding area, which is likely the most productive retail sales tax acreage in Colorado. It is responsible for helping the city generate $15 million per year in sales tax revenue, which accounts for 38 percent of the city's $40 million general fund revenue. Expenditures are also high for a community of Lone Tree's size, primarily because servicing the Park Meadows Mall with law enforcement services and road maintenance/improvements is costly.

Watkins

The town of Watkins, located east of Denver along the I-70 corridor, incorporated in 2006, only to disband in 2008. The community remains unincorporated and is included in both Adams and Arapahoe counties. Its 2006 population was estimated at approximately 2,000 residents.

Fear of annexation from Aurora spurred residents to incorporate. Watkins boundaries were contained in both Adams and Arapahoe counties, which presented some administrative challenges. Soon, residents grew discontented with service delivery and the costs of operating an additional layer of government. Citizens were unwilling to pass the taxes necessary to support required city functions. Because of the rural nature of the town, few opportunities existed to expand the retail base.

Summary of Incorporation Case Studies

The following figure summarizes the financial profile of each community examined (Watkins is excluded). Average revenue and expenditures per household in Centennial and Foxfield align with the state norm. As discussed, the average revenues generated per household in Lone Tree are extremely high compared with other Colorado communities, mainly because it contains Park Meadows Mall and the surrounding commercial area. On a per household basis, Lone Tree generates nearly $10,600 in revenues per household.

Although very productive for revenues, the Park Meadows area is also costly to support (notably police and roads), hence the higher than average expenditures per household. Conversely, the town of Foxfield has stayed true to its objective to remain a low cost/low service town, although its per unit costs are relatively high because it has such as small population (less than 300 households). The new community of Castle Pines North is currently operating with the lowest cost per household but these costs may rise in the future as the community takes on additional service obligations.

Figure III-2.
Financial Summary of Newly Incorporated Communities, 2009

	Castle Pines North	Centennial	Foxfield	Lone Tree
Type:	*Statutory*	*Home Rule*	*Statutory*	*Home Rule*
Sales Tax Rate	**2.75%**	**2.50%**	**3.75%**	**1.8125%**
Mill Levy	**4.5**	**5.047**	**21.865**	
2009 General Fund Revenues	**$ 3,383,452**	**$ 42,558,708**	**$398,166**	**39,951,280**
Sales Tax Revenue	$ 706,992	$ 17,421,970	$134,728	14,927,000
Property Tax Revenue	$ 661,417	$ 7,811,186	$83,402	
2009 General Fund Expenditures	**$ 2,793,457**	**$ 47,970,074**	**$392,805**	**30,978,574**
2009 Household Estimate	**3,357**	**36,065**	**273**	**3,780**
Average Revenues per HH	$ 1,008	$ 1,180	$ 1,458	$ 10,569
Average Expenditures per HH	$ 832	$ 1,330	$ 1,438	$ 8,195

Note: 2009 Household estimate was derived by applying growth rate from 2007 to 2008 into 2009. Because Castle Pines North was not incorporated in 2007, the growth rate from Douglas County was applied.

Source: Budgets from Castle Pines North, Centennial, Foxfield and Lone Tree.

A number of lessons were gleaned from examining the recent incorporations of the communities discussed above:

- **The motivation for incorporation is typically about lifestyle preservation**. All of Colorado's recent incorporations have been in the Denver metropolitan area. All efforts have been spawned by a desire to control land uses and development, in light of some perceived external threat, or to capture an unusually productive tax generating entity. Foxfield wanted to avoid annexation into Aurora; similarly, Centennial and Castle Pines North wanted to control pressures for urbanization and ensure that local retail stores were not annexed into surrounding communities. In all instances, the external threat to the local quality of life was very important in galvanizing support for adding an additional layer of government. Capture of lucrative retail areas was sometimes an understated but important motivation.

- **There are advantages and disadvantages to incorporations**. Local control of public services may provide opportunities for more effective and specialized service delivery to residents, but additional new costs are unavoidable. Incorporation also allows communities more control over future growth and local land use decisions, which are often the primary reasons communities opt for incorporation. Incorporation also allows communities access to additional revenue sources from the state; however, municipalities by state statute must also provide additional services. The issue of financial feasibility largely rests on the availability of retail sales taxes as a revenue source.

- **Operating a "low cost" town, regardless of how plausible at the outset, is difficult to achieve**. Once a town is formed, there are expectations that the town will perform well and provide services; over time, there is a natural tendency to use the town powers to solve issues. In essence, there is a natural tendency for government to expand to fill needs. Municipalities tend to expand to the level allowed by available tax revenues. Most new towns develop with the intention of offering minimal services; yet, holding to that standard in the face of demands form the public is difficult. For example, Centennial promised residents a one percent sales tax rate upon its incorporation; it is now at 2.5 percent. Foxfield recently hired a full-time Town Manager after having a part-time staff since its incorporation. Castle Pines North recently annexed a large commercial property into its boundaries to secure future sales tax revenues and established a controversial Urban Renewal Authority to cover development costs.

- **Recent incorporation efforts emphasize privatizing and outsourcing service provision, as well as supporting existing service districts**. Most recent incorporation efforts have been about preserving communities, not about discontent with existing services. Considerable efforts have been made to control public costs by outsourcing services and contracting with the county for roads and sheriff. Results have been mixed. As a rule, service costs eventually grow to fill the level of available revenues. Outsourcing and privatization is attractive on paper, but sometimes limits local control, which often becomes an issue for local residents.

- **Severing existing service relationships can be difficult.** After communities incorporate, they have flexibility in how they provide services to their residents. In some instances, this may mean retiring or dissolving long-standing service providers, such as metro districts, county services or other special districts. This process can be complicated and contentious, particularly in small communities. The role metro districts, HOAs and other service providers will play in communities after incorporation should be thoughtfully considered before the incorporation process is completed.

- **Incorporation does not guarantee significant revenue**. Incorporation creates the ability to obtain new revenue sources, including funds from the State Highway Users Trust Fund and the State Conservation Trust Fund. However, these revenues sources typically contribute only a small portion of a municipality's revenues. It is common in Colorado cities and towns for sales tax revenue to account up to half of general fund revenue. If sales tax is not a reliable revenue source, communities must rely on property taxes, which is not a popular tax nor a productive source of revenue if there is not a great deal of commercially assessed property in the area.

- **Incorporation does not alleviate conflict**. Incorporation can successfully shelter a community from being annexed by a neighboring town or city. However, a fledgling new town, having just thwarted a common threat, and not yet created a political culture, is often not an effective entity in resolving conflict. Issues may just be transferred to a different platform. Moreover, "if citizens aren't interested or constructively involved in their municipal government, local problems may not be resolved any better through their local government than through existing government entities."[5] Similarly, residents who may not have been participatory in county government affairs may be more participatory in their new jurisdiction, and local decision making dynamics may change.

Finally, despite the above issues and struggles, no one interviewed in this process suggested that the community would be better served without the overlay of local municipal government.

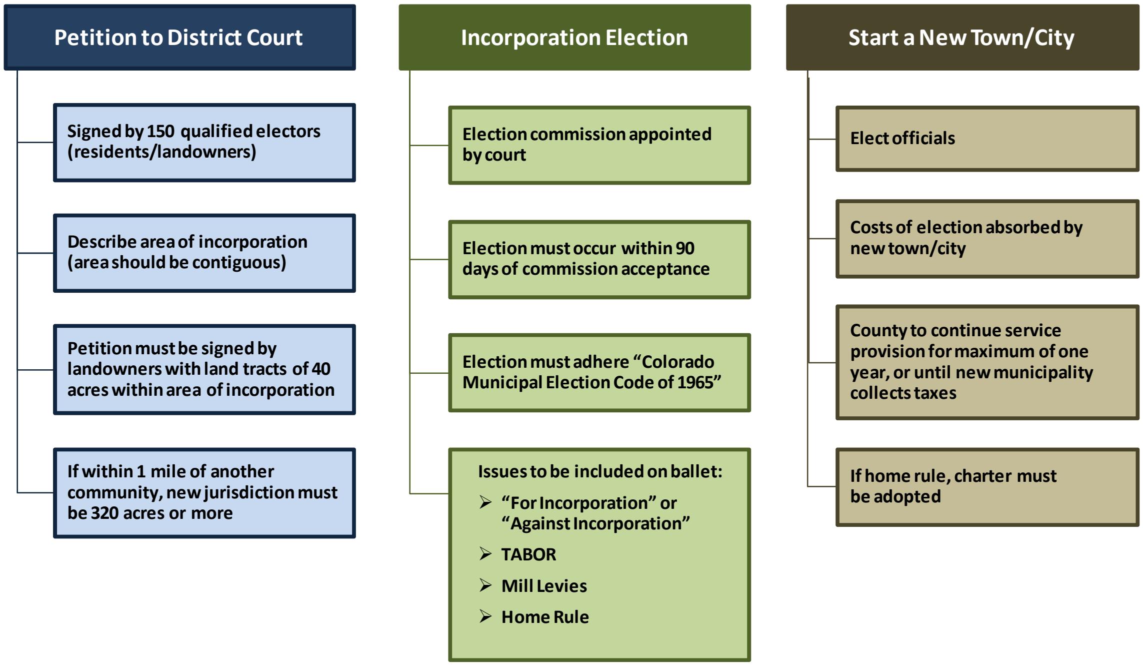
The Incorporation Process

Colorado statutes define the steps for incorporation. The incorporation process can be summarized in three steps: petition for judicial review; conduct an election; and form a new town or city. This process is displayed in the Figure III-3. These steps are described in greater detail below the figure.[6]

[5] The Municipal Incorporation Manual: A Guide for Creating a New Community. Revised in 1999.

