

THE STATE OF OUR CITIES & TOWNS

SURVEY REPORT

FEBRUARY 2009

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The Voice of Colorado's Cities and Towns

Colorado Municipal League

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**THE FUTURE OF FINANCING
COLORADO'S MUNICIPAL GOVERNMENTS:
A CAUTIONARY TALE**

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FOREWORD

Changes in who we are and how we live are having profound impacts on the financial picture of Colorado municipalities.

Examining today's fiscal situation and identifying future trends is an Executive Board initiative put forward for 2008-09. As a result of that directive, the League formed the Municipal Issues and Trends Committee to provide staff with guidance in developing this Municipal Finance Project that is bearing its first fruit.

Author Phyllis Resnick, Ph.D., is leading our research to determine what is happening, why it is happening and identify possible solutions. Dr. Resnick is an independent municipal finance consultant. In the coming months she will be conducting focus group sessions and collecting and analyzing data to gain a thorough understanding of the economic health of Colorado municipalities.

I am very pleased to present to you this enlightening analysis of changes taking place in our cities and towns.

Sam Mamet
Executive Director

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INTRODUCTION

Throughout the nation and here in Colorado, professionals and researchers working in municipal finance are recognizing and facing challenges to the current system of financing the public sector. These challenges are the direct result of structural changes, both to the state and local economies, and to the demographics of the nation and the state of Colorado in particular. If the models and forecasts prove accurate, these economic and demographic changes will, in turn, necessitate structural changes to the current system of financing local government to match the external structural changes impacting the system.

Here in Colorado, the state's local governments are operating in a 21st century economy, yet they are largely financing public services with system conceived in the mid part of the 20th century. Since that time, the state's local governments have become more numerous, their residents have largely grown older, the consumption patterns of both Coloradans and Americans have significantly shifted, and the inflationary pressures of the goods and services provided by the majority of the state's local units of governments have diverged from that of the major revenue sources. Each of these structural changes taken alone would require a reassessment of the system of local government financing. Taken together, they present an even more compelling case for such.

This monograph summarizes the national and state level research on the structural changes facing local government and presents a trio of case studies illustrative of these phenomena in the Colorado Front Range communities of Aurora, Boulder and Arvada. While three Front Range communities are not an exhaustive survey of the state — or even the region — these three communities, because of their different economic and demographic profiles, do provide a preliminary assessment of the challenges facing local government leaders in the state. Over the course of the Colorado Municipal League's Municipal Finance Project, the initial assessment from these three cities will be augmented to include the experience of a sampling of cities and towns from across the state in order to develop a better assessment of the financing challenges facing local government over the next 25 years. This monograph is the first of a series of products that will be produced in the course of the Municipal Finance Project.

THE NATIONAL EXPERIENCE

Colorado is not alone in facing this issue. The concern with structural economic change and its resulting impact on the financing of state and local government is sufficiently universal to warrant a federal level analysis and evaluation of the phenomenon. To that end, the U.S. Government Accountability Office, in January 2008, released its report, *State and Local Governments: Growing Fiscal Challenges Will Emerge during the Next 10 Years*. As the title suggests, the GAO report found that under assumptions that are consistent with economic and fiscal policy of today, local governments across the nation will experience budget shortfalls and/or an increased need for borrowing within the next decade.

This is not a small or limited problem. The state and local government sector in the United States is significant. In 2007, this sector accounted for more than 12 percent of the Gross Domestic Product.¹ The GAO evaluation covered the 50 state governments and 87,525 local governments. These local governments included 3,034 counties, 19,429 municipalities, 16,504 townships, 13,506 school districts and 35,052 special districts. A significant restructuring of the fiscal playing field in this sector will take creative thinking, effort and political will

Essentially, the GAO identified a structural imbalance between projected revenues and expenditures, a structural deficit into the future. In the baseline scenario,² without significant policy changes, both the operating balances of governmental units and their requirements for net borrowing fall out of their respective historical ranges by the forecast year 2020. In this first scenario run by the GAO, the primary driver of this deficit was the inflationary pressure on medical related expenditures. While most municipal governments feel the effect of rapidly rising medical inflation only with respect to employee benefits, other units of state and local governments must absorb those increases for both employee benefits and public assistance programs such as Medicaid. Because of the significance of such expenditures and the fact that the projected gap is structural rather than simply a consequence of economic cycles, the GAO concluded the following:

- Policy changes will be necessary in order for state and local governments to address the projected gap between projected revenues and expenditures, and
- Fiscal challenges are unlikely to be successfully addressed solely on the revenue or solely on the expenditure side; structural problems will require structural solutions.

While the baseline scenario provides one snapshot of the possible future, it remains a single view to the condition of state and local fiscal affairs. Alternative scenarios explored the fiscal state of the future under varying assumptions concerning the rate of growth in tax receipts and the rate of growth in state and local expenditures with specific attention to the rate of growth in expenditures for health care related programs. Under these variations and with any reasonable assumptions concerning

revenue and expenditure growth, the GAO's findings become more emphatic. Specifically,

- Tax receipts would need to rise considerably faster than the historical experience to enable balance in the operating budgets of state and local governments, and/or State and local expenditures would need to be cut substantially to maintain such balance, and
- Under either scenario above, health care cost growth would need to be held to low levels to prevent fiscal imbalances.

Under all scenarios in the GAO analysis, the structural deficit facing state and local governments is directly related to the economic phenomenon of projected inflation on the expenditure side outstripping projected inflation of the revenue streams available to fund those expenditures. While this is a universal finding for state and local governments across the nation, it is true and in fact compounded for local government in Colorado which is projected to face reduced productivity of its major revenue sources over the next 25 years. This is particularly true in the case of Colorado's highly sales tax reliant municipal governments. In Colorado's case, both economic and demographic changes are contributing to the projected structural deficits facing municipal leaders over the next quarter century. The remainder of this monograph turns specifically to the case of Colorado.

¹ *State and local share of GDP from author's calculation from US Bureau of Economic Analysis data.*

² *a consistent share of the population with the base year, that state and local pay increases grow commensurate with the private sector, and that expenditures for public services grow at the rate of population plus inflation.*

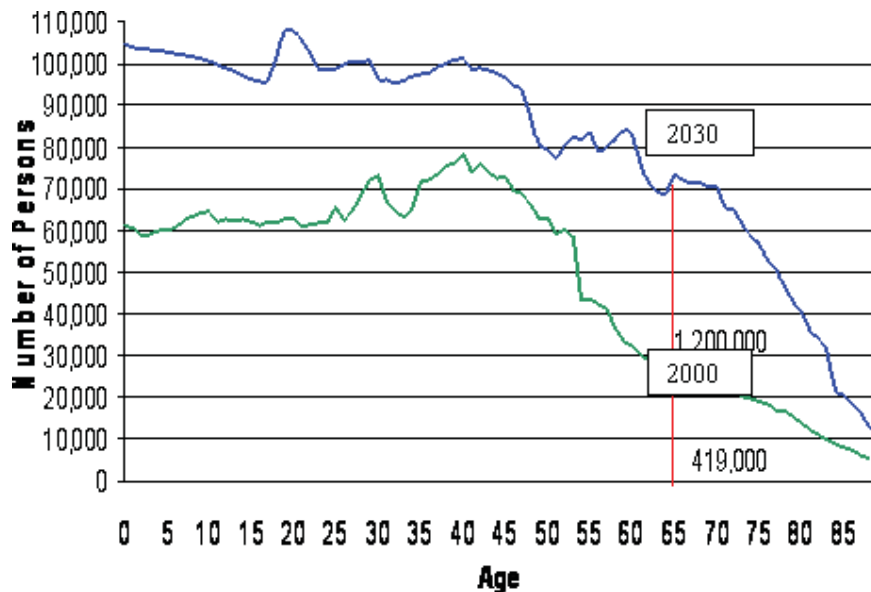
COLORADO: THE QUINTESSENTIAL BABY BOOM STATE BECOMES THE QUINTESSENTIAL RETIREMENT STATE

Local governments across the nation, regardless of the state in which they are located, are facing the structural changes to the economy outlined above. However, not all of these local governments are facing the double effect of the structural changes to the economy and demographics that Colorado is about to encounter. Colorado, the landing place for the 1960s baby boomers, is poised to become home to a generation of retired boomers in the early to mid part of the 21st century. The quintessential baby boom state will become the quintessential retirement state. This demographic shift will serve to confound the financing challenge facing Colorado's local governments over the same time period.

The statistics can be staggering. According to the Colorado State Demographer, between the years 2000 and 2020, the 55 to 64 year old population of the state will grow at 5.9 percent per year. By comparison, this age cohort is expected to grow at a rate of 3.9 percent per year for the U.S. overall. Over this same time period, the rate of growth of Colorado's population overall is projected to be 1.7 percent per year. By the year 2030, Colorado's population in the age cohort of 65 and over will be three times what it was in the year 2000, growing from 400,000 to 1.2 million people. To truly highlight the impact of this demographic shift, the State Demographer often refers to the rule of "one for two." That is, in the year 2015, within 15 minutes, the natural increase (births less deaths) in Colorado will increase by one and the number of people turning 65 will be two. This effect, particularly the swell of retirement age baby boomers relative to peak earning years (40-64 year age cohort) population, is evident in Figure 1 below.

Figure 1: Colorado population by age, 2000 and 2030

Source: Colorado State Demographers Office



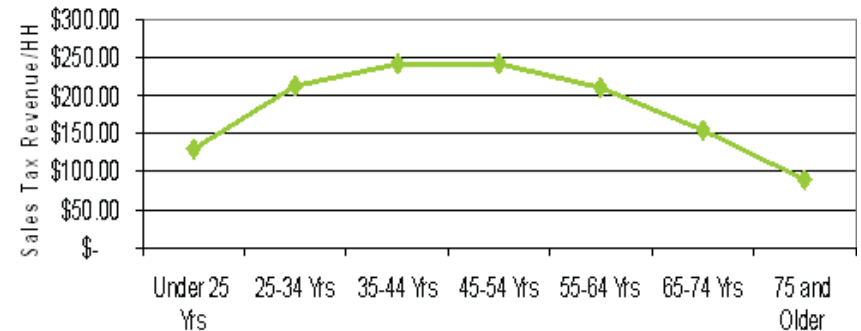
WHY DO DEMOGRAPHICS MATTER?

In Colorado, the funding of municipal government is nearly synonymous with sales tax, and of all the major sources of revenue for government, sales tax is the one that is most sensitive to demographics. In particular, sales tax is sensitive to the aging cycle. This effect is both direct in the sense that as Americans age, they spend less on goods subject to sales tax, and indirect in the sense that households that are headed by older Americans tend to be smaller and have fewer workers. Each of these demographics is also associated with a reduction in household expenditures for goods subject to the sales tax. Figure 2 demonstrates this effect.

Figure 2: How does the aging of the population affect taxable expenditures?

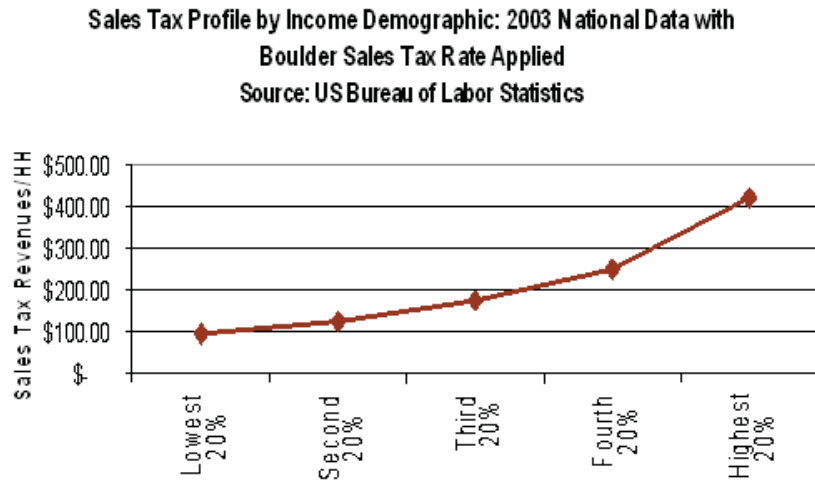
Source: U.S. Bureau of Labor Statistics

Sales Tax Revenue Profile by Age,
2003 National Data with Boulder Sales Tax Rate Applied
Source: US Bureau of Labor Statistics



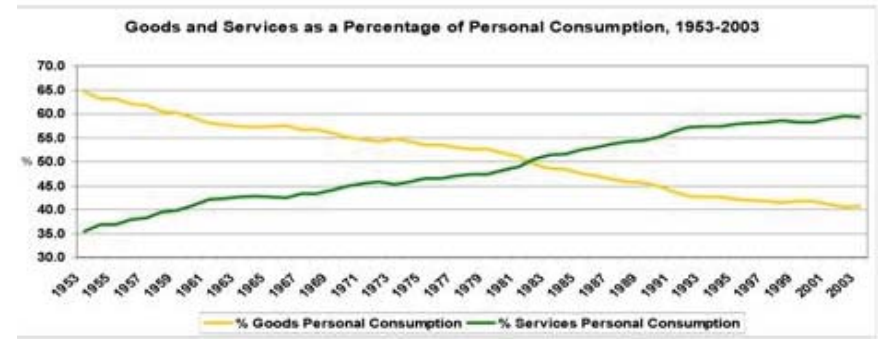
While Colorado's local communities are facing the demographic effect of reduced household taxable spending as the head of household enters retirement age, capturing high income retirees may serve to partially offset that effect. As Figure 3 demonstrates, household spending varies directly with income. If Colorado is going to be a quintessential retirement state, its communities should strive to retain and attract high income retirees.

Figure 3: How does household income affect taxable expenditures?
 Source: U.S. Bureau of Labor Statistics



While state and local governments across the nation are facing the effect of inflationary pressure on health care and other expenditures in excess of the projected rate of revenue growth for the traditional sources of revenue, Colorado's municipalities are further disadvantaged by the projected effects of the aging demographic and its effect on sales tax revenue. This effect is even further exacerbated by another national trend. Since the mid-1950s, when nearly two-thirds of the nation's consumption expenditures were for goods and one-third for services, the trend has completely reversed. As of 2003, nearly two-thirds of the nation's consumption expenditures were for services, with the remaining one-third spent on goods. In the mid '00s, as consumption patterns have changed, the base of municipal sales taxes has not. Nearly every municipality in Colorado levies sales tax primarily on the purchase of tangible property with few or no services included in that base. Figure 4 demonstrates this shift in consumption spending in the latter half of the 20th century. If this trend persists, the state's municipalities face the perfect storm of effects on local budgets.

Figure 4: The shift to the service based economy
 Source: Bureau of Economic Analysis



THE PROJECTED IMPACT ON LOCAL GOVERNMENT: THE CASES OF AURORA, BOULDER AND ARVADA

The impact of these economic and population demographic shifts has recently been recognized by local governments along the Front Range. To that end, many local governments have undertaken or are planning to embark upon structural revenue studies. Since 2007, the Cities of Aurora and Boulder have completed an analysis of their respective revenue and budget forecasts to 2030, and the City of Arvada has begun an exploration of the community trends contributing to its revenue picture. Just recently, the City of Colorado Springs embarked upon a process to study the health of its future revenue streams. While each of these communities is unique in terms of its individual demographics, the findings for Aurora, Boulder and Arvada are strikingly similar and serve to confirm both the national findings and the state and regional projections for the pressures facing local government financing into the first half of the 21st century.

