

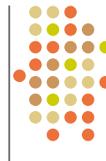
Blue Ribbon Commission Update Presentation

Boulder City Council
April 10, 2007



Economic Analysis, Spatially Enhanced

Mission of the Blue Ribbon Commission (BRC)



Establish a long-term, balanced and stable revenue stream for the city of Boulder that accomplishes public priorities while allowing flexibility to meet the varied and dynamic needs of the municipal corporation in the next twenty years.



Economic Analysis, Spatially Enhanced

Members of the BRC



- Matthew Appelbaum
- Steven Fisher
- Susan Graf
- Tom Hagerty
- Dickey Lee Hullinghorst
- Bruce Rothenberg
- Michael Stutzer
- Richard Wobbekind



Economic Analysis, Spatially Enhanced

Process to Date



- Exploration of the current revenue structure
- Initial consideration of alternative revenue sources
- Study of the sources of instability of the current structure
- Forecast of implication of instabilities for long-term fiscal position of City



Economic Analysis, Spatially Enhanced

“Don’t Bury the Lead”

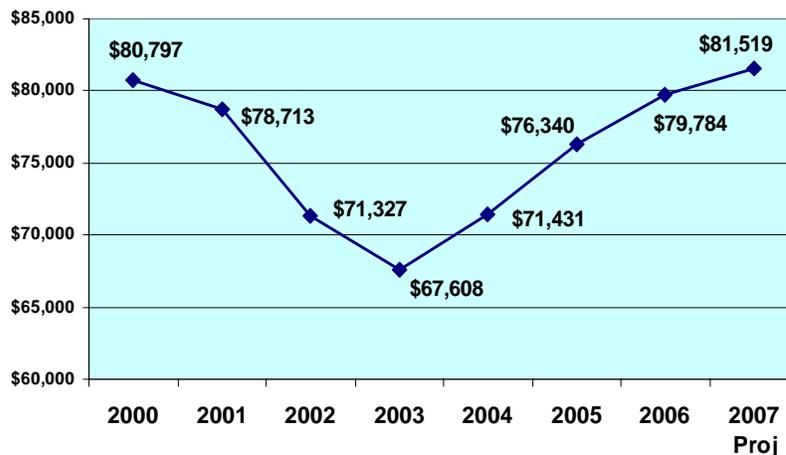


- Sales tax likely to remain work horse of local government finance in Boulder and the state
- Volatility of sales tax well understood
 - Business cycle volatility
- Structural and demographic issues with sales tax less understood
 - Changing demography rendering sales tax less productive
 - Economic conditions eroding productivity of sales tax



Economic Analysis, Spatially Enhanced

Citywide Sales and Use Tax 2000-2007 (in \$1,000s)



Includes .15% Open Space sales/use tax effective January 1, 2004

Economic Analysis, Spatially Enhanced

What Does This Mean?



- Factors facing all Colorado communities
 - Inherent volatility will continue – We have not eradicated the business cycle
 - Volatility will be compounded by structural factors that undermine the productivity of the sales tax
 - Aging of the population
 - Failure of sales tax base to inflate with cost of doing business
 - Partially offset by Boulder's favorable income demographic



Economic Analysis, Spatially Enhanced

What Does This Mean?



- Factors Specific to Boulder's future
 - Scheduled sunsets of sales taxes
 - 2011- .38 General Fund
 - 2012- .15 General Fund Designated
 - 2015- .25 Parks and Recreation
 - 2018- .33 Open Space
 - 2019- .15 Open Space
 - 2024- .15 General Fund
 - Earmarking revenues removes flexibility from policy-makers, but political reality may necessitate future earmarks



Economic Analysis, Spatially Enhanced

The Evidence

How did the BRC come to these findings?