[6] Information on the incorporation process is heavily borrowed from "The Municipal Incorporation Manual: A Guide for Creating a New Community".

Figure III-3.
Steps to Incorporation



Source: The Municipal Incorporation Manual: A Guide for Creating a New Community.

Petition to District Court. A petition must be filed in the District Court in the county where the proposed city or town is located. The petition must be signed by at least 150 persons who are residents and property owners within the new community. The petition must describe the area to be incorporated and include a map of the area. This is best accomplished through a surveyor, as some incorporation efforts have been stopped by disputes over legal descriptions. The petitioners must have proof of a bond to cover costs associated with the election. If the incorporation fails, this bond will cover the costs of the election. If the incorporation passes, the new town will absorb election costs.

It is important to note that owners of any undivided tract of land containing 40 or more acres located within the proposed incorporation boundaries may choose to opt our of the new community[7]. It should also be noted that for any proposed incorporation within one mile of an existing municipality, the proposed area must contain at least 320 acres.

Incorporation election and approval of election. If the court approves the petition, a commission of five to nine "commissioners", who reside in the area, is appointed. Within 10 days of acceptance of the appointments, the commission must meet and elect a chairman. Within 90 days of this meeting, an election must be held. Commissioners must determine whether any matters related to TABOR will be included on the ballot. Potential mill levies should also be voted on.

[7] The Municipal Incorporation Manual; op.cit.

Voters may register with the county clerk and recorder up to and including the 29^{th} day prior to the election. The election notice and the election itself must be conducted in conformance with the "Colorado Municipal Election Code of 1965." The notice must include a description of the boundaries and will direct interested parties to the clerk of the district court for more information on the proposed area. The Code stipulates that the ballot should include two options for voters: "For Incorporation" and "Against Incorporation." The commission must report the results within three days of the election.

If the voters approve the incorporation and the election was deemed fair by the District Court, the Court will certify the election. A notice will be published in a local newspaper or in five public places.

Organization of a new city or town and service provisions. The incorporation process is completed when new officials are elected and installed. All costs associated with the elections are covered by the newly incorporated community.

The county continues to perform all duties and responsibilities for at least 90 days after the election officials. The county will also continue to provide all services to the area for a maximum of one year, or until the taxes levied by the new community are collected.

If a community was approved as Home Rule during the incorporation election, a charter must be adopted. If Home Rule is not approved, then the community is established statutorily. More explanation on Home Rule is presented below.

Additional Considerations

Home rule versus statutory city. Communities considering incorporation must choose between statutory or Home Rule governance, as well as whether to adhere to TABOR.

Given the size of Battlement Mesa, it would likely incorporate as a city (population greater than 2,000). Cities can either be statutory or Home Rule.

Statutory cities provide the services defined by state statues. They can be governed either by a City Council-Mayor or by a City Council-City Manager structure. City Council-Mayor communities elect a mayor, a city clerk, treasurer and city council, including two elected council members from each ward in the city. Other positions within the city (ex: attorney, municipal judge, etc.) are appointed by the city council.

City Council-City Manager governance structures differ in the following ways:

- The mayor and mayor pro-tem are members of city council;
- The city manager becomes the chief administrator of the city, with significant administrative responsibilities and authority; and
- Other positions within the city are chosen by the City Manager, as opposed to the council.

Home rule cities are self-governing and operate independently from state legislation. Home rule cities adopt their own charters, which "describe the nature and extent of the government, limits on the power of the city officials and procedures for solving local problems."[8] Being a home rule city allows for greater flexibility in dealing with local issues; allows you to organize your local government in varying ways; and it allows flexibility in identifying and creating revenue sources. However, becoming a home rule community can be costly and requires more elaborate procedures; it should be done with legal guidance and careful consideration. Most communities incorporate as statutory communities, sometimes changing to home rule status by special elections many years later.

Of the 271 municipalities in the state, most (59 percent) are statutory towns; 35 percent are home rule municipalities; 4 percent are statutory cities; and the remaining 1 percent are city/county structures (Denver and Broomfield) or territorial charter municipality.

Mill levy. The incorporation vote would also seek approval for an initial mill levy and most likely a sales tax rate, based on the organizers' best estimate as to revenue requirements.

Tax Payers Bill of Rights (TABOR). TABOR is a constitutional amendment passed by Colorado voters in 1992, which limits state, municipal and special district revenue growth. With some limitations, TABOR dictates that municipal tax revenues cannot grow beyond the combined rate of annual inflation and population growth. These revenue growth limitations apply to the lower of actual revenue, or the TABOR allowed revenue limit; thus, in years with low tax revenues, the effect of TABOR is to ratchet down the allowed base to the lowest level.

Communities can chose to be permanently exempt from TABOR (known as de-Brucing), but voter approval is required. When residents vote on incorporation, they can also vote on revenue issues, such as TABOR exemption. For example, concurrent with its incorporation vote, Centennial voters elected to permanently exempt the city from TABOR revenue limitations on sales, use and property taxes and to exempt the city from TABOR restrictions on all other revenues for a four year period. Combining the voting processes for incorporation and TABOR equipped Centennial with necessary revenue for starting its new communities.

The following section of this report suggests a likely incorporation approach for Battlement Mesa as a basis for determining the financial feasibility and fiscal impact of a new city of Battlement Mesa.

[8] The Municipal Incorporation Manual: A Guide for Creating a New Community. Revised in 1999.

SECTION IV.
Battlement Mesa
Incorporation Financial Analysis

SECTION IV.
Battlement Mesa Incorporation Financial Feasibility Analysis

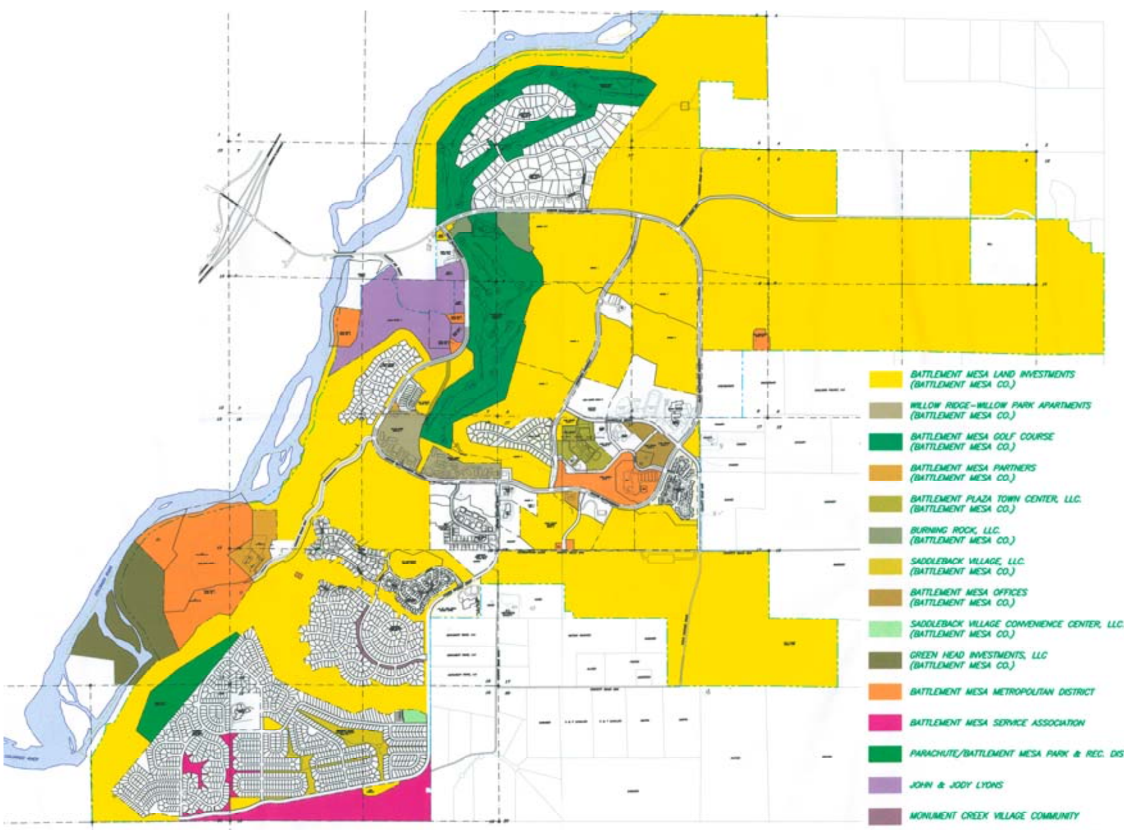
This section documents the fiscal consequences of municipal incorporation for residents of Battlement Mesa and for Garfield County. Assumptions defining a likely incorporation process are discussed and two methodologies are employed to test the new city's financial feasibility.