Aurora: The convergence of age and income demographics

*A Profile of Aurora*³

The City of Aurora is a municipality of approximately 308,000 people. It is home to more than 116,000 of the region's jobs, with the three largest employers all public sector employers: two school districts and the city government. Aurora is currently slightly younger, less wealthy and less educated than the Denver Regional Council of Governments region overall. From a housing perspective, more of Aurora's residents live in multi-family housing than the DRCOG region overall, but fewer than for the City of Denver. Each of these demographics contributes in both unique and interrelated ways to the performance of the sales tax for Aurora.

The revenue picture

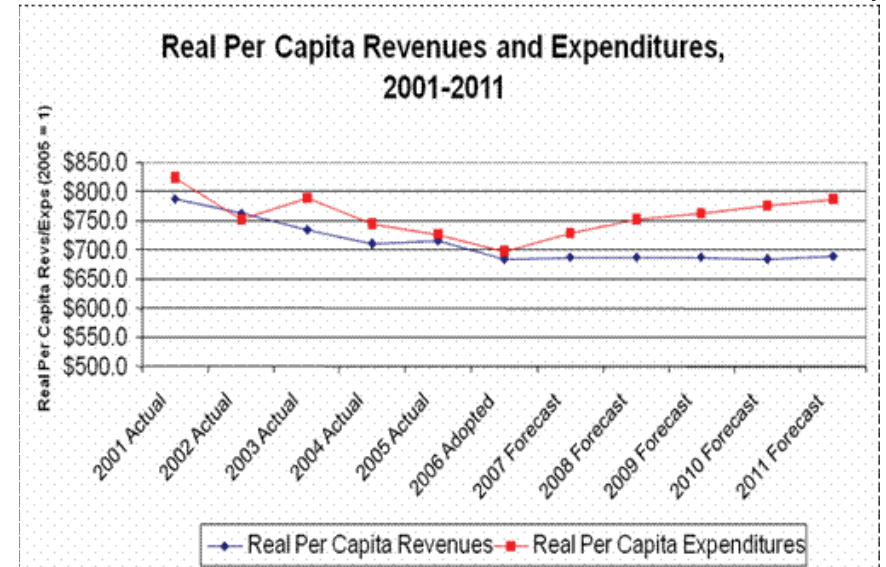
The City of Aurora generates approximately two-thirds of its general fund revenue from sales tax. Because the demographics outlined above, along with the projected trends to the year 2030, are directly related to the productivity of the retail sales tax, the intermediate and longer term forecasts of general revenues begins to fall short of a conservative forecast of core expenditures before the year 2010. Figure 5 on page 10 demonstrates the structural revenue problem in the intermediate term. Depending upon assumptions for the strength of the economy and the level of services provided by the City, the structural revenue gap continues to open, albeit at differing magnitudes, continuously through to the year 2030, the end of the forecast period. The analysis that generated these findings accounted for all of the economic and demographic impacts outlined above in both the national and state level inquiries into this emerging revenue phenomenon. In the case of Aurora, it led the financial staff to conclude the following in confirmation of the impact of such trends and factors limiting revenue capacity in Aurora:

- Recent growth in employment, wages and salary, housing prices and personal income below national average
- Consumers' purchasing patterns shifting from taxed goods to untaxed services
- Residential development activity expected to continue, but is slowing

- Population is aging, resulting in changing workforce patterns
- Share of new owner-occupied households projected to slightly decline
- Economic growth over the next 25 years will likely be slower than that of the middle to late 1990s

Figure 5: Intermediate revenue and expenditure forecast for Aurora's general revenues

Source: Aurora Structural Revenue Study



³ Published annually by the Denver Regional Council of Governments. The data reflected in these profiles were from 2006, the latest available

Boulder: University population and high income demographic serve to partially offset effect of aging

A profile of Boulder

Boulder is a city of just more than 100,000 in population. As home to the University of Colorado's flagship campus, it enjoys both the high-wage employment base associated with the University (CU is the city's largest employer) and the annual influx of younger residents who move to Boulder to attend the University. Each of these aspects of the city's demography serves to partially offset the overall effect on sales tax revenues from the aging of the general population in the city.

Boulder's employment base is more concentrated than the region in higher-wage industries and less so than the region in the lower-wage industries. As a result, as measured by annual wage, Boulder is wealthier than the DRCOG region. Boulder is currently younger than the region, partially due to the constant in-migration of university students. However, as with most other municipalities in the region, the city is projected to age over the next 25 years. Overall, Boulder's population is almost twice as educated as the region as measured by the percent of the population 25 years or over that hold a bachelor's degree or higher.

The revenue picture

Unlike Aurora, Boulder has a favorable income demographic to offset the impact of the projected aging of the population. While the impact of age is projected to result in a close to 5 percent degradation in household contribution to the sales tax base, the offsetting income demographic results in a nearly 11 percent increase in household contribution. Figures 6 and 7 demonstrate the separate effects of these demographics on sales tax revenue.

Even with the strongly favorable income demographic, the long term projections for Boulder are also for a structural deficit. After a complete analysis of the demographic effects on the revenue stream and the economic trends for inflation pressure on the expenditure base in excess of that of the revenue base, the City's revenue model is projecting greater than a \$75 million gap by the year 2030. While Boulder and Aurora are unique from each other in their respective demographic profiles, neither community is forecast to have a revenue base sufficient to overcome the economic trends impacting state and local budgets across the nation. That is, neither is immune from the effects of the structural changes to the economy and demography of the state and the nation. Figure 8 depicts the structural revenue gap for the City of Boulder.

Figures 6 and 7: The separate impacts of age and household income on sales tax revenue

Source: City of Boulder Blue Ribbon Commission on Revenues

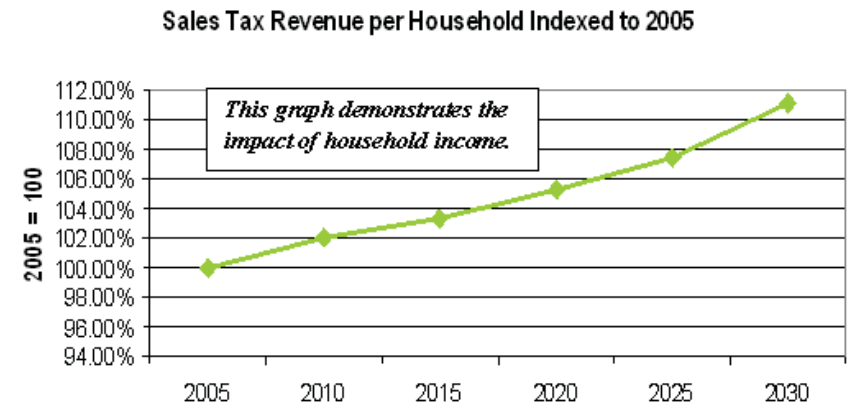
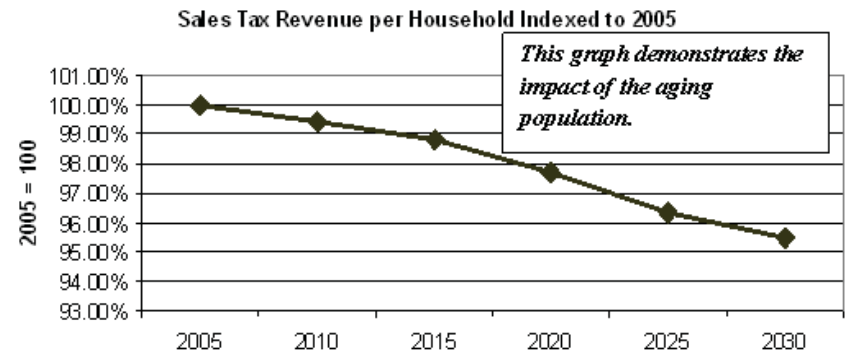
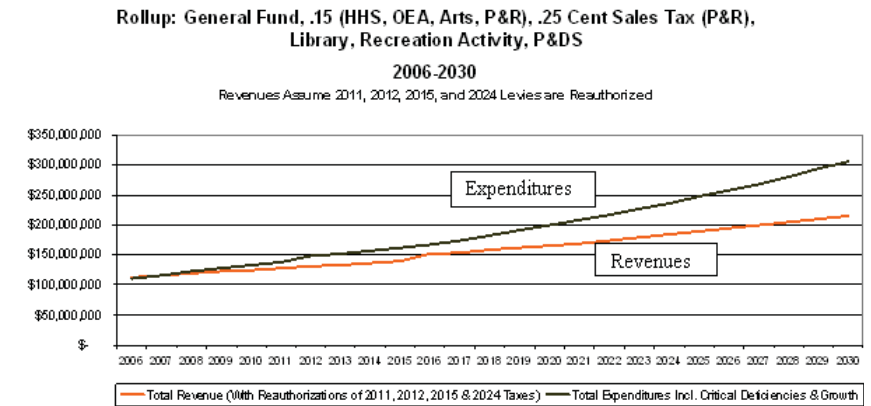


Figure 8: Boulder's projected structural revenue gap in 2030

Source: Bureau of Economic Analysis



Arvada: Older than the region today, likely to be younger than the region by 2030

A profile of Arvada

Similar to Boulder, Arvada is a city of slightly more than 100,000. Unlike many municipalities in the region, Arvada today is considerably older than the DRCOG region. While the regional average age is 34, Arvada's is 37. In the region, 9 percent of the population is over the age of 65, for Arvada that percentage is 11 percent. Only Wheat Ridge exceeds Arvada on the western side of Denver for age of the population.

The revenue picture

While the age demographic presents a challenge for many of the communities in the state, Arvada and Wheat Ridge, perhaps, have an opportunity. While the trend across the region, and the state, is for the population to age, Arvada and Wheat Ridge are likely to become younger communities between today and 2030. However, while both Arvada and Wheat Ridge are presented with a potentially favorable age demographic, the economic trends are likely to overwhelm this advantage just as they did over the income trend in Boulder. While neither Arvada nor Wheat Ridge has undertaken a full structural revenue study, the finance staff in Arvada is actively working with managers across the city to develop strategies for managing a structural revenue gap. This level of foresight both suggests that the finance staff of the City projects similar trends to those of Boulder and Aurora and also serves as a further model for municipal fiscal management into the future.

CONCLUSION: THE TIME TO ACT IS NOW

The nation, its economy and its demographics are changing. Local governments across the state are beginning to recognize the impact of these changes on their budgets, both with respect to revenues and expenditures. While some of the trends are out of the direct control of government officials (we are getting older) the responses to the implications of such are not. To that end, the Colorado Municipal League has undertaken an effort to build upon the work of individual members such as Boulder, Aurora, Arvada, and Colorado Springs. While municipal officials recognize that there is no silver bullet, careful consideration of issues such as the shift in consumption patterns, the impact of aging on taxable spending, the need to respond to the inflationary pressure on the cost of local government services, and the need to diversify and retain control of local tax base today will better set the state's local governments on a fiscally sustainable path into the 21st century. Throughout the next year, the Colorado Municipal League's Municipal Finance Project will work with the state's local governments to better understand the underlying trends as well as to begin to chart a path to a sustainable fiscal future.



COLORADO MUNICIPAL FACTS

Number of incorporated municipalities: 271

Population (2007 estimates)

State: 4,919,884
 Municipal: 3,567,857
 Municipal as percent of state: 72.5%

Range in municipal population:

Bonanza City: 15 Denver: 596,582

Municipalities with CML membership: 263

Structure of Colorado municipal governments

Structure	#	Population	% of Pop.
Home Rule	98	3,328,077	93.28%
Statutory	172	238,672	6.69%
Territorial Charter	1	1,108	0.03%

Number of municipalities with city/town manager or administrator: 171

Municipal elected officials

Mayors, councilmembers, trustees: 1,822

Sources of municipal tax revenue (2004)

Total tax revenue:	\$2,576,657,705	
Property taxes:	\$433,820,003	16.8%
Sales/use taxes:	\$1,816,164,575	70.5%
Total taxes as % of total revenue		62.1%

Property tax (2007)

Assessed Valuations

State: \$85.15 billion
 Municipal: \$46.22 billion
 Municipal as percent of state: 54%

Sales tax (2009)

Total municipalities levying a local sales tax:	218
Municipalities with self-collected sales tax:	64
Low: 1%	High: 5%

Municipal elections (1993-2008)

Ballot Issues	Passed	Failed	% Passed
TABOR Revenue and Spending Changes	440	68	87%
Municipal Tax/Tax Rate	317	265	54%
Municipal Debt/Obligation	240	118	67%
Term-Limits	108	76	59%

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PARTICIPATING CITIES & TOWNS

Akron	Foxfield	Silverthorne
Arriba	Frederick	Silverton
Arvada	Glenwood Springs	Simla
Ault	Golden	Snowmass Village
Avon	Granby	Steamboat Springs
Basalt	Grand Junction	Sterling
Boulder	Green Mountain Falls	Superior
Bow Mar	Greenwood Village	Telluride
Breckenridge	Gunnison	Thornton
Broomfield	Hot Sulphur Springs	Vail
Burlington	Hotchkiss	Victor
Calhan	Hudson	Vona
Campo	Ignacio	Walden
Canon City	Keenesburg	Wellington
Carbondale	Kim	Westcliffe
Centennial	Lafayette	Westminster
Central City	La Jara	Wheat Ridge
Castle Pines North	La Junta	Windsor
Cheyenne Wells	Lakewood	Woodland Park
Coal Creek	Lamar	
Colorado Springs	Lone Tree	
Columbine Valley	Louisville	
Cortez	Mead	
Craig	Meeker	
Crawford	Moffat	
Creede	Montrose	
Crested Butte	Mountain View	
Crestone	Mountain Village	
Crowley	Northlenn	
DeBeque	Olathe	
Delta	Olney Springs	
Denver	Ordway	
Dillon	Ouray	
Durango	Pagosa Springs	
Eaton	Parker	
Elizabeth	Poncha Springs	
Erie	Pritchett	
Estes Park	Rangely	
Federal Heights	Ridgeway	
Firestone	Rocky Ford	
Florence	Rye	
Fort Collins	San Luis	
Fort Morgan	Silt	
Fountain	Silver Cliff	

INTRODUCTION

This report provides key findings from the survey of Colorado’s municipalities, and graphs and tables for survey responses regarding municipalities’ revenue sources, economic development projects and energy efficiency projects.

METHODOLOGY

Design, execution, and analysis approaches are discussed below.

Design. The survey instrument was designed by Corona and approved by the Colorado Municipal League. The survey was designed to gather key data from municipalities, including tax information, infrastructure projects and needs, economic development activity, revenue challenges, and actions regarding energy efficiency.

Execution. The survey was conducted by mail. The Colorado Municipal League took on the responsibility of printing and mailing all surveys to staff at each municipality. One survey was sent to each municipality, and municipalities returned completed surveys directly to Corona Research’s offices. To boost response rate, CML staff made several attempts to contact non-responding municipalities. All data entry and cleaning was performed by Corona’s internal staff; additional follow-ups were made by Corona to verify any survey responses that were illegible.

The execution period went from Oct. 8, 2008, through Dec. 3, 2008. This period roughly aligned with the steep stock market declines and other financial turmoil associated with the investment banking industry. When looking at the survey responses, it appears that the steep stock market declines were reflected, to some extent, in respondents’ answers. For instance, in Exhibits 15.1 through 15.5, a large proportion of municipalities (especially larger municipalities) responded that they expected a decrease in income from investments and interest.

Analysis. This report provides tables and graphs of survey responses for the CML *State of Our Cities & Towns* survey. Responses are provided for all municipalities, and are also broken down for municipalities of different sizes. Size thresholds were determined by applying a linear growth formula to category size, so that as population grows, fewer municipalities are grouped together into a common category. This formula approximately normalizes the distribution of population across categories, because there are a small number of cities with a large number of people, and a large number of cities with a small number of people. The size categories are provided below with the response rate for each category.