Economic Analysis, Spatially Enhanced

Demographics and Their Impact on Funding Government

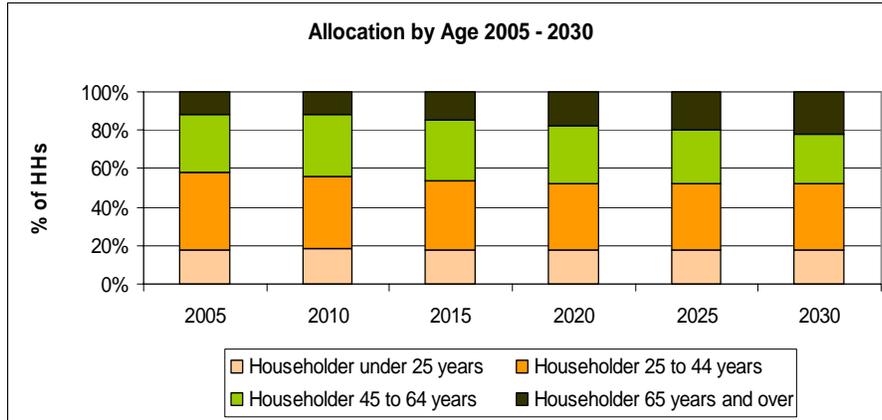


- Aging of the Baby Boomers affects
 - Age of head of household
 - Household size
 - Number of workers per household
- Each of these demographics affects taxable spending
- Income demographic may offset age