Incorporation Assumptions

Certain community formation assumptions are necessary prior to completing financial analysis. These include geographic coverage, service provision strategies and the role of metro districts or related special service districts.

Geography. The proposed area of incorporation is coincidental with the present Battlement Mesa Metropolitan Distinct boundaries. It should be noted that the owners of the Battlement Mesa Company most likely have the right to remain in the county and still retain their development entitlements and expectations for utility services. The area in yellow, shown on Figure IV-1 below, is the undeveloped property that the Battlement Mesa Company could choose to withhold based on the provision that an owner of 40 contiguous acres or more may elect to remain outside the new city.

Figure IV-1.PUD and BMC Property



Source: Schmueser / Gordon / Meyer Ownership Map.

Population. Battlement Mesa is currently estimated to contain 1,650 households and 4,300 persons. These figures are lower than the forecasted 2010 population of 5,090 from the previous incorporation study, primarily because of the current 25 percent vacancy rate of the community's housing units. Housing occupancy in the area is greatly impacted by oil and gas activity. With little drilling activity currently in the area, rental units are largely vacant. If extraction activities ever resumed in the area, these units would quickly fill and population would again increase.

Service outsourcing and privatization. The incorporation case studies indicate that most new communities rely on some outsourcing of community services, especially in the early years of formation. This most often implies contracting with the county for police and road services and retaining consultants for administrative, planning and building department functions. The financial model used here assumes contracting with the county for police services and some minor use of administrative consulting.

Assessed Value. If Battlement Mesa were to incorporate the full PUD, the new community would have an assessed valuation of approximately $49.3 million. The assessed value of the Battlement Mesa Metro District is $34.3 million; there is an additional $15.0 million in assessed value from undeveloped Battlement Mesa Company parcels currently not included in the Metro District. This is substantially higher than the 1994 assessed value of $7.5 million, as well as the 2010 forecasted assessed value of $24.7 million from the previous incorporation study. By way of comparison, Parachute has an assessed value of $23.0; Silt has an assessed value of $40.8 million; and New Castle's assessed value is $78.8 million.[1]

The Battlement Mesa Company keeps large portions of its property as grazing lands and qualifies for agricultural exemptions, which reduces property tax collections. For this analysis, BBC has assumed that the initial incorporation will include all properties in the Battlement Mesa Metro District, but not the extended private holdings outside of the Battlement Mesa Metro District. As a result, all analysis will be based on an assessed value of $34.3 million.

Battlement Mesa Metro District (BMMD). The Battlement Mesa Metro District would likely stay intact upon incorporation. Even if the BMMD's operations were subsumed in a new city, there is no reason to believe that a municipality could provide less costly utility services than the existing district. Current district revenues total $2.6 million. An accounting summary of Battlement Mesa Metro District operations is provided in Figure IV-2. Most of the district's revenues are generated from fees associated with residential water and sewer services and per unit charges associated with the Battlement Mesa Activity Center.

The Center generated nearly $60,000 in net revenues in 2009, after meeting its expenses of $634,000. However, most of the revenue was generated from a recreational assessment charged to each household and each commercial operator in Battlement Mesa. Only about 29 percent of the Center's revenues are generated from fees, room rents, service charges and sales of goods (see Figure IV-3).

Regardless of whether the Center or the utility services remain a district responsibility, or are absorbed by a new town government, these costs will remain the responsibly of Battlement Mesa's residents and businesses.

[1] Garfield County Assessor's 2009 Abstract of Assessment and Tax Levies

The BMMD is currently debt free and collects no property tax.

Figure IV-2.
Consolidated Battlement Mesa Metro District Consolidated Budget, 2009 (Actual)

Consolidated Budget					
Operating Revenues			*Operating Expenditures*		
Water	$	1,049,888	Water	$	846,425
Sewer	$	603,369	Sewer	$	584,049
Activity Center	$	693,721	Activity Center	$	634,195
Public Works	$	14,900	Public Works	$	4,601
Management	$	-	Management	$	-
Total	**$**	**2,361,878**	**Total**	**$**	**2,069,270**
Non-Operating Revenues			*Non-Operating Expenditures*		
Water	$	126,467	Water	$	323,852
Sewer	$	123,488	Sewer	$	518,210
Activity Center	$	27,731	Activity Center	$	-
Public Works	$	-	Public Works	$	-
Total	**$**	**277,686**	**Total**	**$**	**842,062**
Total Revenue	**$**	**2,639,564**	**Total Expenditure**	**$**	**2,911,332**

Source: Battlement Mesa Metro District.

Figure IV-3 summarizes the Center's operations.

Figure IV-3.
Battlement Mesa Metro District Activity Center Operating Budget, 2009 (Actual)

Activity Center—Operating	Revenues		Expenditures		
Fees	$	103,382	Employees	$	372,973
Room Rentals	$	45,776	Administration	$	58,628
Sales of Goods	$	11,692	Facilities	$	202,594
Recreation Assessments	$	494,073	**Total**	**$**	**634,195**
Charges for Services	$	32,552			
Misc. Revenues	$	6,246			
Total	**$**	**693,721**			

Source: Battlement Mesa Metro District.

Funding for the Center has been an ongoing discussion for Battlement Mesa residents. The Center's hours have been cut back and capital investment reduced. Regardless of whether the Center and BMMD remain separate entities, or are absorbed by the town, current expenditure levels provide an accurate measure of local service costs. For this analysis we have assumed that the metro district will remain in place and continue to provide water and sewer services. Similarly, the Center is expected to continue to provide recreation and community services at the existing cost levels.

Battlement Mesa Service Association (BMSA). The BMSA has a 2010 budget of approximately $760,000, which equates to approximately $460 per household. Revenues are generated through assessments on Battlement Mesa housing units and commercial establishments—a large share of these assessments are paid by the Battlement Mesa Company, which owns many on the apartments, group quarters, RV sites and manufactured housing in the community.

The largest expenses incurred by the BMSA are for landscape maintenance, sprinkler maintenance/irrigation and neighborhood infrastructure maintenance, which includes street lighting, bike path/side walk maintenance and security services. The BMSA spends approximately $70,000 on general management each year, which includes management and accounting, meeting expenses, telephones and office supplies.

Figure IV-4.
Battlement Mesa Service Association Budget, 2010 (Proposed)

Revenue			Expenditures		
Common Assessment	$	316,273	General Management	$	69,300
Developer Common Assessment	$	403,744	Insurance	$	14,460
Comcast Franchise Fee	$	25,000	Legal Services/Tax Preparation	$	30,000
Street Sweeping Donations	$	15,000	Landscape Maintenance	$	208,128
Total	**$**	**760,017**	Sprinkler System and Irrigation	$	136,319
			Recycling	$	15,600
			Street Cleaning	$	27,000
			Neighborhood Infrastructure Maintenance	$	117,190
			Membership Fees (ex: Chamber)	$	3,900
			Covenant Protection Personnel	$	14,400
			Misc. Charges	$	3,320
			Transfer to Reserve Fund	$	110,000
			Committees	$	1,500
			Contingency	$	1,900
			Flags	$	1,000
			Community Relations	$	6,000
			Total	**$**	**760,017**

Source: Battlement Mesa Service Association.

For this analysis, BBC has assumed that the new municipality would absorb the BSMA's responsibilities, which are largely associated with maintenance of common property and infrastructure and covenant enforcement, which are typically a municipality's responsibilities. BBC has also assumed that the current per household charge would remain in force and that the BMSA, in combination with the Center, would provide community recreation, common area maintenance, parks, open space and covenant enforcement for the new city.

Methodology I—Community Financial Comparison

A preliminary estimate of likely operating costs and revenues for a new city of Battlement Mesa can be derived by examining costs and revenues for other rural communities of a similar size and character to Battlement Mesa. Data from other Colorado communities, documenting average municipal ***per household operating expenditures*** and average ***per household revenue*** suggests brackets for Battlement Mesa's likely operating expenses and revenue requirements.