Municipality Population	Number in Colorado	Number of Survey Responses	Response Rate
18,000 or Larger	27	20	74%
4,000 to 18,000	54	32	59%
815 to 4,000	81	32	40%
Less than 815	109	28	26%
<i>Overall</i>	271	115	42%

REPORTING NOTES

When reading the following tables and graphs, it is important to keep the following points in mind.

- On all graphs, labels of 3 percent and less have been removed for ease of reading.
- On graphs that should sum to 100 percent, the labels occasionally may not add to 100 percent due to rounding.
- Missing data is denoted in tables with a double dash (--). In particular, many municipalities did not report an estimated savings per year for energy efficiency projects.
- Comparing this year’s data to previous years’ data (or future years’ data) could be misleading depending on which municipalities respond in any given year. Due to the relatively small sample size, and possible large differences between municipalities, even a slight change in responding municipalities could cause the numbers to change significantly.

KEY FINDINGS

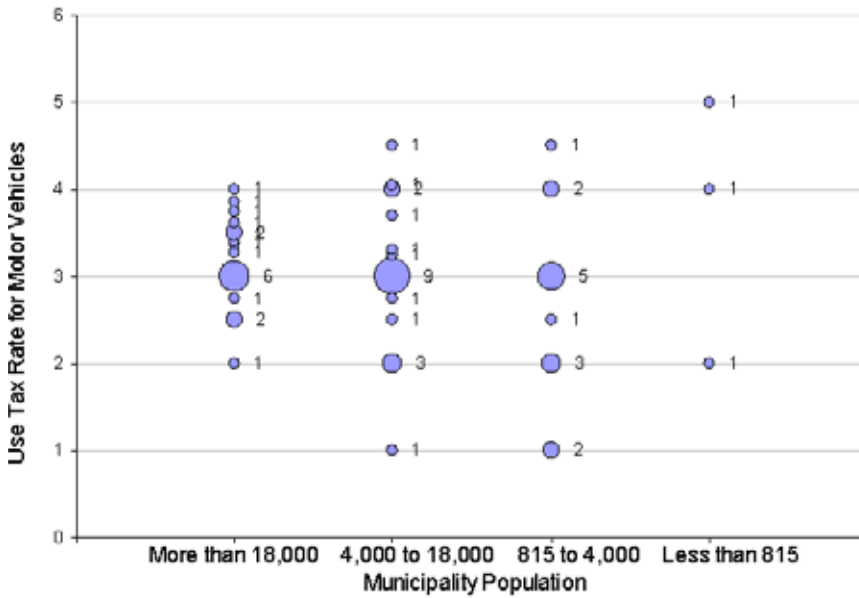
While many conclusions and implications can be drawn from the survey, several stand out as being of particular interest. These findings are discussed below with the corresponding exhibit number following each finding.

- **Municipalities have backlogs of unfunded infrastructure projects.** Municipalities of all sizes have unfunded infrastructure needs. In some cases, the need can be substantial. For instance, 42 percent of municipalities overall have unfunded street needs, with an average unfunded need of nearly \$17 million. Similarly, 26 percent have unfunded storm water projects, averaging more than \$15 million. *Exhibits 7.1 through 7.8.*
- **The top three fiscal challenges for municipalities were unfunded street needs, slow growth in tax revenues and unfunded water/wastewater needs.** Among all municipalities, streets, slow tax revenue growth, and water/wastewater needs were the top challenges facing municipalities in 2008. *Exhibits 15 & 16.1 through 16.5.*
- **Larger municipalities are less optimistic about their financial situation.** Compared to smaller municipalities, a greater proportion of municipalities with populations greater than 18,000 indicated that their financial situation in FY 2008 would be worse than it was in FY 2007. In fact, no municipality of that size indicated that it would be better, in comparison to roughly 20 percent of municipalities below that size threshold. *Exhibit 14.*
- **Bigger municipalities are pursuing more options when it comes to alternative energy.** While some municipalities of all sizes are involved in alternative energy or energy conservation programs, the larger municipalities tend to pursue more options, such as solar, wind, and hybrid vehicles. The smaller towns are also addressing energy concerns, but on a smaller scale of investment, including such items as changing the thermostat, adding insulation and installing more efficient lighting. *Exhibits 20.1 through 21.8.*
- **Municipalities of all sizes are involved in economic development.** Even smaller municipalities are often involved in economic development; roughly one in ten municipalities with populations under 815 has dedicated staff for economic development and nearly one third of those smaller municipalities have budget allocated towards economic development. The top activities that municipalities are engaged in to promote economic development include promoting entrepreneurship, services to small businesses and tax incentives. *Exhibits 8, 9, & 11.*
- **Municipalities of all sizes have economic development projects planned through 2009-2010.** Municipalities are planning for continued investment in economic development. For FY 2008, municipalities of all sizes have projects approved; for 2009-2010, municipalities are anticipating an even greater number of projects. *Exhibits 12 & 13.*
- **Small municipalities were actively involved in tourism promotion in 2008.** While larger municipalities tend to be more actively involved with any given type of economic development, when it comes to tourism, a significant number of smaller municipalities are engaged. This extends even to communities that are smaller than the archetypal “ski town.” *Exhibit 10.*
- **Larger municipalities generally had higher tax rates.** For both use taxes and sales taxes, the larger the municipality, the higher the tax rates (on average). While larger municipalities were more likely to have tax rates at the higher end of the continuum, though, they also allowed for more tax exemptions, which may have an offsetting effect. *Exhibits 1.1 through 2.2, and 6.1.*
- **To stabilize or enhance revenues, municipalities favor fee increases over tax increases.** Municipalities of all sizes were more likely to raise fees to stabilize or enhance revenues rather than raise taxes or “de-Bruce.” *Exhibit 19.*
- **Expenses related to employees were the expenses that municipalities were most often expecting an increase.** Municipalities, overall, indicated that they most expected increases in compensation and healthcare expenses. Few municipalities were expecting decreases in any expense category. *Exhibit 18.1.*

SECTION 1: TAXES AND TAX RATES

Exhibit 1.1

(Q1. What is your municipality's use tax rate for the following categories?)



Note: Bubble size (area inside the bubble) corresponds to the number of municipalities with that sales tax rate. Numbers of municipalities with each tax rate are also presented next to the bubble. For example, 9 municipalities with populations between 4,000 and 18,000 people have a municipal use tax rate for motor vehicles of 3 percent.

Exhibit 1.2

(Q1. What is your municipality's use tax rate for the following categories?)

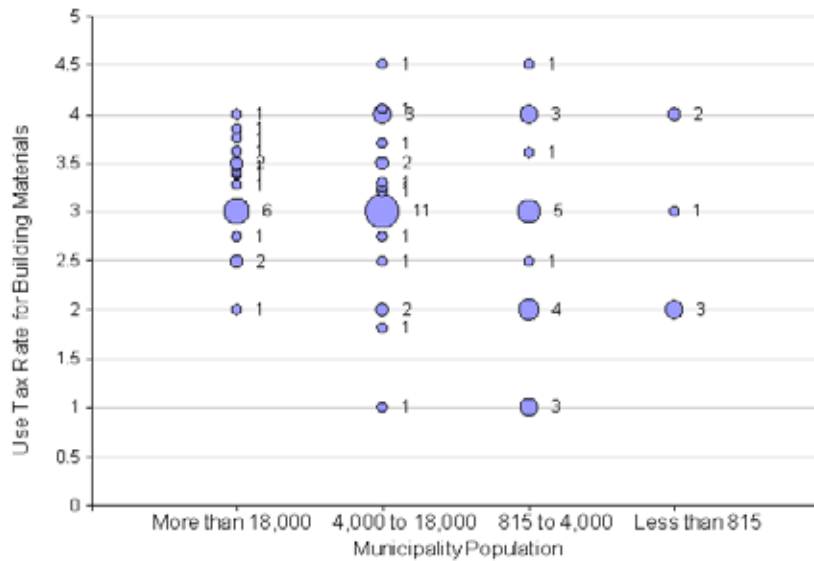


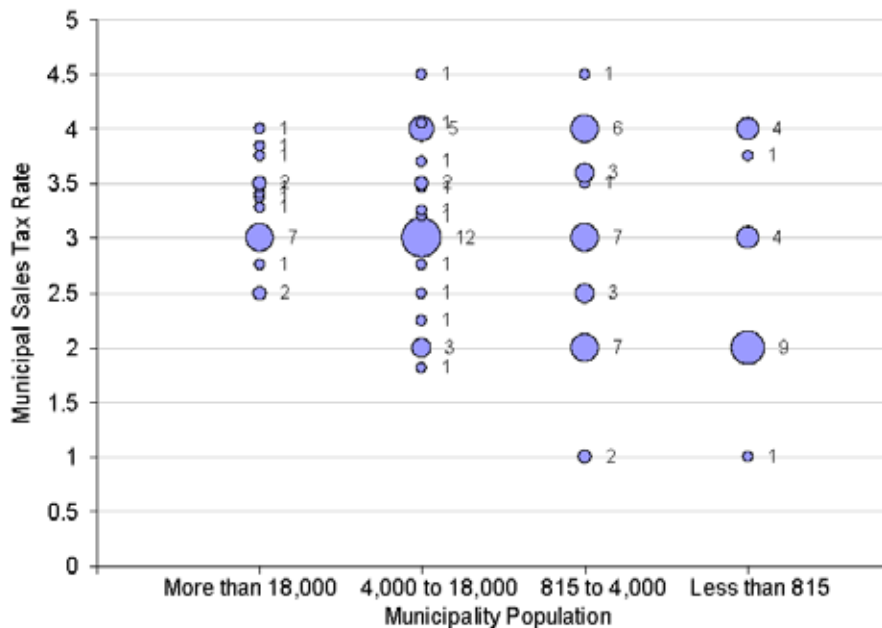
Exhibit 1.3

(Q1. What is your municipality's use tax rate for the following categories?)

Municipality Use Tax			
Population	Percent of Municipalities with Use Tax	Average Use Tax for Motor Vehicles (%)	Average Use Tax for Building Materials (%)
More than 18,000	91%	3.2	3.2
4,000 to 18,000	66%	3.0	3.1
815 to 4,000	39%	2.8	2.7
Less than 815	67%	3.7	2.8
Overall	72%	3.0	3.0

Exhibit 2.1

(Q2. What is your municipality's total sales tax rate? Only include the sales tax from your municipality and not additional state, county, or other sales taxes.)



Note: Bubble size (area inside the bubble) corresponds to the number of municipalities with that sales tax rate. Numbers of municipalities with each tax rate are also presented next to the bubble. For example, 12 municipalities with populations between 4,000 and 18,000 people have a municipal sales tax rate of 3 percent.

The graph shows that there is more variance in the sales tax rate among smaller municipalities than among larger municipalities.

Exhibit 2.2

(Q2. What is your municipality's total sales tax rate? Only include the sales tax from your municipality and not additional state, county, or other sales taxes.)

Sales Tax		
Population	Percent With Sales Tax	Average Sales Tax Rate (%)
More than 18,000	95%	3.2
4,000 to 18,000	100%	3.1
815 to 4,000	97%	2.9
Less than 815	93%	2.7
Overall	97%	3.0

Exhibit 3

(Q3. Does your municipality's sales tax rate include both a general fund sales tax and a dedicated fund sales tax rate?
 Q4. What is the tax rate for your general fund tax rate and all dedicated fund tax rates?)

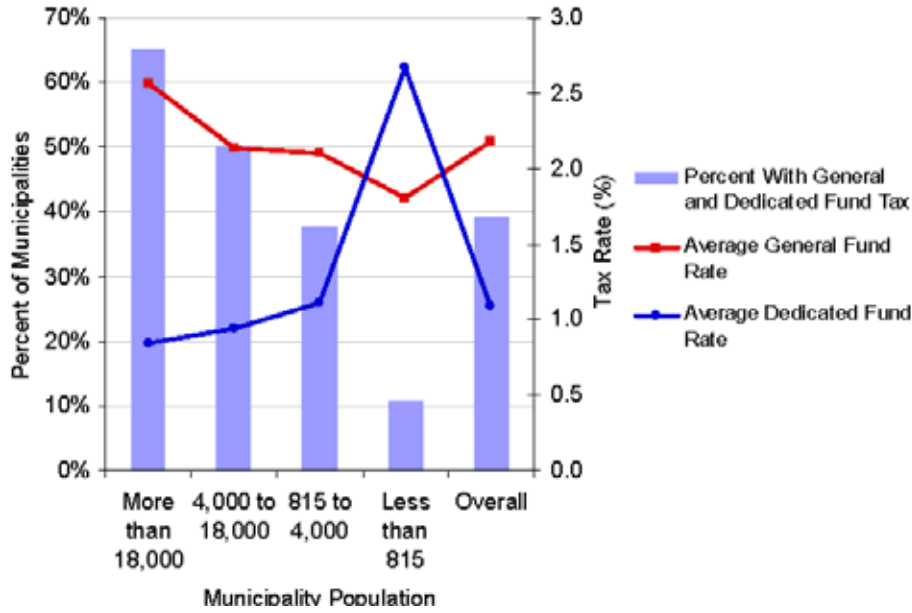


Exhibit 4

(Q5. (If yes on Q3) For which purposes do you collect a dedicated sales tax?)

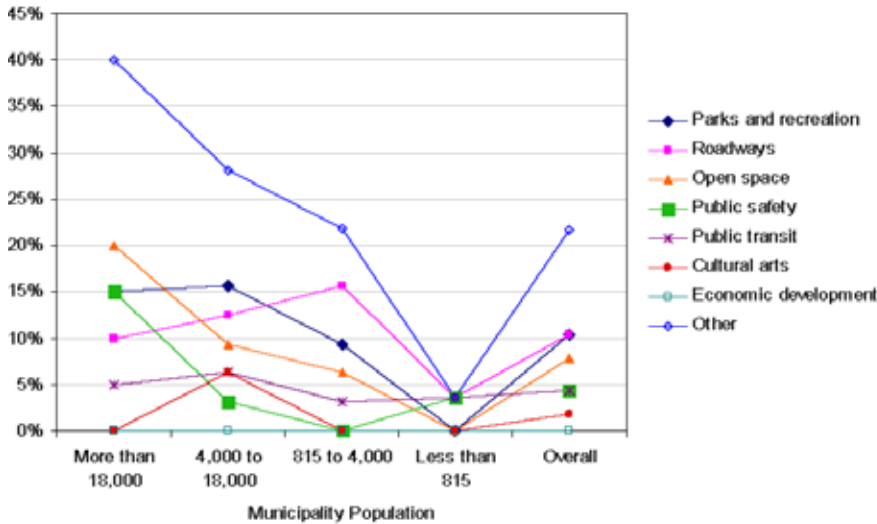


Exhibit 5

(Q5. (If yes on Q3) For which purposes do you collect a dedicated sales tax?)

Average Amount of Dedicated Sales Tax for each Purpose

Municipality Population	More than				
	18,000	4,000 to 18,000	815 to 4,000	Less than 815	Overall
Public transit	0.6	12.3	0.3	1.0	3.5
Roadways	0.5	0.9	1.3	1.0	1.0
Parks and recreation	0.6	0.6	1.5	0.0	0.8
Public safety	1.6	0.3	0.0	3.0	1.6
Cultural arts	0.0	0.2	0.0	0.0	0.2
Open space	0.4	0.4	0.8	0.0	0.5
Economic development	0.0	0.0	0.0	0.0	0.0

Note: Cortez reports having a 12.3 percent dedicated sales tax for public transit.