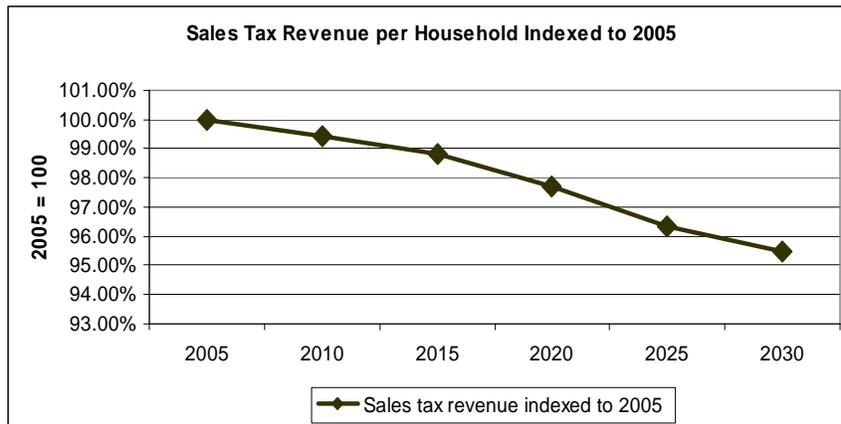
Economic Analysis, Spatially Enhanced

Boulder Trend: Age of Householder



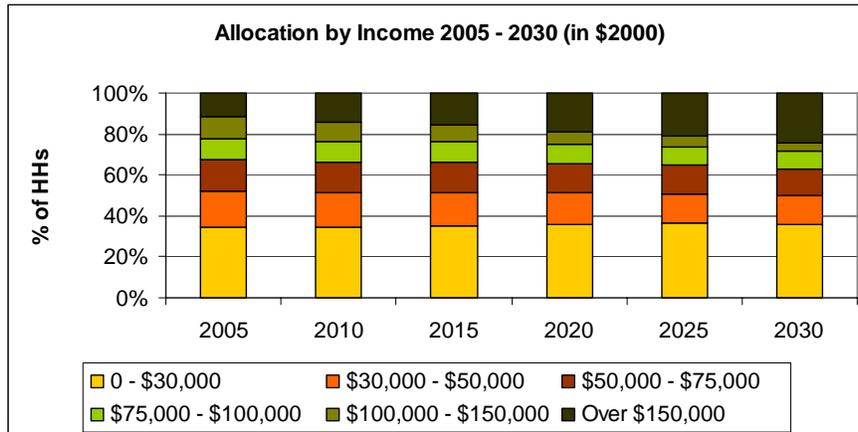
Economic Analysis, Spatially Enhanced

The Impact of Age



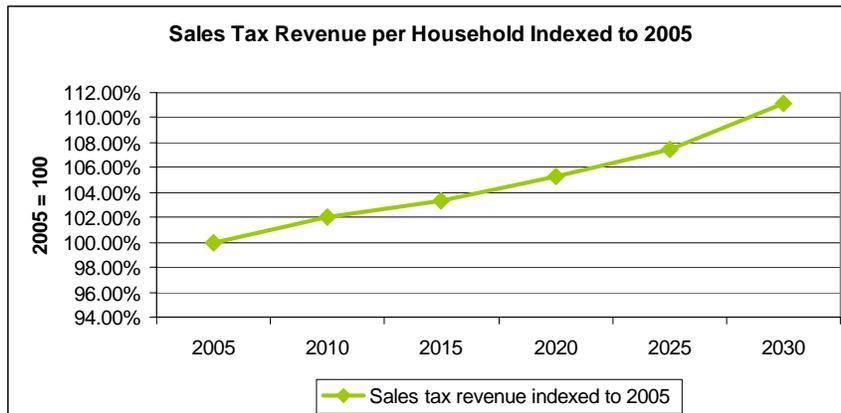
Economic Analysis, Spatially Enhanced

Boulder Trend: Income



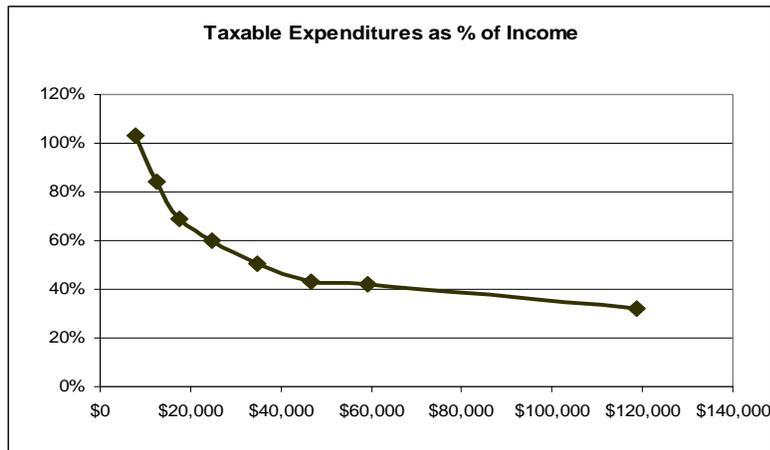
Economic Analysis, Spatially Enhanced

The Impact of Income: Higher Income HHs Spend More Absolutely...



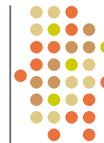
Economic Analysis, Spatially Enhanced

...Yet Not as a Percent of Income



Economic Analysis, Spatially Enhanced

Sales Tax Base: Key Economic Trend

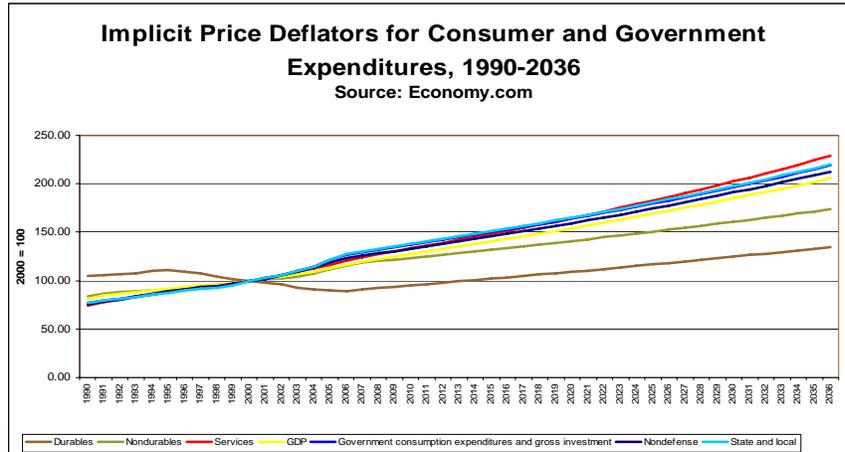
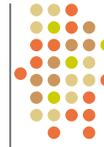