Annual expenditures. The following figure displays average annual general fund expenditures per household for similarly sized Colorado communities (between 1,000 and 2,000 households).[2] Resort communities were omitted from the sample, as their effective service populations are far greater than resident population counts would indicate. Expenditures are for general fund services. The costs of utility services (water and sewer) as well as fire, trash collection, park maintenance and recreation, were excluded to mirror the likely Battlement Mesa situation in which these services are already provided by other organizations.

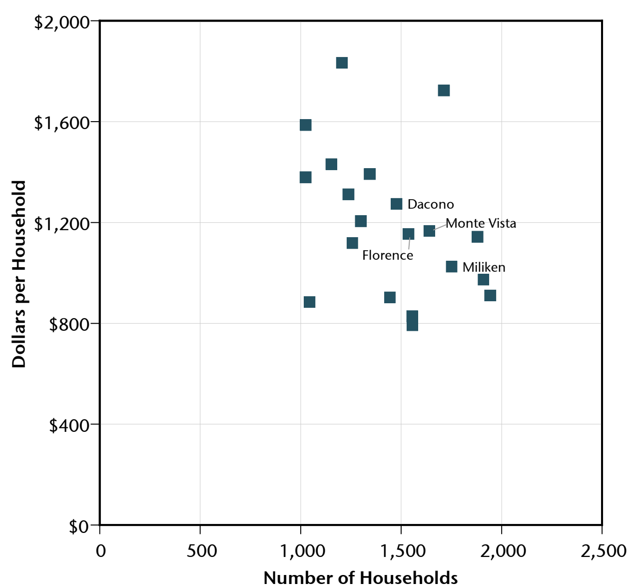
Although any single data point may be misleading, this collective data suggest a number of observations relative to Battlement Mesa's operating costs:

- There is considerable variation in the per household cost of providing municipal services for small Colorado communities;
- There appears to be some economies of scale as communities grow between 1,000 and 2,000 households; and
- As a rough measure, Battlement Mesa should anticipate new municipal ration operating costs, for those services beyond those already provided by existing entities, of approximately $1,100 per household.

Figure IV-5.
Average Total Expenditures per Household by Community Size, 2007

Source:
DOLA's Household Estimates, 2007 and DOLA's Financial Compendium, 2007.

Data are adjusted to remove water and sewer costs, fire protection, recreation, open space and parks.



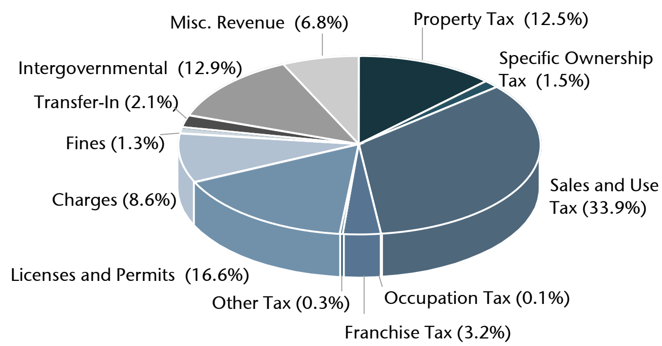
[2] The communities of Berthoud, Brush, Buena Vista, Burlington, Cedaredge, Dacono, Eaton, Florence, Leadville, Lochbuie, Mead, Milliken, Monte Vista, Monument, New Castle, Palisade, Rocky Ford, Walsenburg, Wellington and Yuma.

Accepting that the above data are only a rough measure of likely costs, Battlement Mesa should anticipate general fund municipal operating costs of about $1,100 per household, which equates to approximately $1.8 million in annual expenditures at the community's current size (1,650 households).

Annual revenues. Colorado communities are heavily reliant on sales and use tax revenue to cover operating expenses. The following figure documents typical revenue sources and the degree of reliance on individual revenue sources from the same rural Colorado community database used in the above expenditure diagram. On average, these comparable communities collect nearly 34 percent of operating budgets from sales and use tax; 17 percent from license/permit revenue; and, 13 percent from both intergovernmental and property tax revenue.

Figure IV-6.
Average Contribution by Revenue Type to Total Revenue for Colorado Rural Communities, 2007

Source:
DOLA's Household Estimates, 2007 and DOLA's Financial Compendium, 2007.



In comparison to the above distributions, Garfield County communities are generally more reliant on sales taxes, averaging closer to 50 percent reliance, most likely because I-70 produces a large travel/tourist presence that generates significant sales tax receipts and local communities have modest property tax rates. Local municipal property taxes are generally low in part because of readily available sales taxes. Unfortunately, Battlement Mesa is not well positioned to take advantage of I-70 traffic and resultant retail sales.

Assuming a revenue profile similar to other comparable communities, a city of Battlement Mesa would have to raise about $612,000 in local sales and use tax ($1.8 million X 34 percent) and $235,000 in property taxes ($1.8 million X 13 percent). The remaining funds would come from various fees, charges and redistributions of severance tax funds currently going to the county. A reasonableness test of the community's revenue raising capability can be achieved by the following.

Sales tax collections of approximately $612,000 would require a new city sales tax of 3.0 percent and $20.5 million in annual taxable sales. As detailed later in this section, Battlement Mesa has 91,000 square feet of commercial space, of which only about 35,000 square feet produce taxable sales. BBC estimates that Battlement Mesa's retail establishments have business levels of about $150-$200/square foot. This combination of current sales and a new sales tax levy would produce about $210,000 in local sales tax, suggesting a $400,000 shortfall from the targeted amount. Additional use tax collections (largely a tax on the importation of building materials into the new city) are expected to be modest, particularly with the community's high vacancy rates and minimal prospects for new construction in the near future.

If property tax receipts were to achieve the average municipal contribution documented above (13 percent of all revenues, or $235,000), the community would require a mill levy of about 6.8 mills based on an assessed value of $34.3 million, which would be in addition to the current mill levy (38 mills) already imposed on Battlement Mesa residents.

Summary. Using comparable communities as a rough measure of likely municipal costs and revenues, there is initial evidence that new city operations would require a budget of about $1.8 million. Even with the continuation of the per unit charges that support the BMSA, financial support of the new community would require new sales and property tax levies, as well as new fees and charges for service.

Rough measures suggest that Battlement Mesa lacks the retail sales base necessary to provide critical sales tax contributions to the new city. The community's largely residential base also dampens potential assessed value, suggesting that a substantial mill levy, perhaps ten or more mills, would be required to compensate for the lesser sales tax receipts and produce necessary revenues. The new community would also require a full array of new fees, charges for service, franchise fees and intergovernmental revenues, most of which would by paid by local residents.

The following methodology offers a more accurate check on this methodology and a more specific analysis of costs and revenue details.

Methodology II – Incremental Approach

A second methodology looks at the specific circumstance of Battlement Mesa, the municipal requirements of a new city and current county service costs to estimate prospective community operating costs. A variety of data points are used, including the experience of other communities and the specific experience of Garfield County.

A revenue strategy is then fashioned using projections of sales and property taxes based on current and specific Battlement Mesa conditions.

New city expenditures. With existing service provision systems and fees, the new city's water, sewer, parks, fire protection, open space and public recreation are considered adequately funded. The community's new responsibilities will include the following:

- Administrative support, treasurer, city clerk, council, finance, licensing and permits, elections, insurance, communications, IT support (new services);
- Municipal court (new services);
- Public works including street maintenance, snowplowing, municipal facility maintenance (primarily replace county functions);
- Police (replace county functions);
- Planning, zoning and community development (replace county functions);
- Building inspection (replace county functions); and
- Animal control (replace county functions).

The new city will also require considerable front-end investment in forming a charter; holding an election; forming a local government; setting up administrative functions; and eventually instituting a new municipal code and community comprehensive plan. Some form of city administrative offices and a town yard for equipment will be required, although with current commercial vacancies, rental of existing offices appears a very practical and low cost short term solution.

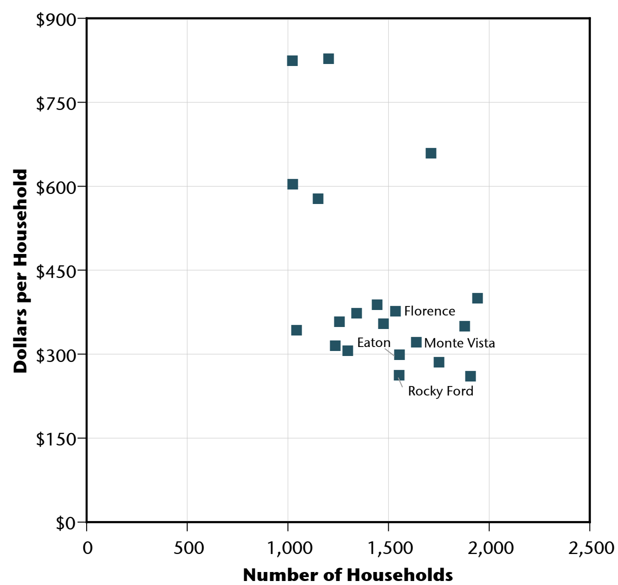
Estimates of municipal service costs by category are provided below.