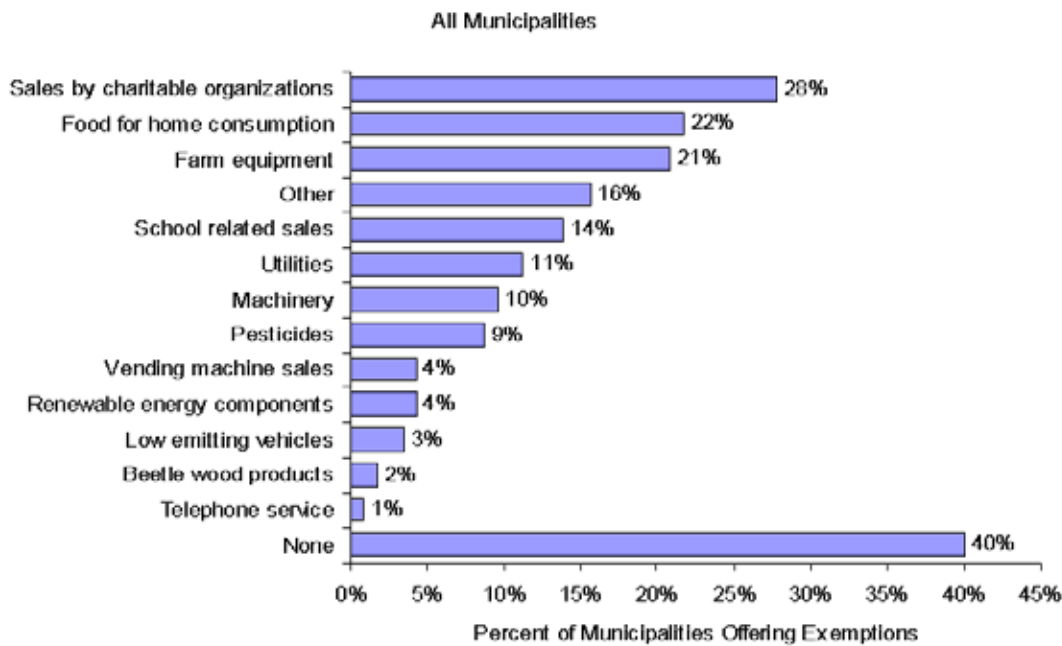
Exhibit 6.1

(Q6. What sales tax exemptions, if any, does your municipality allow?)

Municipality Population	Percentage of Municipalities that Allow Each Type of Sales Tax Exemption				All Municipalities
	More than 18,000	4,000 to 18,000	815 to 4,000	Less than 815	
Sales by charitable organizations	55%	44%	16%	4%	28%
Food for home consumption	30%	25%	22%	14%	22%
Farm equipment	45%	28%	6%	11%	21%
Other	20%	28%	13%	4%	16%
School related sales	35%	22%	6%	0%	14%
Utilities	25%	16%	3%	7%	11%
Machinery	20%	13%	3%	7%	10%
Pesticides	20%	16%	0%	0%	9%
Vending machine sales	10%	9%	0%	0%	4%
Renewable energy components	10%	3%	6%	0%	4%
Low emitting vehicles	15%	3%	0%	0%	3%
Beetle wood products	5%	3%	0%	0%	2%
Telephone service	5%	0%	0%	0%	1%
None	10%	13%	47%	82%	40%

Exhibit 6.2

(Q6. What sales tax exemptions, if any, does your municipality allow?)



SECTION 2: INFRASTRUCTURE AND TRANSPORTATION

Exhibit 7.1

(Q7. For each type of infrastructure listed below, please indicate whether your municipality has any funded projects in 2009 (and the amount they are funded for), if your municipality has any unfunded needs (and the dollar amount needed), or if there is no current need.)

Drinking Water Treatment Facilities

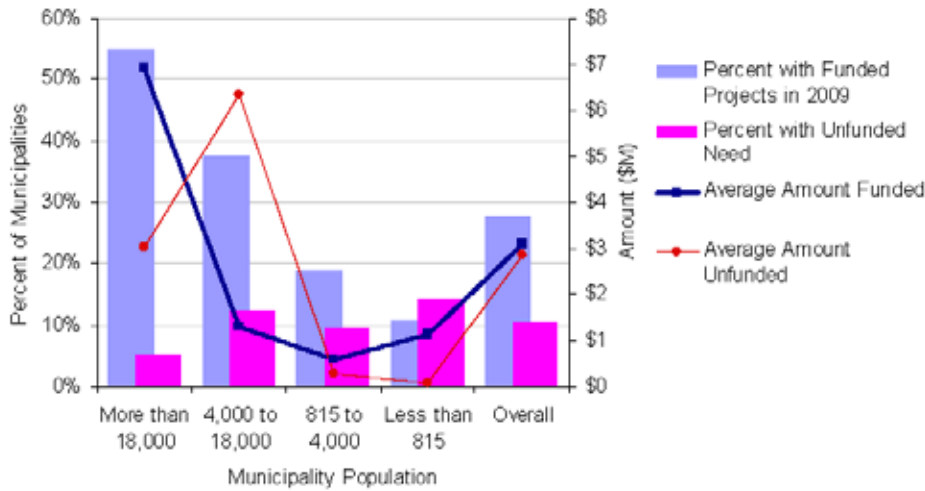


Exhibit 7.2

(Q7. For each type of infrastructure listed below, please indicate whether your municipality has any funded projects in 2009 (and the amount they are funded for), if your municipality has any unfunded needs (and the dollar amount needed), or if there is no current need.)

Wastewater Treatment Facilities

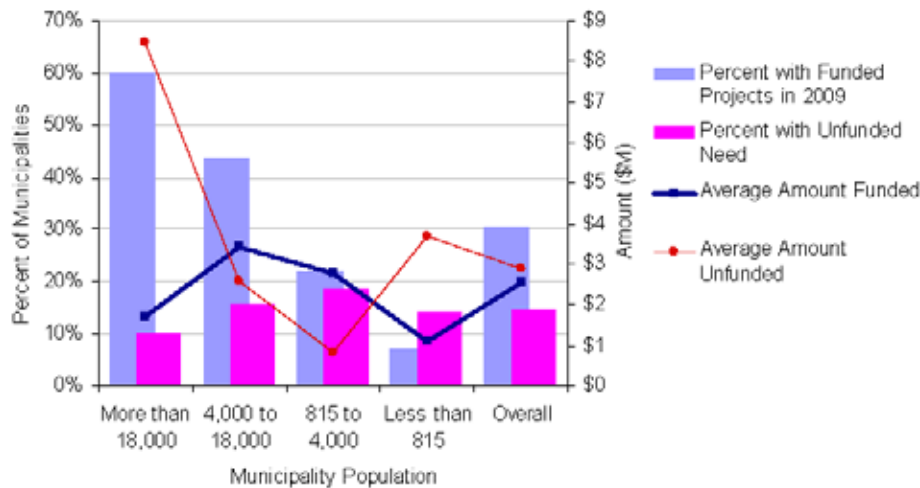


Exhibit 7.3

(Q7. For each type of infrastructure listed below, please indicate whether your municipality has any funded projects in 2009 (and the amount they are funded for), if your municipality has any unfunded needs (and the dollar amount needed), or if there is no current need.)

Storm Water Projects

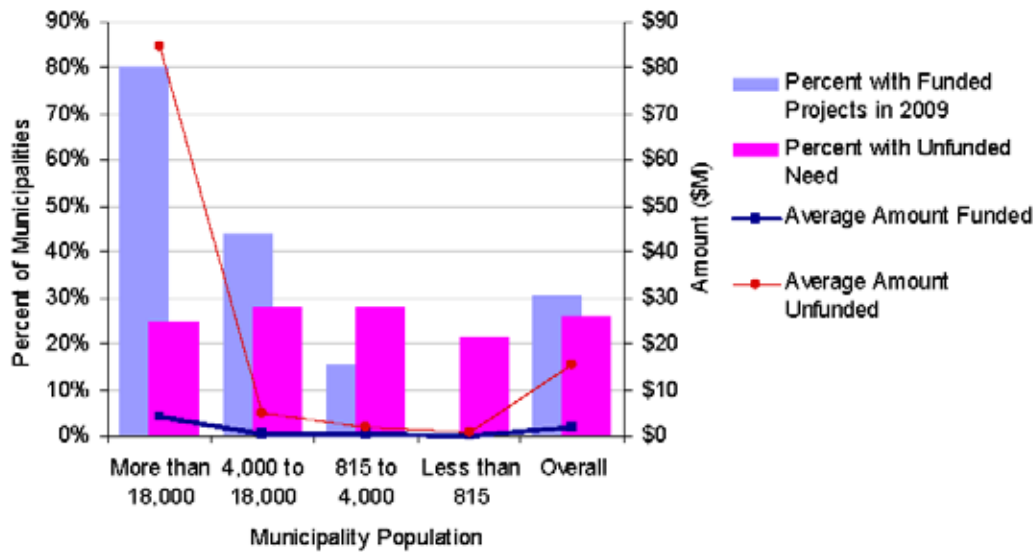


Exhibit 7.4

(Q7. For each type of infrastructure listed below, please indicate whether your municipality has any funded projects in 2009 (and the amount they are funded for), if your municipality has any unfunded needs (and the dollar amount needed), or if there is no current need.)

Water Supply and Storage

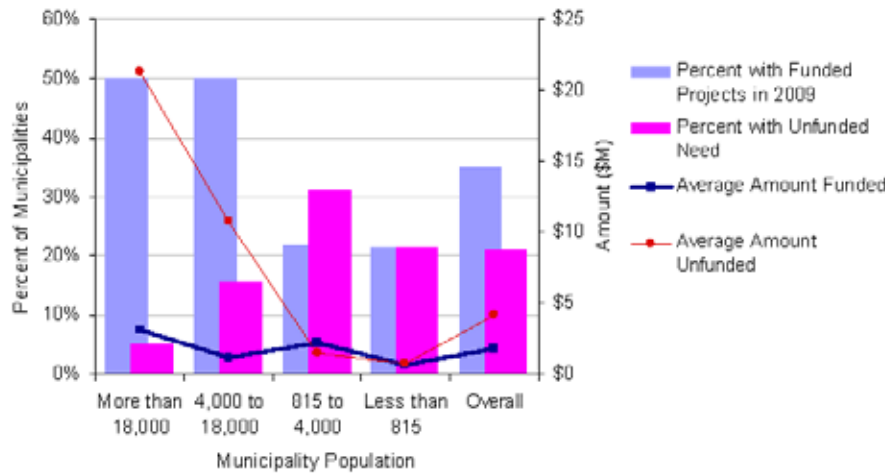


Exhibit 7.5

(Q7. For each type of infrastructure listed below, please indicate whether your municipality has any funded projects in 2009 (and the amount they are funded for), if your municipality has any unfunded needs (and the dollar amount needed), or if there is no current need.)

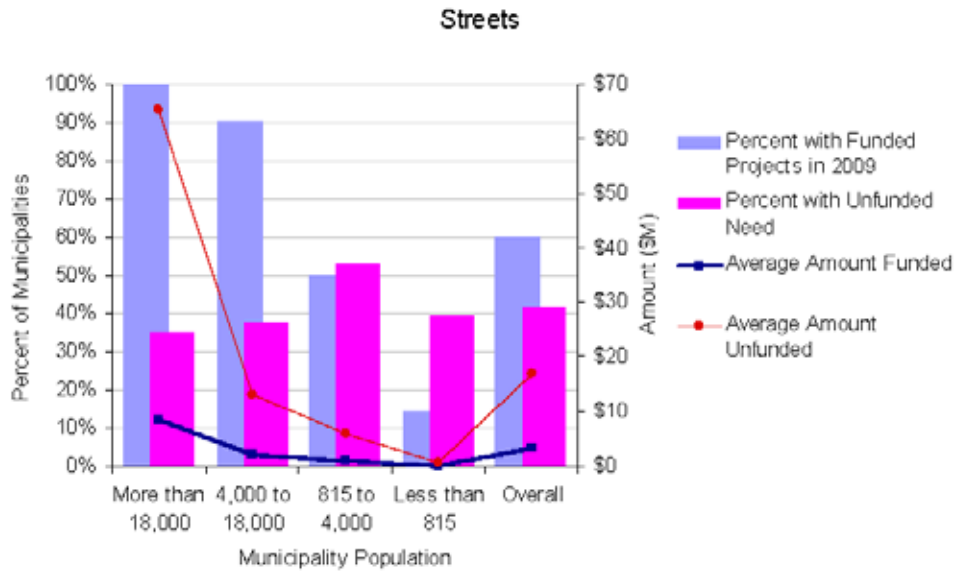


Exhibit 7.6

(Q7. For each type of infrastructure listed below, please indicate whether your municipality has any funded projects in 2009 (and the amount they are funded for), if your municipality has any unfunded needs (and the dollar amount needed), or if there is no current need.)

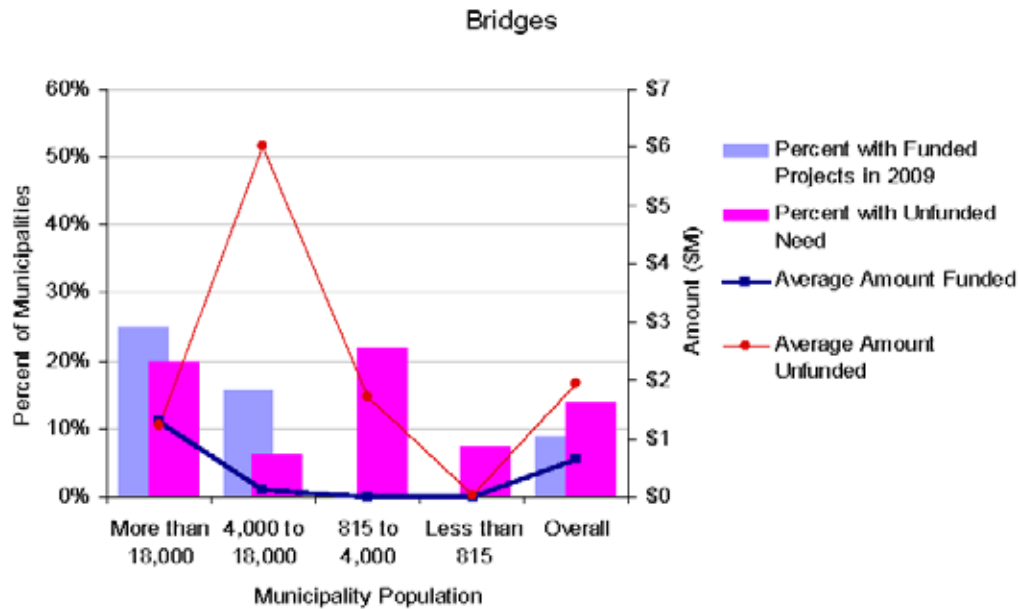


Exhibit 7.7

(Q7. For each type of infrastructure listed below, please indicate whether your municipality has any funded projects in 2009 (and the amount they are funded for), if your municipality has any unfunded needs (and the dollar amount needed), or if there is no current need.)