- Inflation across economic sectors not constant
- Projected rate on taxable base fails to keep pace with rate on key public expenditures
- Retail sales tax as major revenue source will fund proportionally less of the base budget



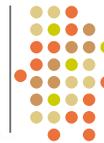
Economic Analysis, Spatially Enhanced

Current Tax Base Doesn't Keep Pace

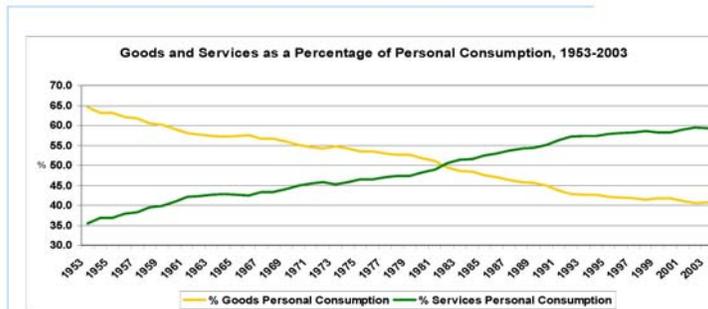


Economic Analysis, Spatially Enhanced

Shift to Service-Based Economy



Consumption of Services is Growing



Source: Bureau of Economic Analysis



Economic Analysis, Spatially Enhanced



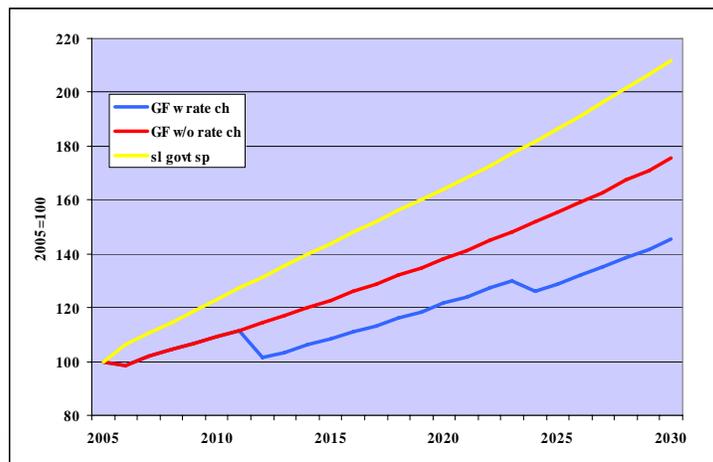
Forecasts

What does this mean for financing government in Boulder?



Economic Analysis, Spatially Enhanced

Initial Forecast Findings



Economic Analysis, Spatially Enhanced

Refining the “Yellow Line”



- 8 largest funds (excluding utilities) included in analysis
- Revenue and expenditure forecasts completed for 8 funds