Administrative costs (general government). A share of the incorporated city's expenses will be tied to administrative salaries and associated costs. All communities require an administrator and some professional support staff, such as the clerk, planning and finance offices, as well as clerical staff and receptionists—the level of staffing can vary considerably. Interviews with new towns around Colorado confirm that administrative, record keeping, management, information technology and public communications requirements are commonly underestimated. A few new towns have used private service for the majority of these functions. In Battlement Mesa, some savings are expected by sharing costs and responsibilities with the BMSA. Even if Battlement Mesa opted for a lean city staff (e.g., Foxfield), there are certain positions and subsequent services that a local municipality would likely need to provide.

The comparable community data for ***general government*** expenses is diagrammed below. Most small communities cluster in the range of $300-400 per household.

Figure IV-7.
Total General Government Operating Expenditures per Household (Management and Administration), 2007

DOLA's Household Estimates, 2007 and DOLA's Financial Compendium, 2007.



With some sharing of existing costs with the BMSA and the BMMD, we anticipate costs on the lower end of the scale, $300/household, which equates to about $495,000 per year.

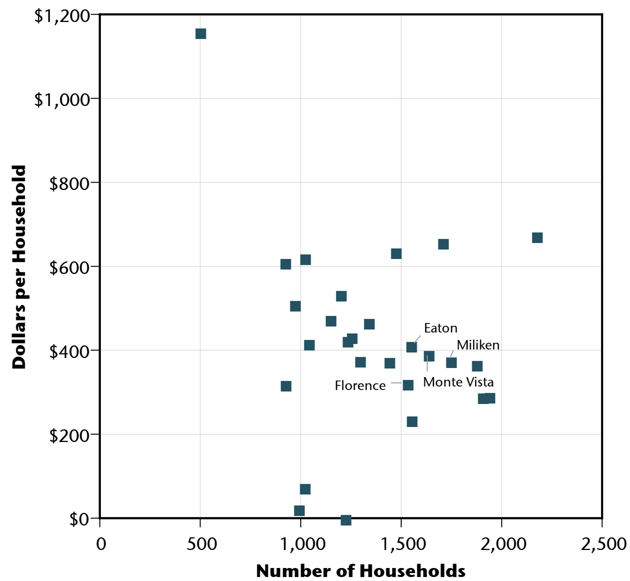
Law enforcement. For one year following incorporation, Garfield County is obligated to continue providing law enforcement services to Battlement Mesa via the Garfield County Sheriff's Office. Given the substantial start up costs required for establishing a police department, and based on the recommendations of other newly incorporated municipalities, the new city of Battlement Mesa would likely contract with the county for law enforcement services for at least its early start up years, perhaps eventually developing its own police force. In Douglas County, home of Castle Pines North, this is done via a 7 mill dedicated law enforcement property tax levy, which is used to hire the county sheriff.

Figure IV-8 below shows the experience of other similar sized communities in the provision of police services.

Figure IV-8.
Total Law Enforcement Operating Expenditures per Household, 2007

DOLA's Household Estimates, 2007 and DOLA's Financial Compendium, 2007.

Note: Parachutes high 2007 police costs are likely due to an anomalous one time cost.



Police service costs include patrol, investigations, community resources and animal control. Other communities of this size have 5 to 7 sworn officers and 1 to 2 civilians for record keeping and support staff. We've assumed a holding area, but no municipal jail. The above data suggests municipal police costs of approximately $400 per household. The Garfield County Sheriff's Department reports current costs of approximately $500 per household. Assuming stabilized costs of $450 per household, the new city should anticipate a law enforcement budget of $750,000 per year.

Road maintenance. Streets and road maintenance, including snow removal, is often one of the largest costs of local government. In general, Battlement Mesa streets are in very good condition and because the community is relatively new, the street system has been constructed to modern standards. According to local and county interviews there is no capacity constraints at current use levels and no plans for significant near term system expansion.

The following figure displays the location of the 32 miles of county-owned roads in Garfield County. The county reports high levels of repair and maintenance investment in Battlement Mesa, despite the county's obligations for repair and maintenance of nearly 500 miles of unincorporated county roads.

Figure IV-9.
Garfield County Roads in Battlement Mesa, 2010

Source:
Garfield County Road and Bridge Department.

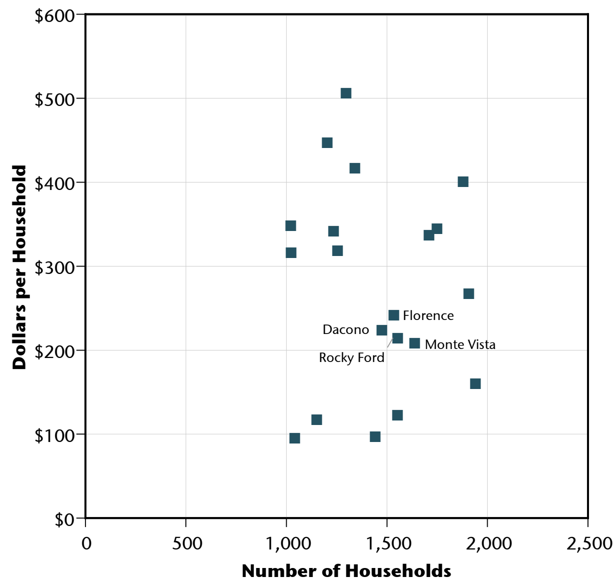
In 2010, the county will spend approximately $100,000 in snow removal for county-owned roads in Battlement Mesa (completed under a private contract)[3]. The county estimates $700,000 in repair work through November of 2010, which includes chip sealing, pothole repairs and drainage improvements. The county's 2010 expenditure in Battlement Mesa also included new road signage. In sum, the county estimates that it is spending over $800,000 a year ($480/household) in Battlement Mesa on street maintenance and snow removal.

Many of the original streets are over two decades old and eventually will be in need of rebuilding. As indicated below, street maintenance costs can vary considerably between towns depending on many factors, including road repair standards. A small share of Battlement Mesa's annual street maintenance expense is already borne by local homeowners associations for those neighborhoods that have private streets. This model assumes that these existing costs would be absorbed most efficiently within the new government.

[3] The county budgeted $250,000 for snow removal in Battlement Mesa, but minimal snowfall provided an opportunity for cost savings.

Figure IV-10.
Total Streets Expenditures per Household, 2007

DOLA's Household Estimates, 2007 and DOLA's Financial Compendium, 2007.

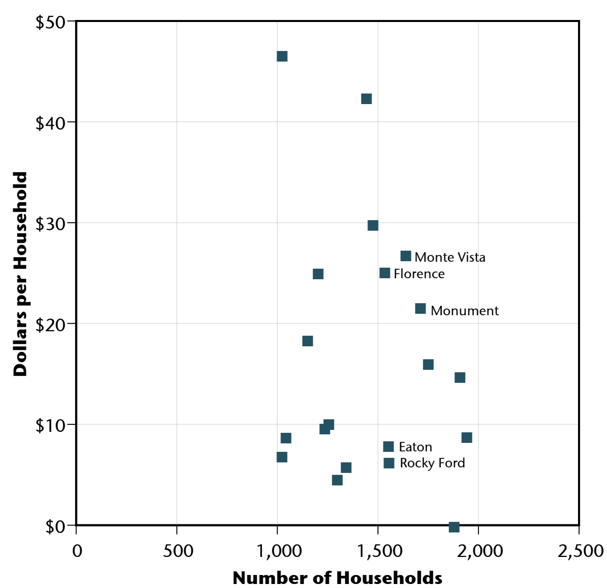


In order to continue maintaining roads near the current levels of service, Battlement Mesa would likely require a per household streets expenditure on the high end of those communities presented in Figure IV-10. Repair, maintenance and snow removal costs could require an annual budget of $780,000, which equates to an average annual household expenditure of $450 to $500.

Judicial services. The new city will require a municipal court to enforce ordinances and city statutes. The experience of other small communities suggests that periodic sessions, perhaps once a week will suffice, but there is additional expense in maintaining records and supporting judicial data and reporting requirements. The costs experienced by other similar cities are documented below.

Figure IV-11.
Total Judicial Expenditures per Household, 2007

DOLA's Household Estimates, 2007 and DOLA's Financial Compendium, 2007.



There is a wide variation in municipal court operating costs and fines and forfeitures recover some costs. BBC assumed new costs will be on the lower end, approximately $10/household.

Summary. Based on this analysis, BBC anticipates that the total costs of operating the municipality of Battlement Mesa costs will be near $1,235 per household or approximately $2.0 million annually.