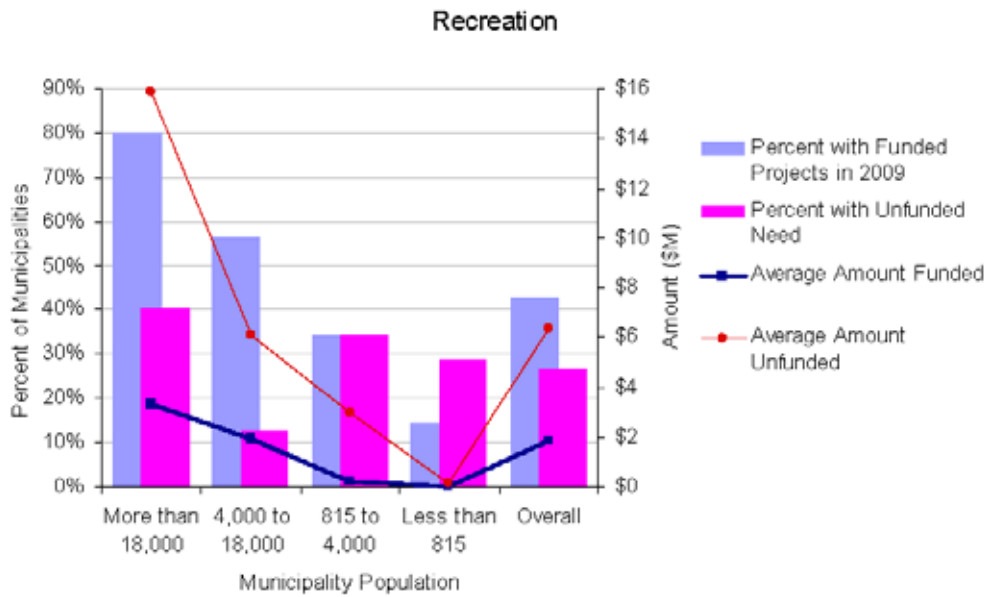
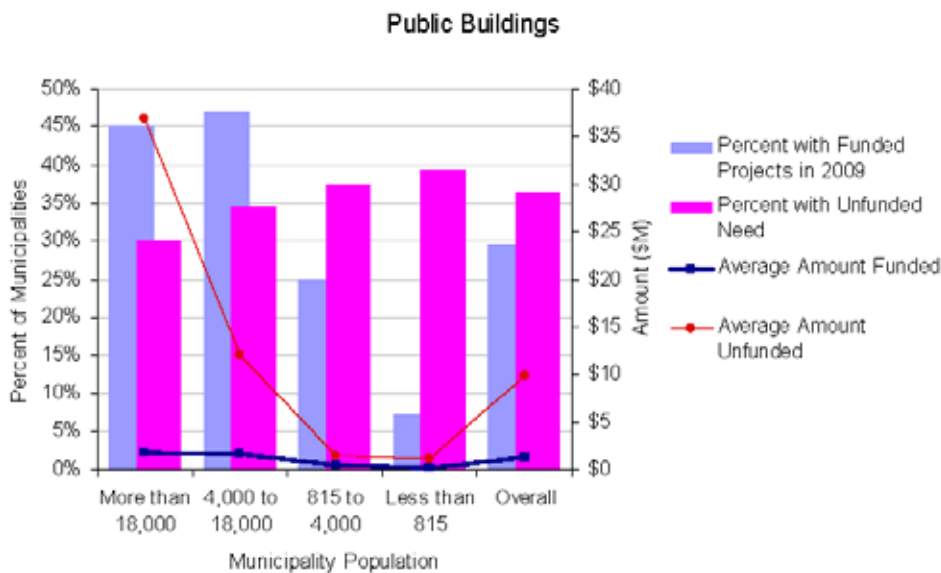


Exhibit 7.8

(Q7. For each type of infrastructure listed below, please indicate whether your municipality has any funded projects in 2009 (and the amount they are funded for), if your municipality has any unfunded needs (and the dollar amount needed), or if there is no current need.)



SECTION 3: ECONOMIC DEVELOPMENT

Exhibit 8

(Q10. Which of the following activities has your local municipality engaged in during 2008 for the purposes of economic development?)

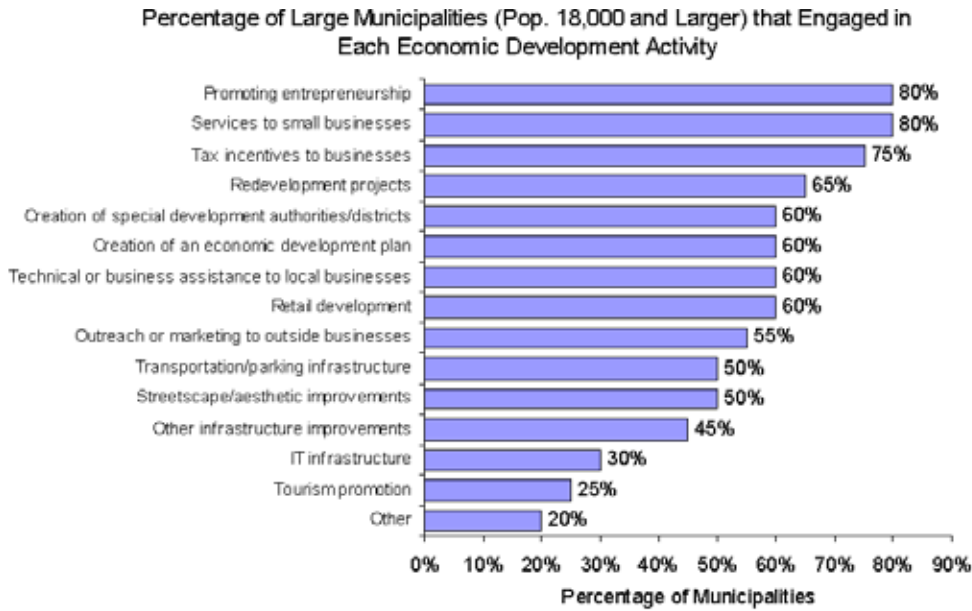


Exhibit 9

(Q10. Which of the following activities has your local municipality engaged in during 2008 for the purposes of economic development?)

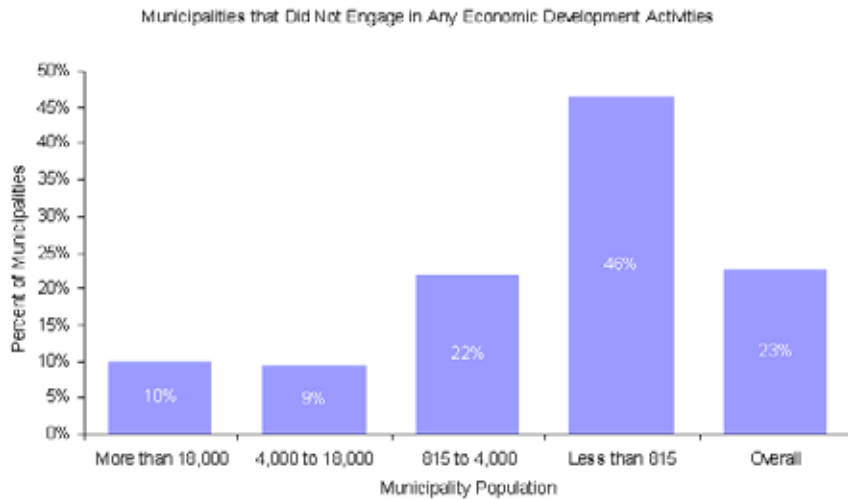


Exhibit 10

(Q10. Which of the following activities has your local municipality engaged in during 2008 for the purposes of economic development?)

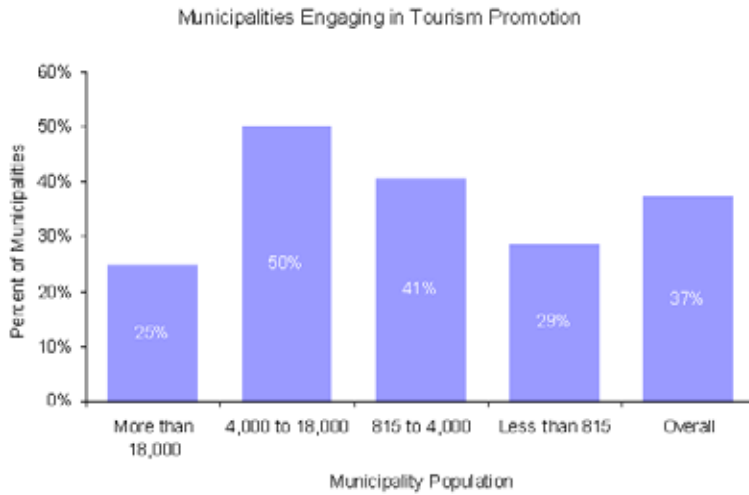


Exhibit 11

(Q12. What resources does your community dedicate for the sole purpose of economic development?)

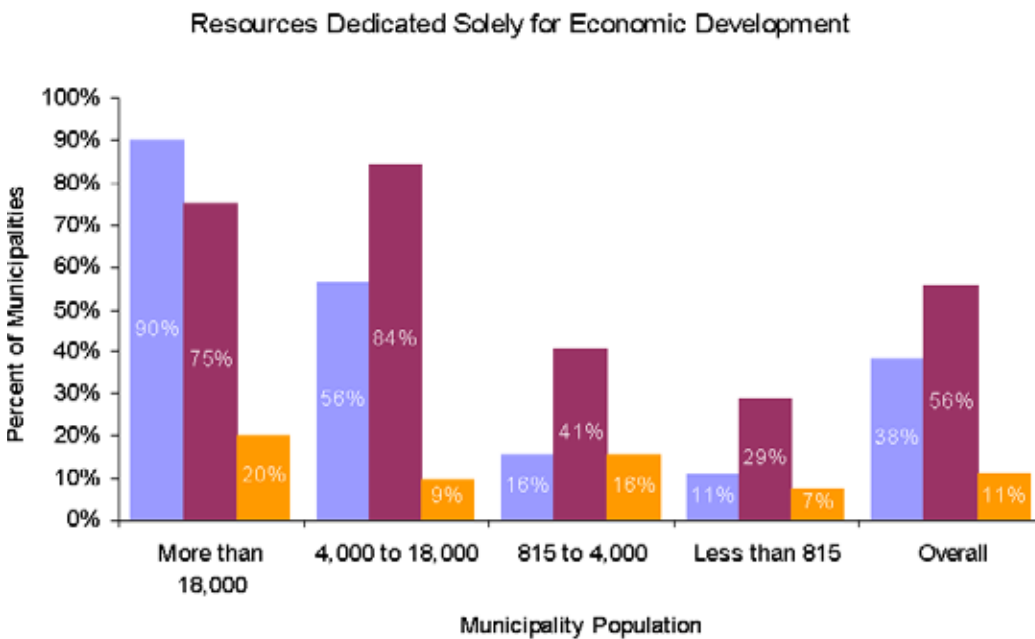


Exhibit 12

(Q13. How many economic development projects were approved by your municipality during 2008?)

Number of Economic Development Projects Approved by Municipalities in 2008

Population	Average number of projects approved	Minimum number approved	Maximum number approved
More than 18,000	5	0	12
4,000 to 18,000	2	0	13
815 to 4,000	1	0	6
Less than 815	1	0	3
Overall	2	0	13

Exhibit 13

(Q15. How many economic development projects are anticipated by your municipality for 2009 and 2010?)

Number of Economic Development Projects Anticipated by Municipalities for 2009 and 2010

Population	Average number of projects anticipated	Minimum number anticipated	Maximum number anticipated
More than 18,000	8	1	25
4,000 to 18,000	3	0	13
815 to 4,000	2	0	20
Less than 815	1	0	3
Overall	3	0	25

SECTION 4: REVENUE CHALLENGES

Exhibit 14

(Q17. Do you feel your municipality's financial situation is better or worse in FY 2008 compared to FY 2007?)

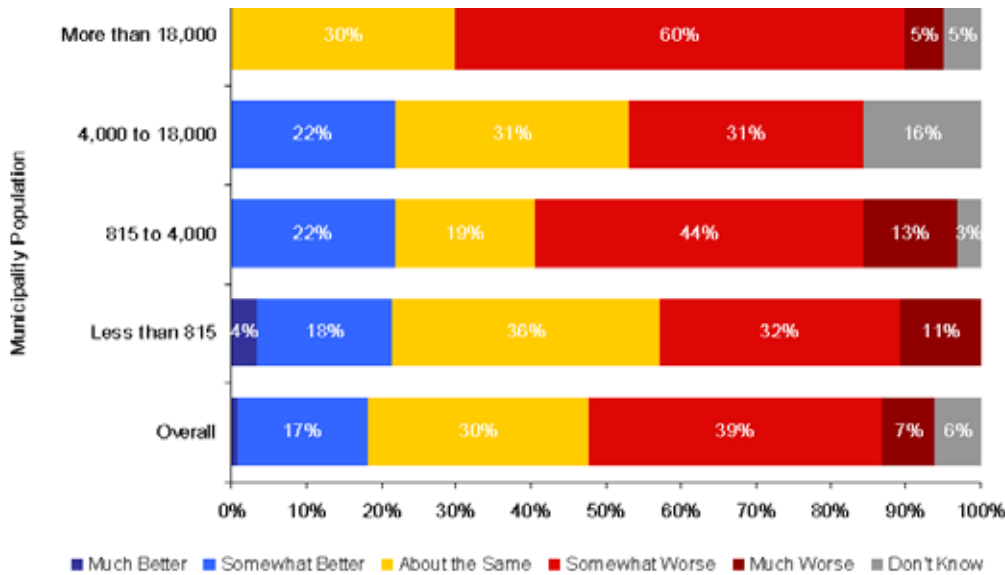


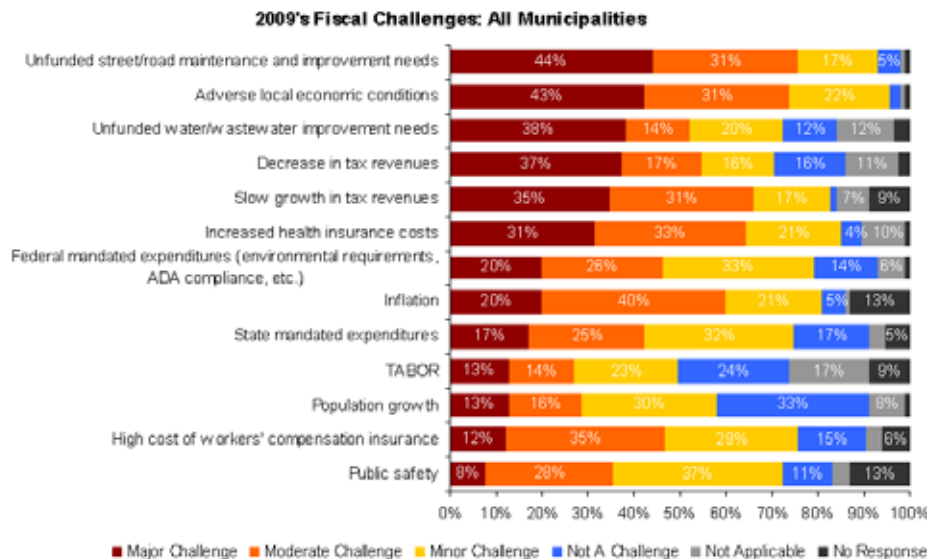
Exhibit 15

(Q19. Please rank your top three challenges from Q18 that your municipality faces in 2008?)