Economic Analysis, Spatially Enhanced

Funds Included

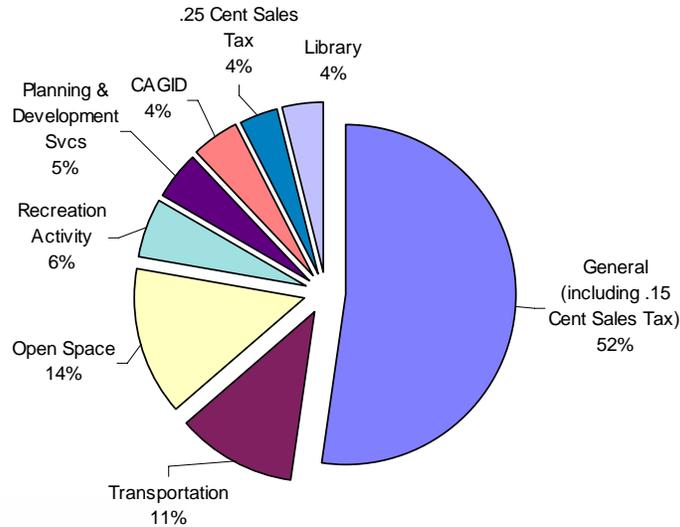


- Selected funds represent 93% of total budget, excluding utilities
 - General Fund (including designated 1992 .15 Cent)
 - Transportation
 - Open Space
 - Recreation Activity
 - Planning & Development Services
 - CAGID
 - .25 Cent Sales Tax (1995 P & R)
 - Library



Economic Analysis, Spatially Enhanced

8 Major Operating Funds Analyzed



Economic Analysis, Spatially Enhanced

Revenue Model: Assumptions

- Current City boundaries only - Area I
- Population, housing stock and job growth consistent with BVCP
- Household age and income distribution based on 2000 Census estimates for city and projected changes for metro area
- Regional CPI based on Legislative Council and DRCOG forecasts
- Other inflation factors forecast by Moody's Economy.com



Economic Analysis, Spatially Enhanced

Revenue Model: Assumptions, Cont'd

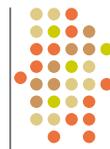


- Share of older population will increase
 - Share of households 65 & over will double by 2030
- Boulder remains high income community
- Inflation remains moderate
 - Denver-Boulder-Greeley CPI-U to increase at 2.5% annually
- Home price growth will slow



Economic Analysis, Spatially Enhanced

Methodology: Sales & Use Tax Forecast

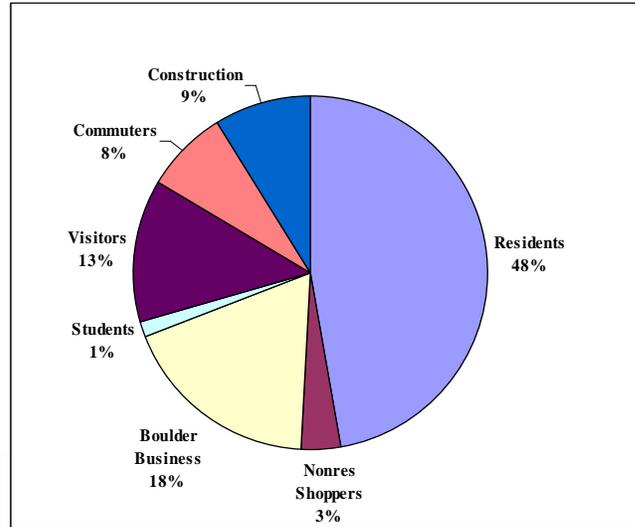


- Estimate current tax by payer for each component (sales, autos, use)
 - Households
 - Businesses
 - Students
 - Visitors
 - Commuters
- Project growth in real expenditures by each group of payers
- Project inflation of tax base



Economic Analysis, Spatially Enhanced

Boulder Sales & Use Tax by Type of Payer-2005



Economic Analysis, Spatially Enhanced

Methodology: Property Tax Forecast

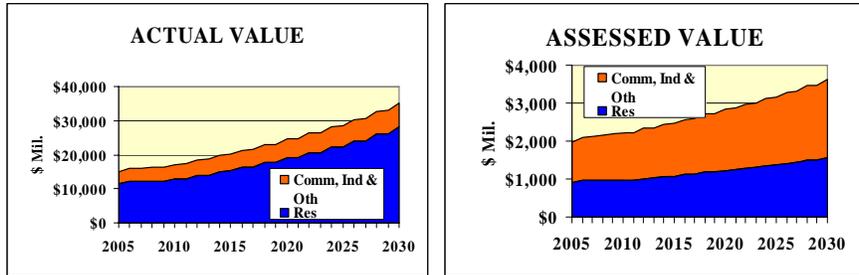


- Change in residential Actual Value based on
 - Projected change in housing stock
 - Single-family existing home (NAR series)
- Residential assessment rate continues declining
 - Consistent with state projections
- Change in commercial & industrial values based on
 - Changes in jobs
 - Weighted for 3 industry groups
- Mill levy unchanged