Figure IV-12. Projected New Expenditures for the City of Battlement Mesa

Source:
BBC Research & Consulting.

	Per Household	Total
Administration/General Operations	$ 300	$ 495,000
Law Enforcement	$ 455	$ 750,000
Road Maintence	$ 473	$ 780,000
Judicial	$ 10	$ 16,500
Total Expenditures	**$ 1,237**	**$ 2,041,500**

As a point of comparison, Castle Pines North, Colorado's most recent incorporation, budgeted for $855 of expenditures per household in 2010, but this did not include the Sherriff's expenses recovered by a 7 mill property tax levy, which suggests a total cost of about $1,100 per household.

Revenues

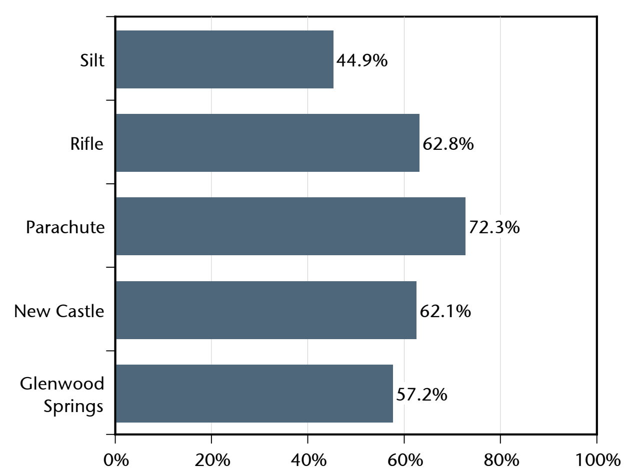
Upon incorporation, Battlement Mesa would impose a variety of new taxes, fees and charges and would receive some intergovernmental tax revenue from the county and state.

Overview. Property and sales tax are typically the largest contributors to general fund revenue for Colorado communities. As shown in the following figure, Garfield County communities rely on tax revenue for at least 50 percent of their annual general fund revenue, which is a higher percentage relied upon by the majority of Colorado communities.

Figure IV-13. Sales, Use and Property Tax Revenue as percent of Total General Fund Revenue, Garfield County Municipalities

Note:
2009 budgets are used for all communities, except 2008-projected budget referenced for Rifle and 2010 budget referenced for New Castle.

Source:
Communities of Glenwood Springs, New Castle, Parachute, Rifle and Silt.



Seventy-two percent of Parachute's annual general fund revenue is from sales property and use tax revenue. Parachute incorporates both exits off of I-70 and is well positioned to garner any retail sales growth. Battlement Mesa's retail center is designed to service Battlement Mesa residents and is unlikely to capture other regional business.

Sales tax. With relatively minimal commercial space and few sales tax generating businesses currently in Battlement Mesa, expected sales tax revenues are relatively minimal. The Battlement Mesa Company owns and operates all commercial space currently in use in Battlement Mesa. The company currently has nearly 91,000 square feet of commercial space, which is presented in the figure below. Commercial space is organized in two developments: the Battlement Mesa Plaza Town Center and the Saddleback Commercial Center.

Figure IV-14. Battlement Mesa Commercial Square Footage, 2010

Note: Includes common space.

Source: Battlement Mesa Company.

Battlement Mesa Plaza Town Center		Saddleback Commercial Center	
Current Tenants		**Current Tenants**	
Clarks Market	26,541	KUM and GO	2,430
Grand River Hospital District	5,274	Garfield County Sheriff	1,200
Wells Fargo	2,675	Headlines	760
35th Ave. Bar Café	3,550	Kirkpatrick Environmental	460
Berry Petroleum Company	1,095	Consolidated Metro District	1,590
Guzzler Liquor	2,280		
The Flower Shop	519		
Cimarron Land	680		
Metcalf Excavation	1,941		
Battlement Mesa Company	4,985		
Keller Williams	703		
Grand River Medical Center	4,143		
Battlement Creek Dental	742		
Chiropractor Cembalisty	910		
Total	**56,038**	**Total**	**6,440**
Space Available		**Space Available**	
Space 1	3,566	Space 1	820
Space 2	12,633	Space 2	1,200
Space 3	1,095		
Space 4	1,988		
Space 5	258		
Space 6	302		
Total	**19,842**	**Total**	**2,020**
Total	**75,880**	**Total**	**8,460**
Total Building Square Feet *	**81,903**	**Total Building Square Feet ***	**8,810**

As described in Methodology I, Battlement Mesa has approximately 91,000 square feet of commercial space, of which about 35,000 square feet produce taxable sales. BBC estimates that Battlement Mesa's retail establishments have modest business levels of about $150 to $200 per square foot.

Local sales tax rates of other Garfield County communities vary between 3.0 percent (Silt) to 3.75 percent (Parachute). Assuming Battlement Mesa adopted a sales tax rate of 3.0 percent, it could anticipate receiving about $180,000 to $200,000 annually in sales tax revenue. For the purposes of this analysis, we assume a sales tax rate of 3 percent and business levels of $175 per square foot for annual sales tax revenue of approximately $185,000.

It should be noted that if Battlement Mesa chooses to implement a local sales tax, this would be on top of what is already charged by Garfield County and the state. Any locally imposed sales tax must be approved by citizen vote.

Use tax. Use tax is a complement to sales tax. In simplest terms, use tax ensures local revenue on products that are purchased outside the jurisdiction, but used within the jurisdiction. The purchase of construction materials and automobiles are generally the largest use tax producers.

With vacancy rates of nearly 25 percent, new construction will likely not produce sizeable use tax revenues for Battlement Mesa in the near future. However, assuming a 3 percent sales and use tax rate, use tax revenue from car purchases could provide Battlement Mesa with as much as $180,000 annually.[4]

Property tax. If Battlement Mesa were to incorporate, residents would continue to pay mill levies assessed by Garfield County and other local districts.

Figure IV-15.
Garfield County Mill Levies, 2009

	Mill Levy
Garfield County	
General Fund	7.742
Road and Bridge	2.861
Public Welfare	0.572
Capital	2.289
Retirement	0.191
Schools	
Garfield County District 16	5.233
Fire	
Grand Valley Fire District	3.267
Colleges	
Colorado Mountain College	3.997

Source: Garfield County Assessor 2009 Abstract of Assessment.

Garfield County and related districts currently impose a 34 mill levy on Battlement Mesa residents. Some of the mill levies applicable to Battlement Mesa residents are displayed in Figure IV-15.

Given the mill levies presented in Figure IV-15, a home in Battlement Mesa with a market value of $330,000 and an assessed value of $26,400 currently pays approximately $900 annually in property taxes to Garfield County and other local districts. This is a very low tax rate by national and Colorado state standards.

Figure IV-16 presents the mill levies of Garfield County's incorporated communities. Local levies range from 3.721 in Glenwood Springs to 8.973 in Silt.

Figure IV-16.
Garfield County Municipal Mill Levies, 2009

Garfield County Communities	Total Assessed Value	Mill Levy	Revenue
Carbondale	$ 175,778,170	3.594	$ 631,747
Glenwood Springs	$ 281,967,730	3.721	$ 1,049,202
New Castle	$ 78,781,620	7.67	$ 604,255
Parachute	$ 22,998,330	8.366	$ 192,404
Rifle	$ 153,197,580	5.261	$ 805,973
Silt	$ 40,817,030	8.973	$ 366,251

Source:

Garfield County Assessor 2009 Abstract of Assessment.

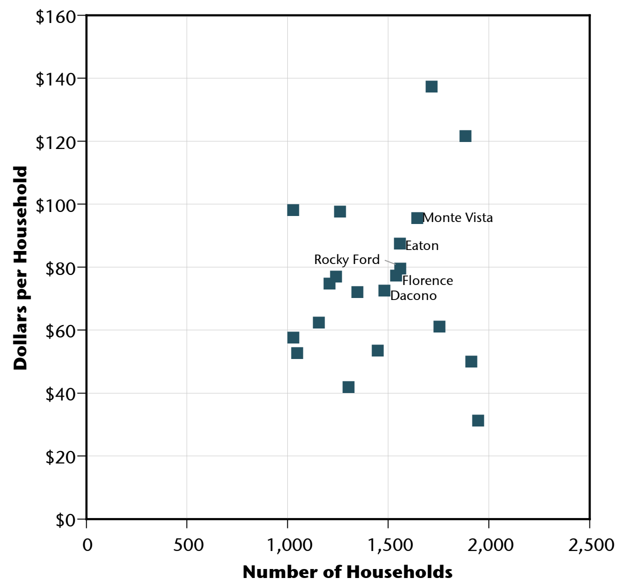
[4] Use tax generated from automobile purchases assumed that each of Battlement Mesa's 1,650 households replaced their 1.5 cars per household every five years. Two thirds of new car additions are purchased as opposed to leased and a mix of new and used vehicles results in an average price of $18,000 per vehicle.