Top 3 Fiscal Challenges Facing Municipalities in 2008	
	Percent of Municipalities Listing the Challenge Among Their Top 3
Unfunded street/road maintenance and improvement needs	31%
Slow growth in tax revenues	29%
Unfunded water/wastewater improvement needs	25%

Exhibit 16.1

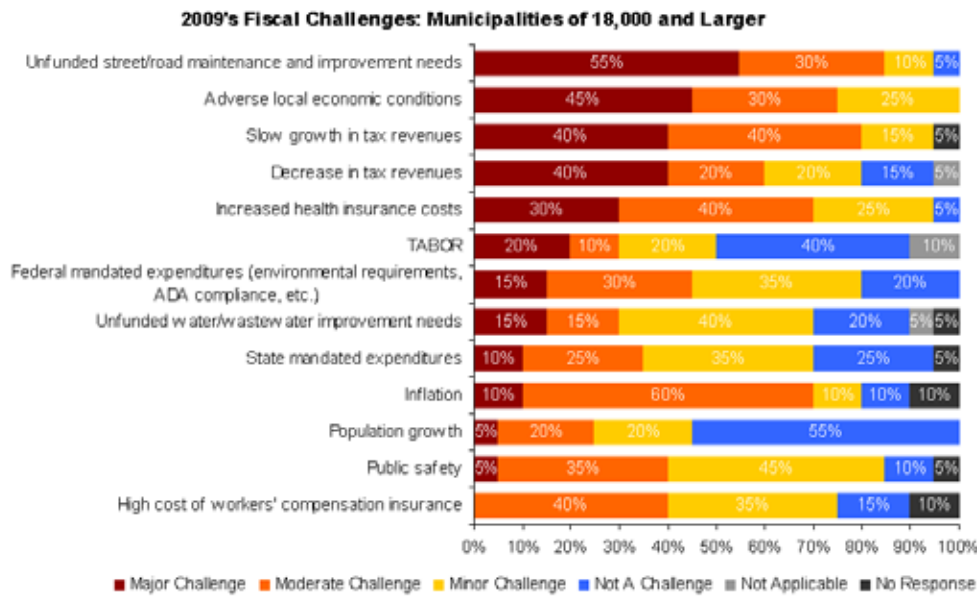
(Q18. Taking into account the combined magnitude of the following issues and the ease or difficulty of addressing them, please rate the following potential fiscal challenges that your municipality faces in 2009?)



*Values of 3 percent or less are not labeled on graph.

Exhibit 16.2

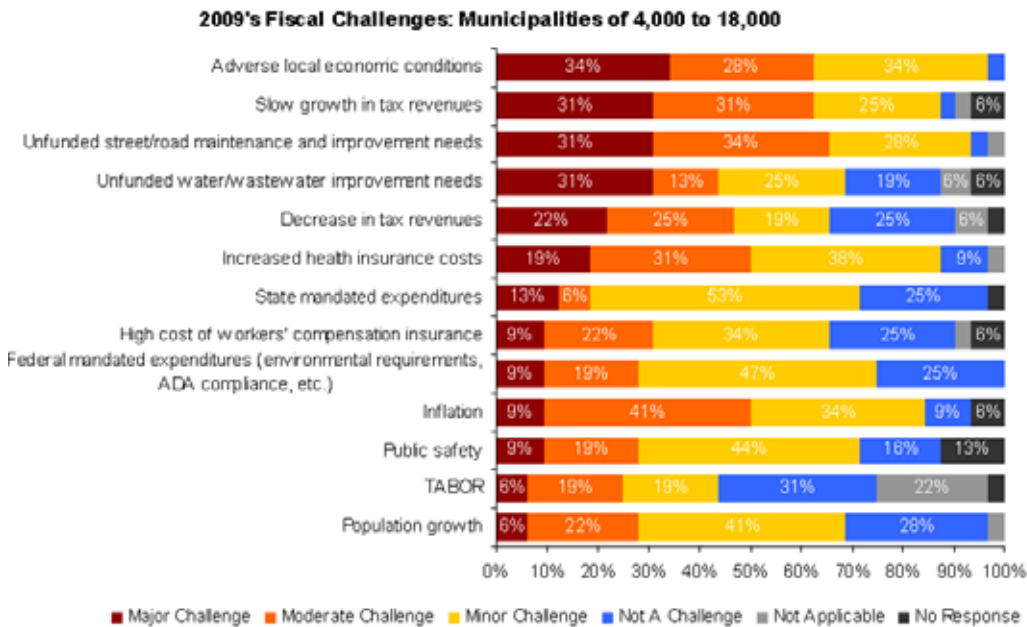
(Q18. Taking into account the combined magnitude of the following issues and the ease or difficulty of addressing them, please rate the following potential fiscal challenges that your municipality faces in 2009?)



*Values of 3 percent or less are not labeled on graph.

Exhibit 16.3

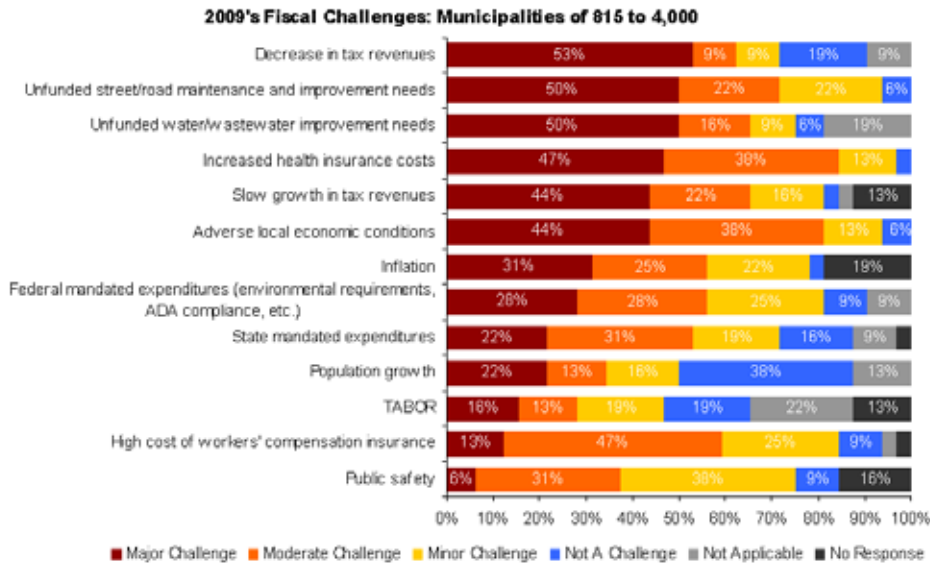
(Q18. Taking into account the combined magnitude of the following issues and the ease or difficulty of addressing them, please rate the following potential fiscal challenges that your municipality faces in 2009?)



*Values of 3 percent or less are not labeled on graph.

Exhibit 16.4

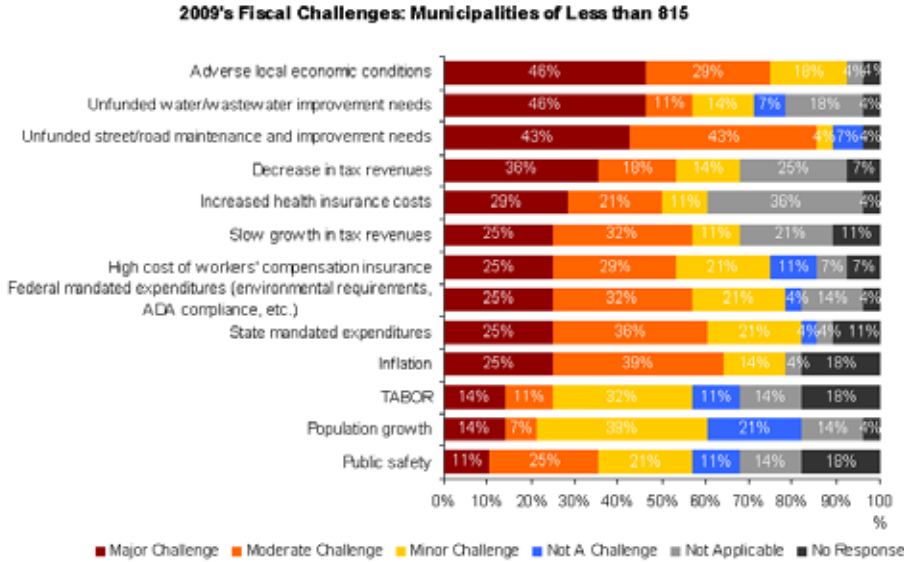
(Q18. Taking into account the combined magnitude of the following issues and the ease or difficulty of addressing them, please rate the following potential fiscal challenges that your municipality faces in 2009?)



*Values of 3 percent or less are not labeled on graph.

Exhibit 16.5

(Q18. Taking into account the combined magnitude of the following issues and the ease or difficulty of addressing them, please rate the following potential fiscal challenges that your municipality faces in 2009?)



*Values of 3 percent or less are not labeled on graph.

Exhibit 17.1

(Q21. For each of the following revenue categories, please indicate whether you expect an increase, decrease, or no change for that source of revenue in 2008.)

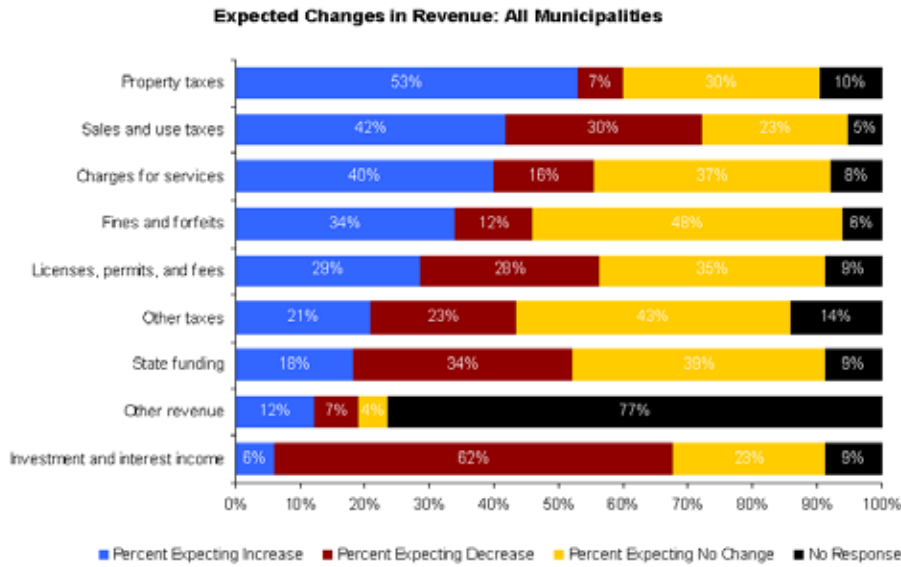


Exhibit 17.2

(Q21. For each of the following revenue categories, please indicate whether you expect an increase, decrease, or no change for that source of revenue in 2008.)

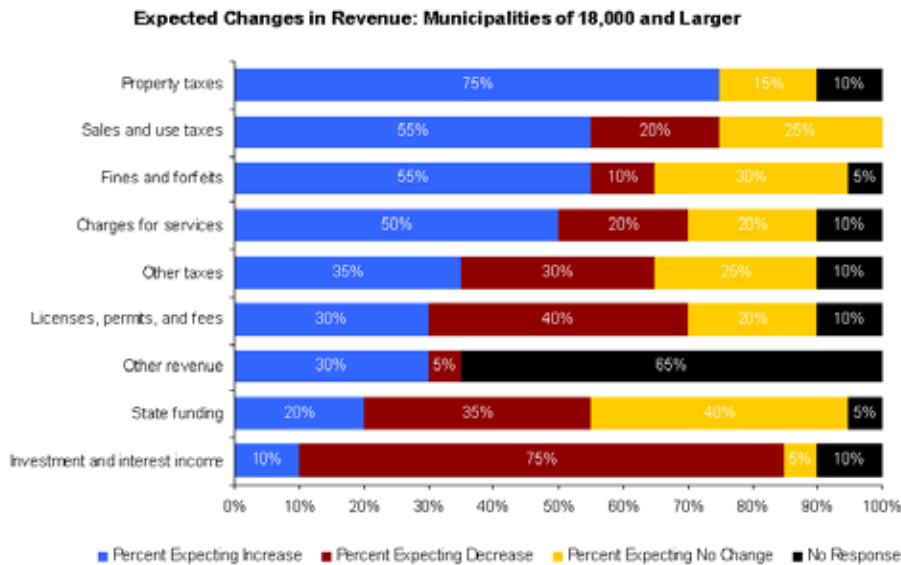


Exhibit 17.3

(Q21. For each of the following revenue categories, please indicate whether you expect an increase, decrease, or no change for that source of revenue in 2008.)

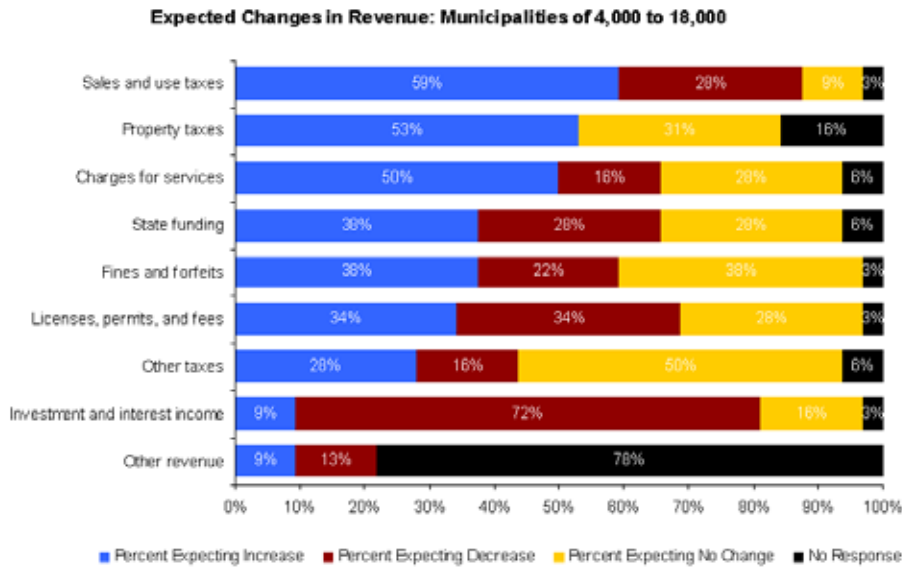


Exhibit 17.4

(Q21. For each of the following revenue categories, please indicate whether you expect an increase, decrease, or no change for that source of revenue in 2008.)

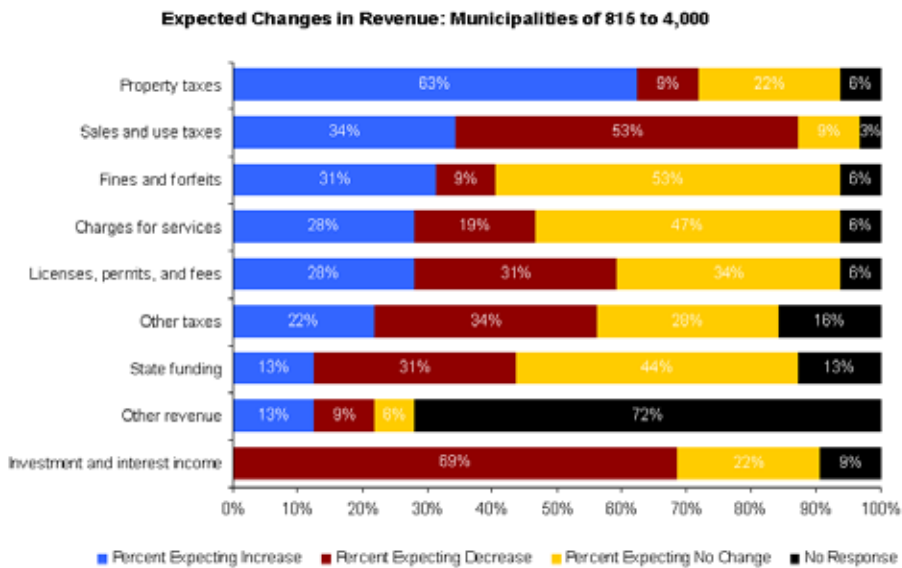


Exhibit 17.5

(Q21. For each of the following revenue categories, please indicate whether you expect an increase, decrease, or no change for that source of revenue in 2008.)