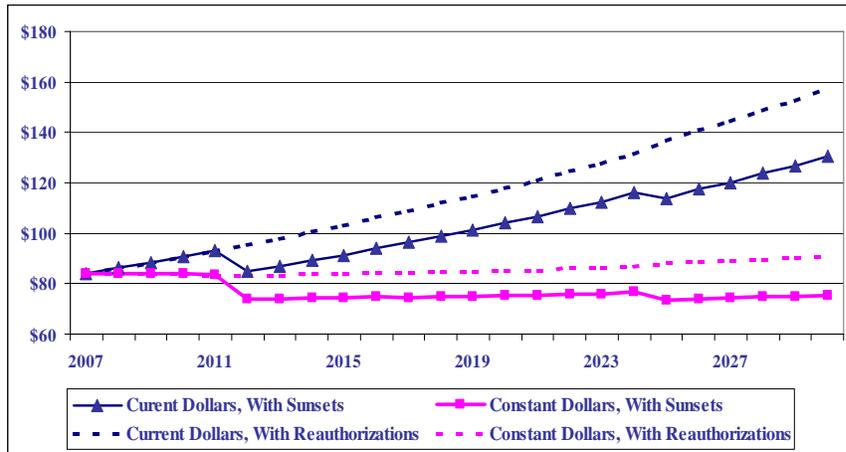
Economic Analysis, Spatially Enhanced

Property Tax Forecast: Actual and Assessed Values



Economic Analysis, Spatially Enhanced

General Fund Forecast: 2007-2030



Economic Analysis, Spatially Enhanced

Findings: General Fund Forecast



- Receipts do not keep pace with population growth and inflation
- Scheduled expiration of sales taxes will mean loss of \$27M/yr. by end of forecast
- Even if sales taxes are renewed, receipts won't match likely growth in expenditures

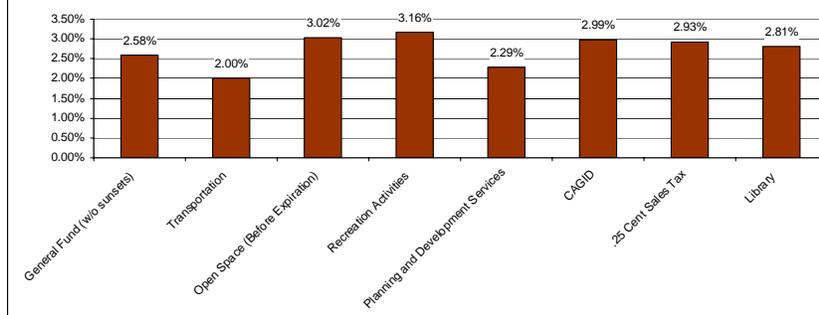


Economic Analysis, Spatially Enhanced

All Funds: Projected Average Annual Growth Rates



Compound Average Annual Growth Rates by Fund:
2006-2030



Economic Analysis, Spatially Enhanced

Matching Revenues with Expenditures

Projections to 2030



Economic Analysis, Spatially Enhanced

Forecasted “Gap”

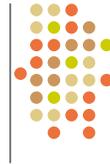


- Forecasting exercise NOT a budget exercise
- Gaps are NOT budget gaps
 - City will balance its budget annually
- Forecasting intended to explore future sufficiency of the revenue system
 - Is there a structural problem with revenues?