The Battlement Mesa Metro District has an assessed property value of $34.3 million. The full PUD has a total assessed value of $49.3 million dollars. If Battlement Mesa followed the lead of neighboring Parachute and Silt and adopted a mill levy of 8.0 mills, the new Battlement Mesa city (concurrent with the metro district boundaries) would generate approximately $275,000 in revenue. It should be noted that residents would see a property tax increase of 23 percent. For example, a $330,000 home in Battlement Mesa currently paying $900 annually in property taxes would pay $1,115 annually if Battlement Mesa incorporated and imposed an 8 mill levy on residents.

Franchise fees. Franchise fees are "the revenue derived from various local levies imposed for the privilege of doing business or using public right-of-way."[5] Cable and electric companies, for example, often pay for the right to monopolize service in a community. Per the following figure, Battlement Mesa would likely collect approximately $80 per household per year in franchise fees, which equates to $132,000 in annual revenue.

Figure IV-18.
Total Annual Franchise Fee Revenue per Household, 2007

Source:
DOLA's Household Estimates, 2007 and DOLA's Financial Compendium, 2007.



Specific Ownership Tax. The specific ownership tax is a "property or ad valorem tax that is levied in addition to sales or use taxes on a motor vehicle and is paid annually when the vehicle is registered within a county." Specific ownership taxes are based on a percentage of the manufacturer's suggested retail price (MSRP), and typically reduce as the vehicle ages. Most of the tax is paid directly to counties and is redistributed to taxing jurisdictions within the county.[6]

As seen in the following figure, Battlement Mesa would likely receive $40 per household in specific ownership tax redistribution revenue. This would equate to $66,000 in annual revenue.

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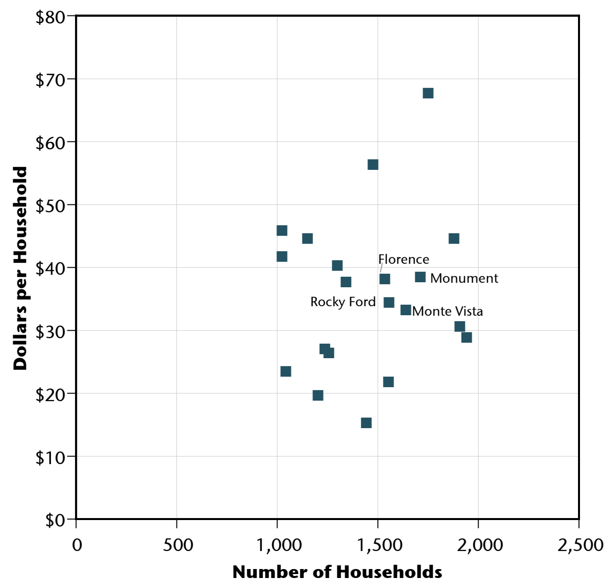
[5] http://dola.colorado.gov/dlg/resources/financial_compendium/index.html

[6] The Colorado Legislative Council: http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application/pdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251606116084&ssbinary=true

Figure IV-19.
Total Specific Ownership Tax Revenue per Household, 2007

Source:
DOLA's Household Estimates, 2007 and DOLA's Financial Compendium, 2007.



Intergovernmental revenues. If Battlement Mesa were to incorporate, the new community would be eligible for a number of revenue sources often categorized as "intergovernmental revenue". These revenue sources include the following:

- County sales tax reimbursements;
- Cigarette tax;
- Highway users tax;
- Conservation Trust Fund;
- Severance Tax;
- County road and Bridge Fund.

These revenue sources, more often than not, comprise a small portion of local governments' total general fund revenue but these new revenues to the community are redirected from other sources. Generally, these revenues do not require the imposition of new or increased local taxes.

Figure IV-21 displays the percentage intergovernmental revenues contributed to Garfield County communities' general funds, as well as the contribution of specific intergovernmental revenue sources. These sources are discussed in more detail below.

County sales tax reimbursement. As a new municipality, Battlement Mesa would be eligible for a county sales tax reimbursement, which would be in addition to the revenue collected as part of a local sales tax. In 2009, approximately 9 percent of the county's $11.9 million in sales tax revenue eligible for redistribution was distributed to the county's incorporated communities. Figure IV-20 displays how the county's sales tax revenue was redistributed back to its local communities in 2009, and how that distribution would have changed had Battlement Mesa been incorporated.

Figure IV-20.
Garfield County Sales Tax Reimbursement, 2009

Note:
Adjusted for 2 percent Treasurer's fee.

Source:
Garfield County Treasurer.

Municipality	2009 Redistribution		Adjusted Distribution	
	Share of Population	*County Revenue Redistribution*	*Share of Population*	*County Revenue Redistribution*
Battlement Mesa			**12%**	**$ 136,808**
Carbondale	20%	$ 206,176	17%	$ 180,556
Glenwood Springs	28%	$ 266,148	24%	$ 233,482
New Castle	12%	$ 142,685	10%	$ 124,521
Parachute	5%	$ 92,351	4%	$ 80,101
Rifle	28%	$ 270,202	25%	$ 237,010
Silt	8%	$ 115,223	7%	$ 100,306

In 2009, Battlement Mesa would have collected nearly $137,000 in sales tax revenue from the county. Given that 2009 was a relatively lean year for sales tax revenue, it is likely that Battlement Mesa could rely on $150,000 in annual sales tax revenue from Garfield County.

Cigarette Tax. A statewide sales tax of 2.9 percent is applied to all cigarette sales in the state. These revenues are redistributed to local governments, as cigarettes are exempt from local government sales tax.[7] Battlement Mesa would likely receive approximately $10 per household in cigarette tax revenue.[8] This would equate to $16,500 in annual revenue. However, this has been a declining revenue source for many years.

[7] http://www.colorado.gov/cs/Satellite/Revenue/REVX/1244045245199

[8] Based on per household cigarette tax revenue from other Garfield County communities.

Figure IV-21.
Contribution of Sales and intergovernmental Funds to Total Revenue, Garfield County Municipalities, 2010

	Glenwood Springs		New Castle		Parachute		Rifle		Silt	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Total Revenue	**$ 14,690,486**		**$ 2,978,105**		**$ 3,390,011**		**$ 9,784,933**		**$ 2,357,044**	
Tax Revenue (Property, Sales, etc.)	$ 8,408,541	57%	$ 1,850,461	62%	$ 2,450,006	72%	$ 6,140,546	63%	$ 1,057,872	45%
Intergovernmental Revenue	$ 1,172,609	8%	$ 364,000	12%	$ 467,655	14%	$ 1,405,461	14%	$ 693,573	29%
Special Revenue Sources:										
Highway Users Tax	$ 240,178	2%	$ 105,000	4%	$ 30,560	1%	$ 226,232	2%	$ 84,899	4%
Cigarette Tax	$ 114,000	1%	$ 7,000	0%	$ 7,500	0%	$ 40,262	0%	$ 3,412	0%
Motor Vehicle Registration Fees	$ 13,000	0%		0%	$ 5,500	0%	$ 43,502	0%	$ 12,692	1%
County Road and Bridge	$ 255,000	2%	$ 55,000	2%	$ 22,000	1%	$ 134,799	1%	$ 37,541	2%

Note: 2009 budgets are used for all communities, except 2008 projected budget referenced for Rifle and 2010 budget referenced for New Castle.

Source: Communities of Glenwood Springs, New Castle, Parachute, Rifle and Silt.

Highway Users Tax Fund. The Highway Users Tax Fund (HUTF) was created in 1953 to assist in the "acquisition of rights-of-way for, and the construction, engineering, safety, reconstruction, improvement, repair, maintenance, and administration of, the state highway system, the county highway systems, the city street systems, and other public roads and highways of the state".[9] Fund revenues are primarily generated from the state's motor fuel tax, as well as through motor vehicle license and registration fees and drivers' license fees.

The Colorado State Treasurer is responsible for managing the fund and distributing payouts to the recipient entities. The formula for distributing the fund to the various entities includes various data sources from the Colorado Department of Transportation (CDOT), including road mileage and bridge calculations.

"Off-the-top" appropriations are made to the Department of Public Safety and to the Department of Revenue for the Ports of Entry Program. These appropriations often account for approximately 12 percent of the annual allocations.[10] CDOT is typically allocated 55 percent of the fund; counties receive 20 percent of the fund; the remaining portion is allocated to municipalities. Approximately $100 million from the fund is typically allocated to municipalities statewide on an annual basis. This has been a declining revenue source in recent years.

As seen in Figure IV-21, revenue from the HUTF is typically two to four percent of Garfield County municipalities' general fund revenues. Battlement Mesa would likely receive about $70 per household from HUTF appropriations, which equates to approximately $115,000 annually.