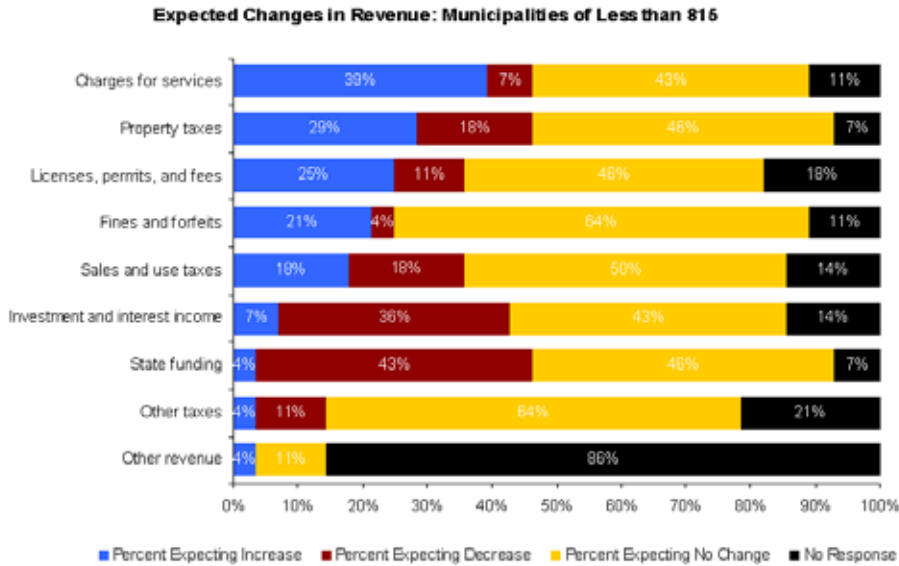


Exhibit 18.1

(Q22. For each of the following expense categories, please indicate whether you expect an increase, decrease, or no change for that expense in 2008.)

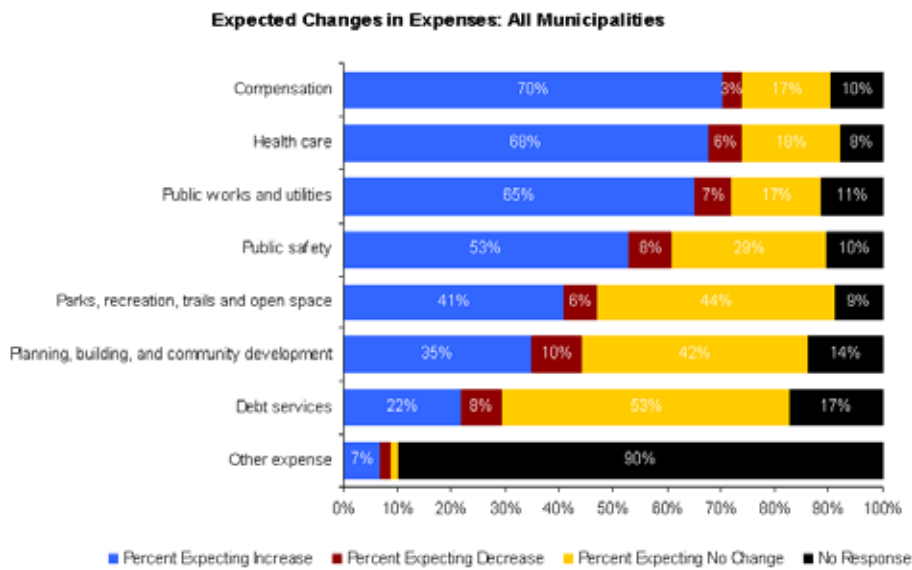


Exhibit 18.2

(Q22. For each of the following expense categories, please indicate whether you expect an increase, decrease, or no change for that expense in 2008.)

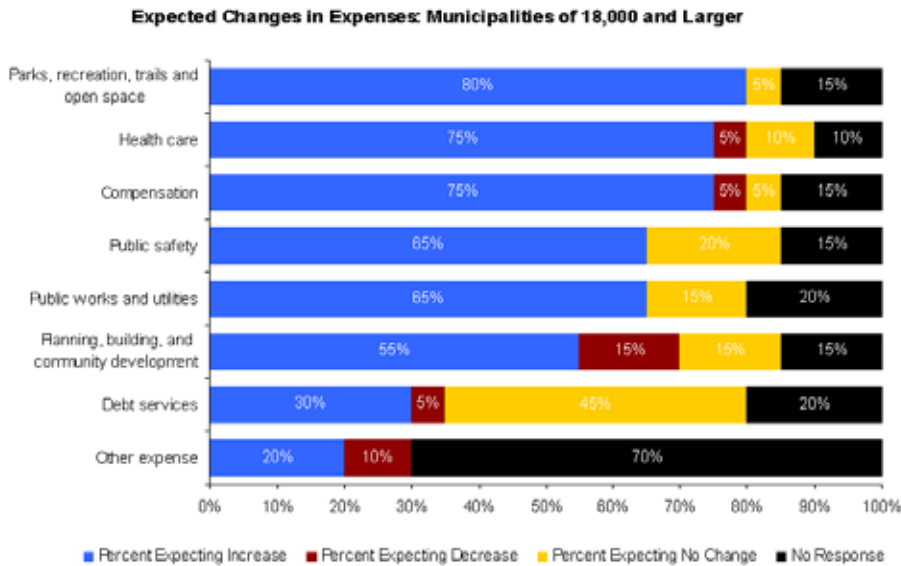


Exhibit 18.3

(Q22. For each of the following expense categories, please indicate whether you expect an increase, decrease, or no change for that expense in 2008.)

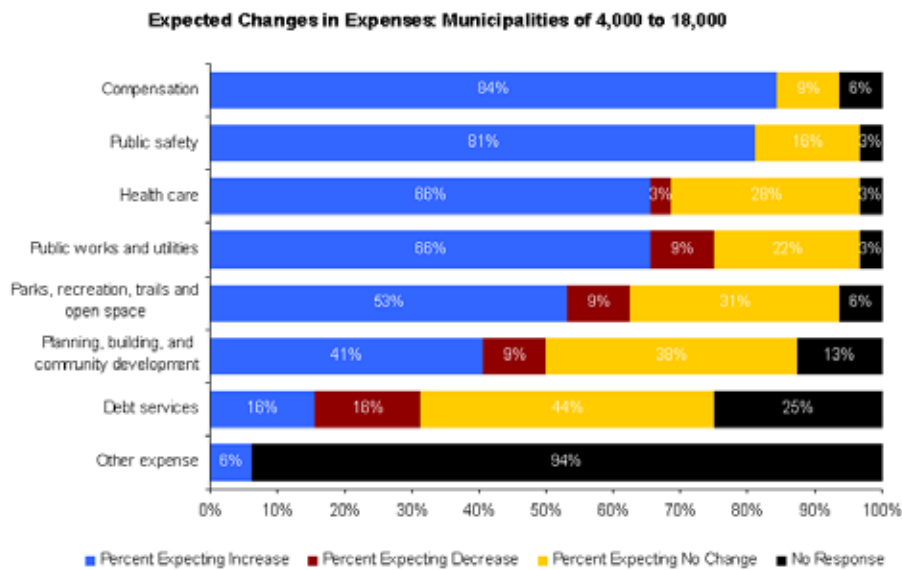


Exhibit 18.4

(Q22. For each of the following expense categories, please indicate whether you expect an increase, decrease, or no change for that expense in 2008.)

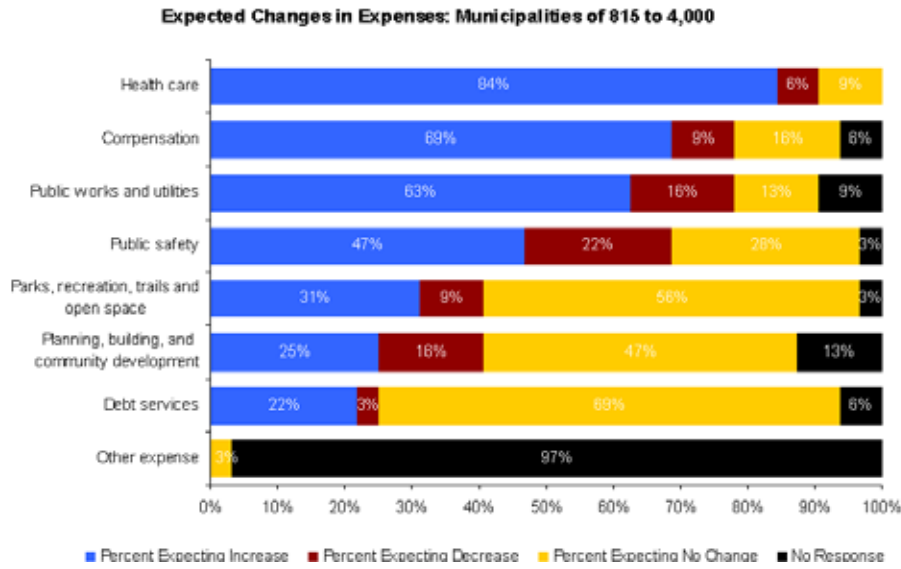


Exhibit 18.5

(Q22. For each of the following expense categories, please indicate whether you expect an increase, decrease, or no change for that expense in 2008.)

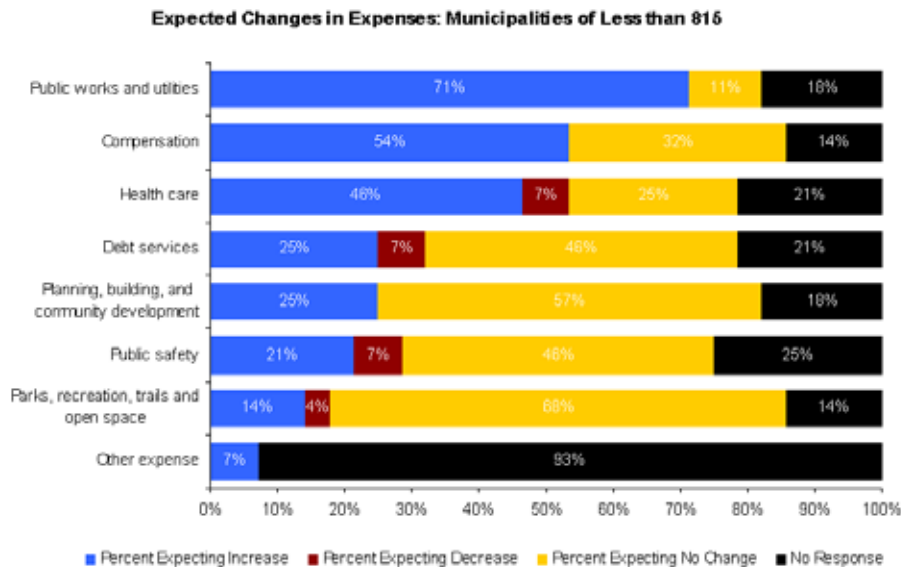


Exhibit 19

(Q23. Please list any actions taken to stabilize or enhance revenues.)

Percentage of Municipalities Taking Actions to Stabilize or Enhance Revenues

Municipality Population	More than 18,000	4,000 to 18,000	815 to 4,000	Less than 815	Overall
Tax increases	10%	9%	9%	11%	10%
Fee increases	35%	53%	50%	32%	43%
Debrucing	15%	3%	13%	18%	12%
Other	5%	28%	38%	36%	29%

SECTION 5: ENERGY

Exhibit 20.1

(Q24. What type of alternative energy projects has your municipality participated in, at what cost, and what savings does your municipality receive?)

Alternative Energy Projects: All Municipalities

	Percent Participated	Participated on Own	Participated in Partnership	Average Total Cost	Avg Estimated Savings/Year
Solar Power	16%	5%	10%	\$545,269	\$7,259
Wind Power	14%	5%	8%	\$142,250	\$0
Geothermal Power	3%	1%	3%	\$330,719	\$13,000
Bio Fuels	10%	3%	6%	\$37,121	\$40,616
Hybrid/electric vehicles	23%	1%	19%	\$340,506	\$984
Other expense	7%	2%	7%	\$67,050	\$10,667

Exhibit 20.2

(Q24. What type of alternative energy projects has your municipality participated in, at what cost, and what savings does your municipality receive?)

Municipalities that Did Not Participate in Any Alternative Energy Projects

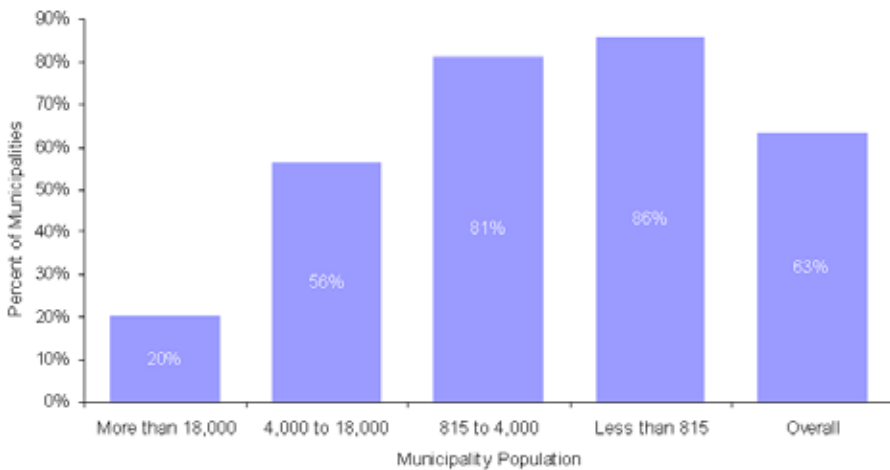


Exhibit 20.3

(Q24. What type of alternative energy projects has your municipality participated in, at what cost, and what savings does your municipality receive?)