Economic Analysis, Spatially Enhanced

Expenditure Model: Assumptions



- Expenditures trended off 2006 base budget
 - Fiscally constrained budget
 - Inflated by appropriate factors by type of expense
 - 2006 budget adjusted for
 - Identified critical deficiencies (Facilities, Fire Apparatus, Utilities, Software)
 - Growth



Economic Analysis, Spatially Enhanced

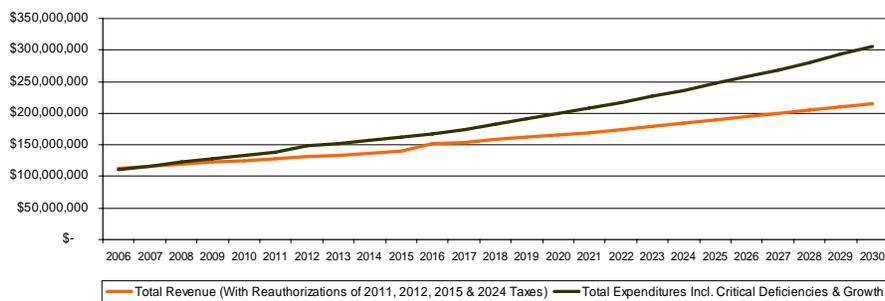
Rollup: Assume Renewal of all General Fund Related Sales Taxes



Rollup: General Fund, .15 (HHS, OEA, Arts, P&R), .25 Cent Sales Tax (P&R),
Library, Recreation Activity, P&DS

2006-2030

Revenues Assume 2011, 2012, 2015, and 2024 Levies are Reauthorized



Economic Analysis, Spatially Enhanced

Timeline of Sunsetting Sales Taxes



The following sales taxes do not expire:	
General Fund	1.00%
Open Space	.40%
Transportation	.60%

Impact of Sunsets to General Fund Related Activities

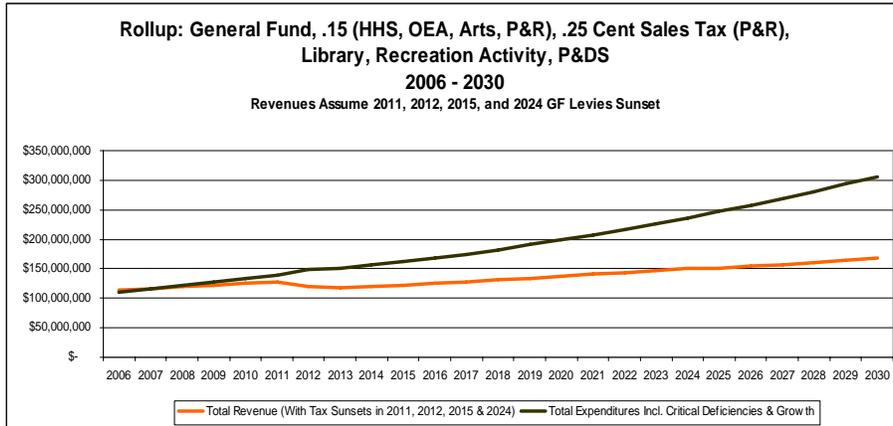


Year of Sunset	Levy	2006 Revenue	Projected Impact in 2030
2011	.38	\$8.881 M	\$19.372 M
2012	.15	\$3.505 M	\$ 7.647 M
2015	.25	\$5.843 M	\$12.745 M
2024	.15	\$3.505 M	\$ 7.647 M