Conservation Trust Fund. The Conservation Trust Fund (CTF) receives 40 percent of the state's lottery revenues, and then returns it to local communities to use for "local parks, recreation facilities, open space, environmental education, and wildlife habitat."[11] Funds are distributed to communities on a per capita basis. In 2008, approximately $49 million was distributed to 456 local governments participating in the program. If Battlement Mesa were to incorporate and chose to apply for CTF funds, they would likely receive about $38,000 annually.[12]

Severance tax and federal mineral lease. The Colorado Department of Local Affairs (DOLA) distributes revenue derived from energy and mineral extraction statewide. These revenues come from State severance tax receipts and Federal Mineral Lease (FML) non-bonus payments.[13]

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9 Description of the Highway Users Tax Fund from the website of the Colorado State Treasurer: http://www.colorado.gov/cs/Satellite/Treasury/TR/1190709088162

10 According to the Colorado State Treasurer, "off-the-top" appropriations to the Department of Public Safety are for the Colorado State Patrol and appropriations to the Department of Revenue are for the Ports of Entry Program and the Motor Vehicle Division.

11 http://dola.colorado.gov/dlg/fa/ctf/index.html

12 Estimate based on New Castle's CTF allocation of approximately $30,000.

13 http://dola.colorado.gov/dlg/fa/dd/index.html

Severance tax and FML funds are first distributed to counties using two formulas. Severance tax distributions are made from the state to counties based on formulas incorporating the following factors:

- Place of residence of energy employees;
- Population;
- Number of mining and well permits;
- Road miles; and
- Location of production.

The formula used for distributing FML is much simpler, as it only incorporates the place of residence for energy employees and the location where leasing funds were generated.

Once county funding pools are generated, severance tax and FML funds are then distributed to the county government and the municipalities contained therein based on three factors:

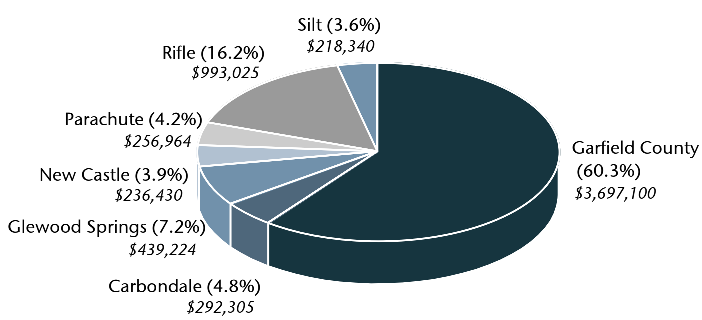
- The proportion of residents in the unincorporated areas or municipalities employed in mineral extraction to the total employed in the county;
- The proportion of the population of unincorporated areas or municipalities to the total county population; and
- The proportion of road miles in unincorporated areas or municipalities to the total road miles in the county.

In 2010, Garfield County and its jurisdictions received approximately $6.1 in state energy distributions. The county retained 60 percent of those funds. Rifle received 16 percent of the county's distribution ($993,000), making it the largest municipal recipient of Garfield County's energy distribution.

Figure IV-22.
Garfield County's State Energy Fund Distribution, 2010

Note:
Includes both Severance Tax and FML.

Source:
Colorado Department of Local Affairs.



State energy funds can be extremely lucrative for communities in the state; however, reimbursements vary from one year to the next, making it an unpredictable and unreliable revenue source. For example, Silt received approximately $555,000 in state energy funds in 2009, but only $218,000 in 2010.

Figure IV-23. Garfield County's State Energy Fund Distribution, 2010

Note:
Includes both Severance Tax and FML.

Source:
Colorado Department of Local Affairs

	Total State Energy Fund Distribution		
	2008	2009	2010
Garfield County	**$ 2,744,802**	**$ 11,640,046**	**$ 3,697,100**
Carbondale	$ 14,032	$ 846,685	$ 292,305
Glewood Springs	$ 96,814	$ 1,275,174	$ 439,224
New Castle	$ 92,951	$ 642,254	$ 236,430
Parachute	$ 609,290	$ 1,197,472	$ 256,964
Rifle	$ 1,404,184	$ 2,472,109	$ 993,025
Silt	$ 216,439	$ 555,028	$ 218,340
Total Garfield County Revenue	**$ 5,178,513**	**$ 18,628,768**	**$ 6,133,388**

Given the complexity of the distribution formulas and the uncertainty of energy production in the state, it is difficult to predict Battlement Mesa's potential state energy revenue in coming years. In 2010, Garfield county communities received an average of $278 per household. At this rate, Battlement Mesa would receive approximately $460,000 in state energy fund distributions. However, this would mean that all other communities in Garfield County, including Garfield County itself, would receive proportionately lesser amounts of energy funds.

County Road and Bridge Fund. The new community will be entitled to 50 percent of the Garfield County Road and Bridge Fund revenue generated from the property value within Battlement Mesa.[14] Assuming an assessed value of $34.3 million, Battlement Mesa would generate $49,000 in revenue, assuming continuation of the county's 2.861 Road and Bridge mill levy.

Other revenue sources. Over time, Battlement Mesa would likely develop additional revenue sources related to fees, fines and permitting. Such revenue sources are heavily dependent staffing levels. Staff creates the ability to enforce local policies (code enforcement, building code, etc), but this also comes with a cost. Local revenue generated from fees, fines and permitting are often minimal. As a result, BBC assumes revenues would be limited to approximately $20,000 per year.

[14] Colorado Revised Statute 43-2-202. County road and bridge fund – apportionment to municipalities.

Revenue summary. In sum, in a stabilized year of operations, BBC predicts that the new city of Battlement Mesa would generate roughly $1.69 million dollars in revenue.

Figure IV-24
Battlement Mesa
Revenue Summary

Source:
BBC Research & Consulting.

		Total
Sales Tax (3 percent)	$	185,000
Use Tax (3 percent)	$	180,000
Property Tax (8.0 mill levy)	$	275,000
Franchise Fees	$	132,000
Specific Ownership Tax	$	66,000
County Sales Tax Reimbursement	$	150,000
Intergovernmental Revenues		
Cigarette Tax	$	16,500
Highway Users Trust Fund	$	115,000
Conservation Trust Fund	$	38,000
State Energy Funds (Severance Tax and FML)	$	460,000
County Road and Bridge Fund	$	49,000
Other Revenue Sources	$	20,000
Total Revenues	**$**	**1,686,500**

Achieving this result would require the imposition of significant new taxes on Battlement Mesa residents including a 3.0 percent sales/use tax on retail goods, groceries, automobiles, and building materials. A 23 percent increase in the local mill levy, and various new franchise fees and service charges would also be required.

Financial Feasibility

We believe that the new city of Battlement Mesa would require about $2.0 million dollars a year in order to replicate current county sheriff protection and road maintenance services, as well as develop new municipal services. At this level of expenditures, service levels would be maintained, new services provided, local land use controls strengthened, and, in all likelihood, a more locally responsive government instituted.

With the imposition of specified new taxes, fees and charges, most notably a new 3.0 percent sales tax and a new 8-mill property tax, the community would produce about $1.69 million in revenues and still fall short of full funding by about $355,000. In addition, the community would have start up costs, and substantial initial capital investment requirements.

The prospective city's fiscal challenge is largely associated with the community's low retail sales, and thus, similarly low sales tax expectations. The absence of commercially assessed property also produces modest property tax revenues. In short, the community's largely residential land use base would not produce strong local revenues under Colorado's municipal taxation structures. Without that local revenue base, the city can not replicate current services and certainly not expand service offerings.

County Implications

After incorporation, Garfield County would continue to collect the same sales and property taxes from Battlement Mesa residents. The county would transfer to the new municipality vehicle use tax revenue from automobile sales, certain planning and building permit revenues and some shared state revenue. The sharing of state Severance Tax receipts would be the most substantial loss to the county, although the burden of paying for the new city's share of severance tax receipts would be spread among all other jurisdictions in the county, not just the county.

Most importantly, the county would lose responsibility for providing street maintenance, snowplowing and police protection services, as well as the administration of land use and building controls. Battlement Mesa is the largest concentration of population in the unincorporated county and is generally viewed as a service intensive area for all county services.

The above analysis demonstrates that the county currently spends roughly $1.2 million a year in Battlement Mesa for direct services of snowplowing, police services and road maintenance. The county receives modest property taxes, very minor sales taxes, vehicle use tax and severance tax redistributions in return. The sales and property taxes would remain with the county after incorporation. Only vehicle purchase use tax and severance tax redistributions, as well as a few minor fees, charges and state redistributions would be lost to the incorporated municipality. Providing county services to Battlement Mesa is considerably more expensive than the taxes and fees recovered, the county would be significantly benefited fiscally by the potential incorporation of Battlement Mesa.