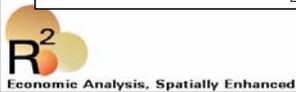
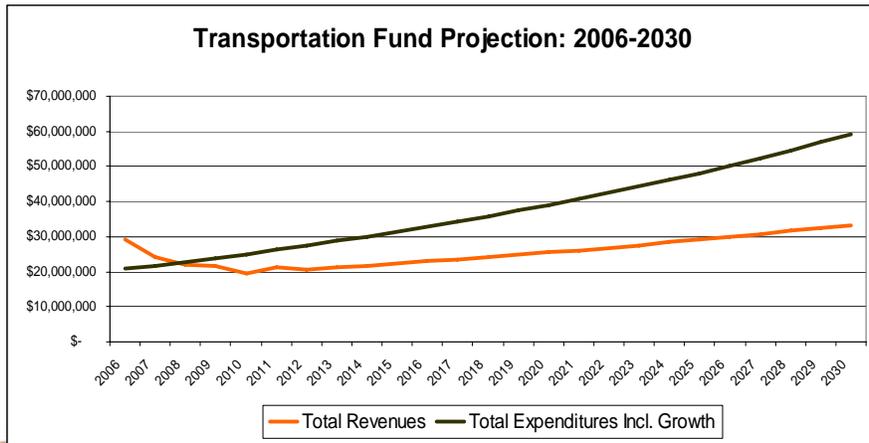


**Total Impact of Sunsets in 2030:
\$47.411 Million**

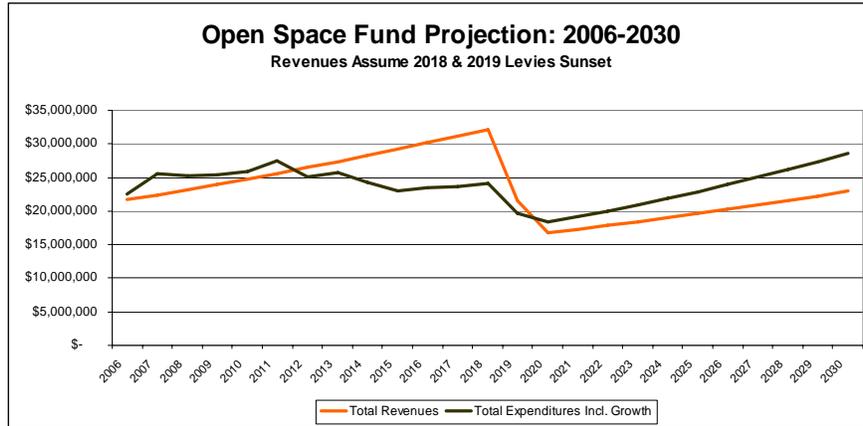
Rollup: Assume all General Fund Related Levies Sunset



Transportation Fund

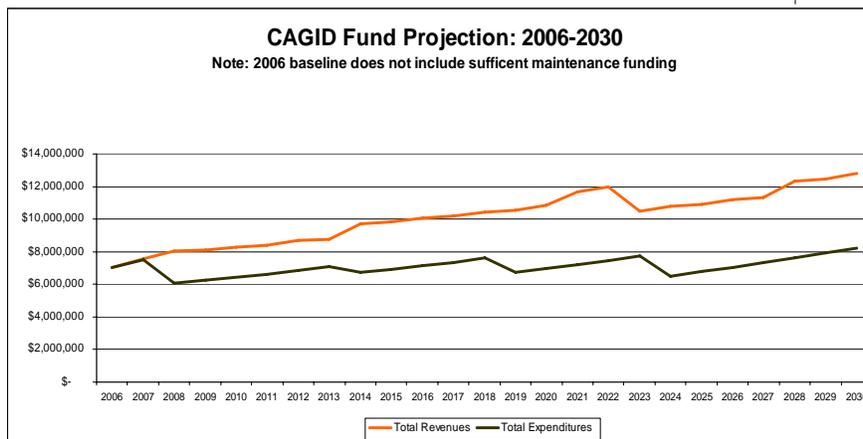


Open Space Fund



Economic Analysis, Spatially Enhanced

CAGID Fund



Economic Analysis, Spatially Enhanced

Next Steps



- Continue exploration of revenue options
 - Reauthorizations of expiring levies
 - Alternative options
 - Diversifying of revenue stream
 - Challenges to implementation
- Return with recommendations