Solar Power

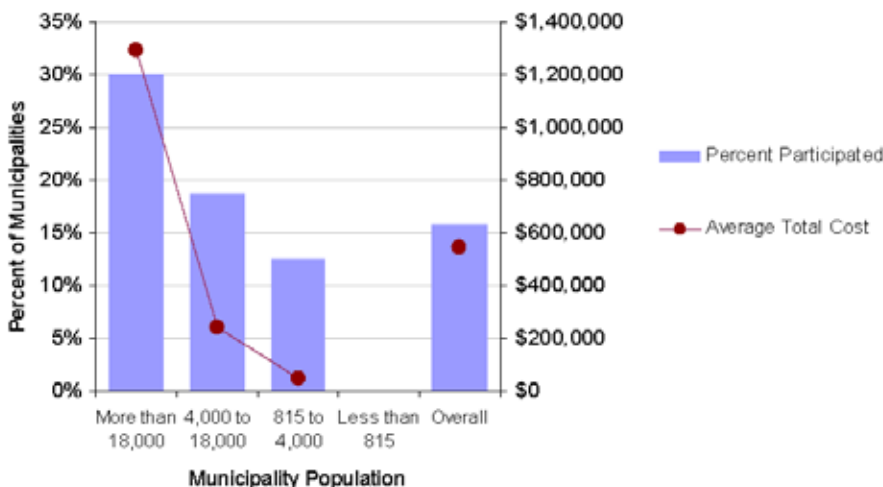
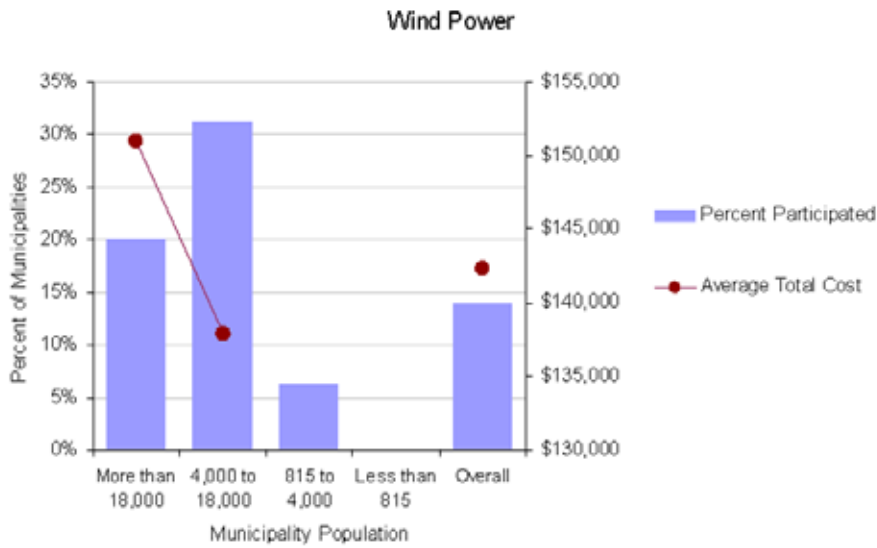


Exhibit 20.4

(Q24. What type of alternative energy projects has your municipality participated in, at what cost, and what savings does your municipality receive?)



Note. Some graphs in this section are missing data where participating municipalities did not report costs.

Exhibit 20.5

(Q24. What type of alternative energy projects has your municipality participated in, at what cost, and what savings does your municipality receive?)

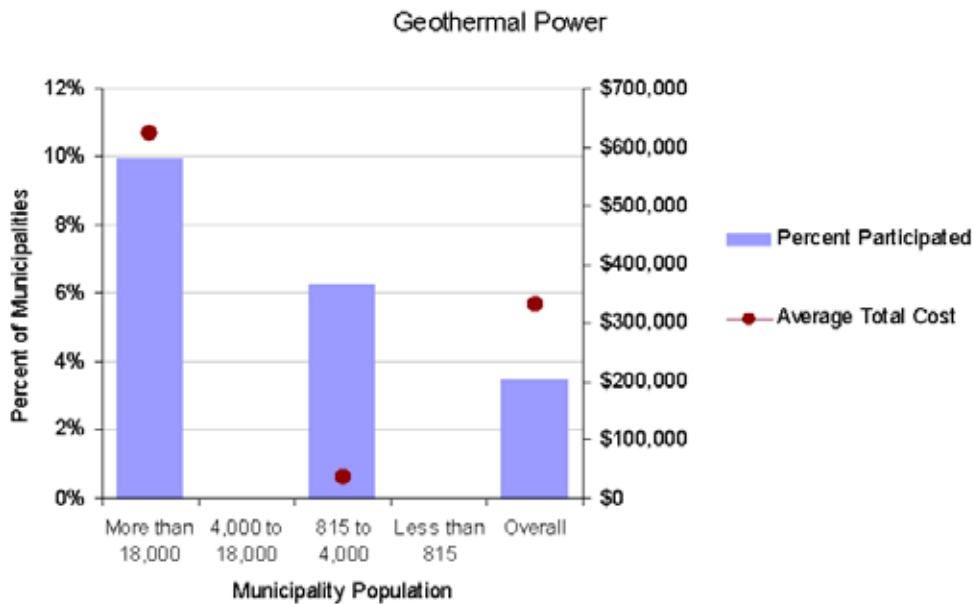


Exhibit 20.6

(Q24. What type of alternative energy projects has your municipality participated in, at what cost, and what savings does your municipality receive?)

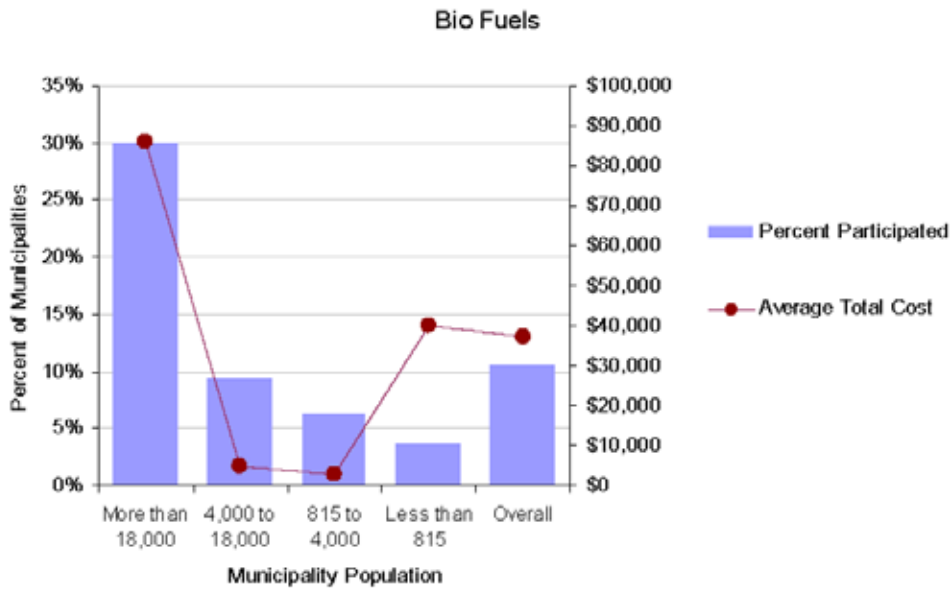


Exhibit 20.7

(Q24. What type of alternative energy projects has your municipality participated in, at what cost, and what savings does your municipality receive?)

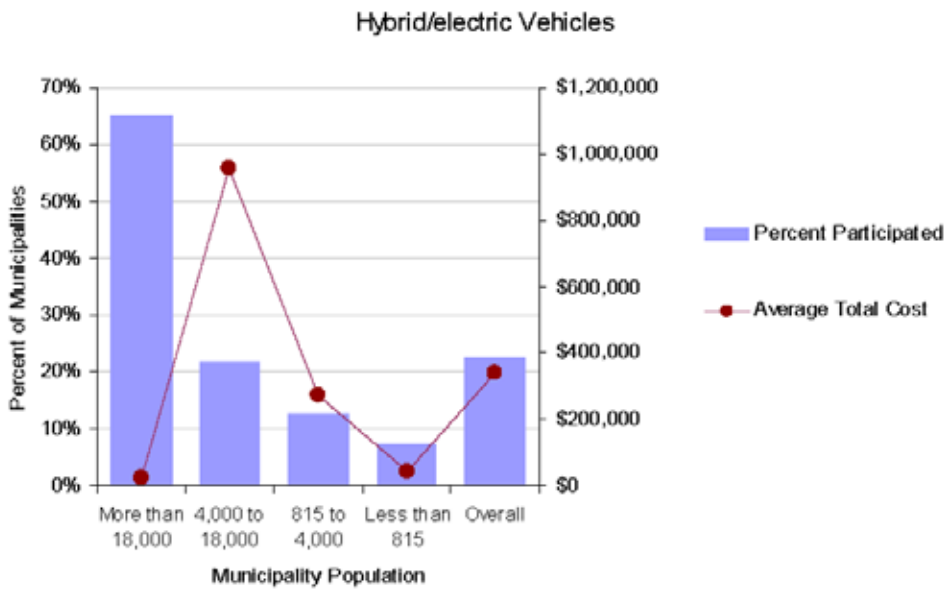


Exhibit 20.8

(Q24. What type of alternative energy projects has your municipality participated in, at what cost, and what savings does your municipality receive?)

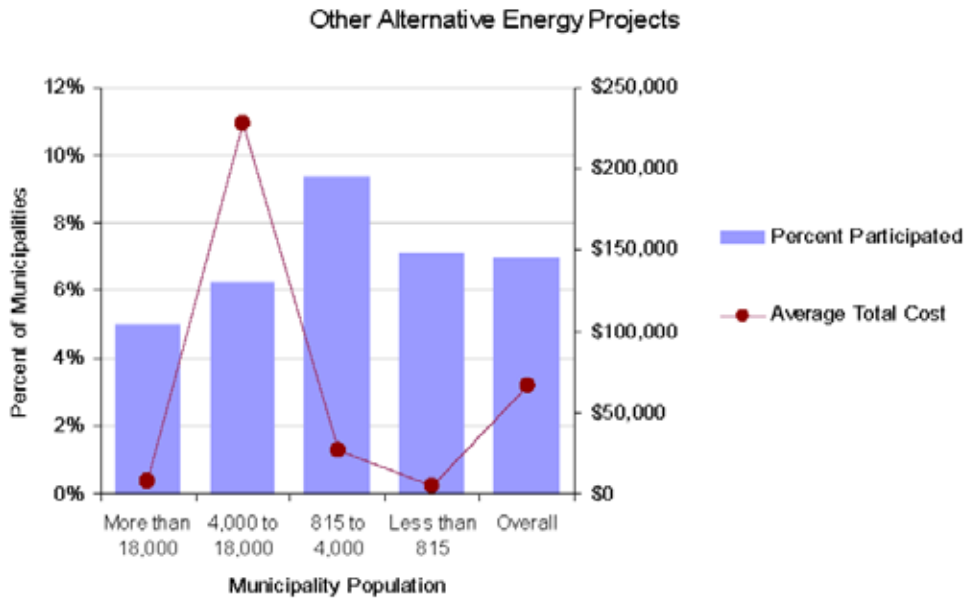


Exhibit 21.1

(Q25. What, if any, special efforts have been made by the municipality to specifically improve energy efficiency in government owned or operated buildings?)

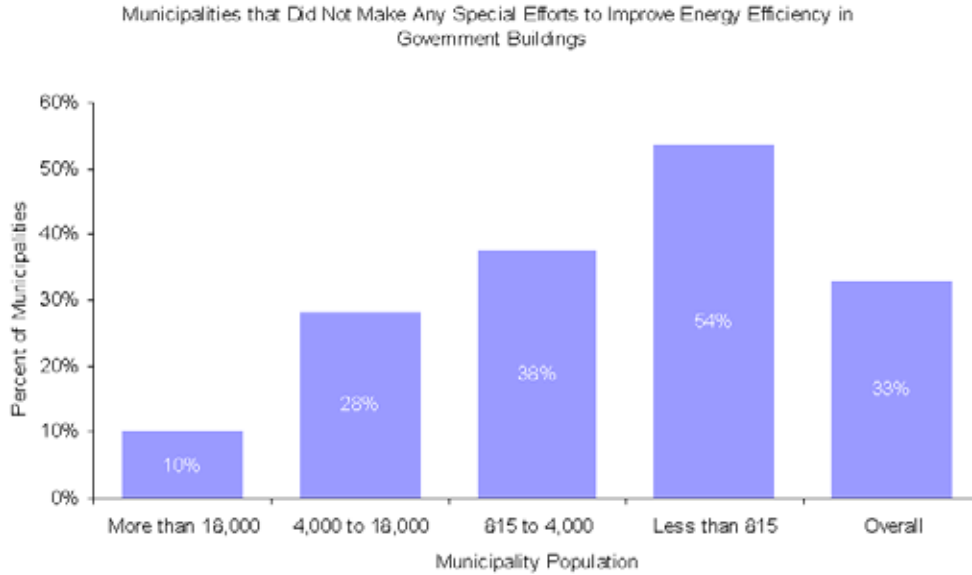


Exhibit 21.2

(Q25. What, if any, special efforts have been made by the municipality to specifically improve energy efficiency in government owned or operated buildings?)

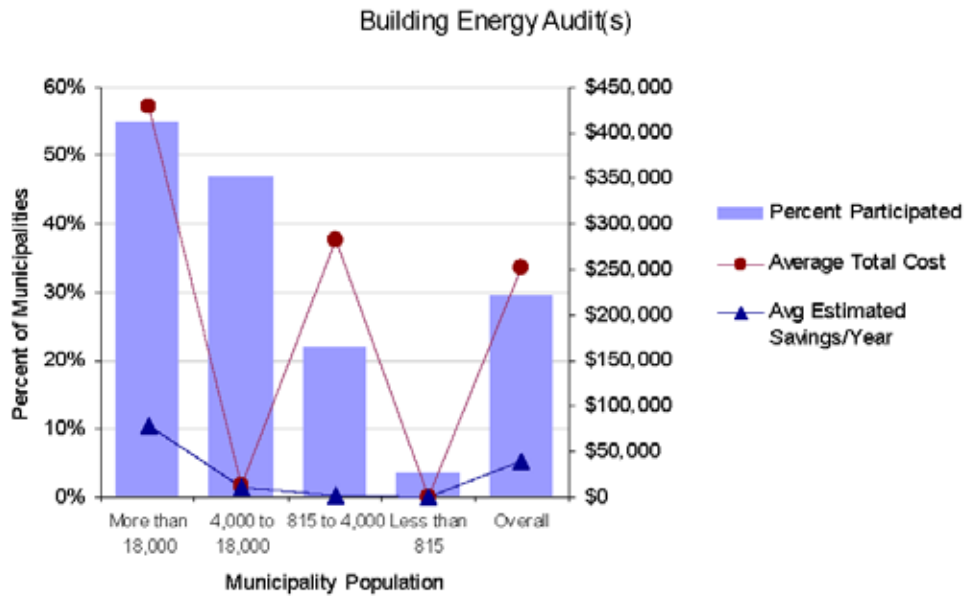


Exhibit 21.3

(Q25. What, if any, special efforts have been made by the municipality to specifically improve energy efficiency in government owned or operated buildings?)

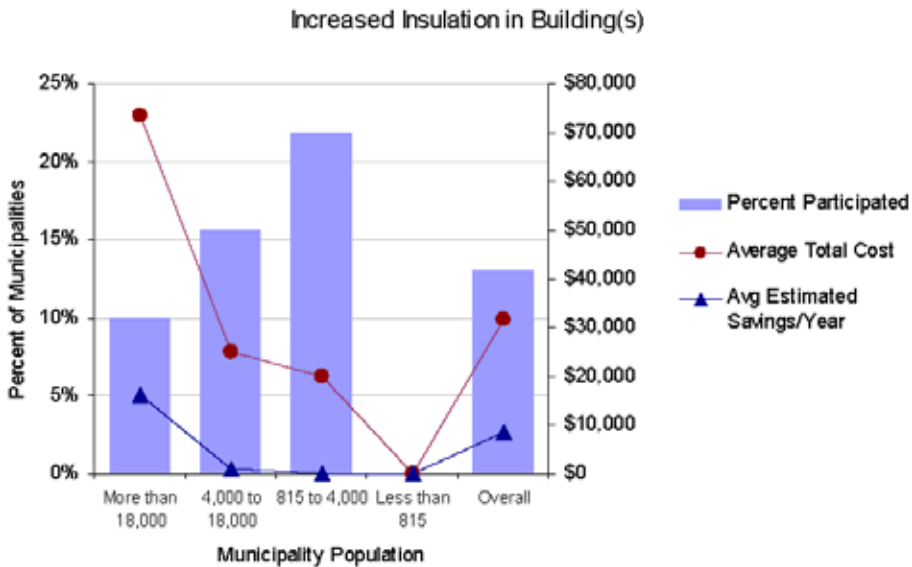


Exhibit 21.4

(Q25. What, if any, special efforts have been made by the municipality to specifically improve energy efficiency in government owned or operated buildings?)

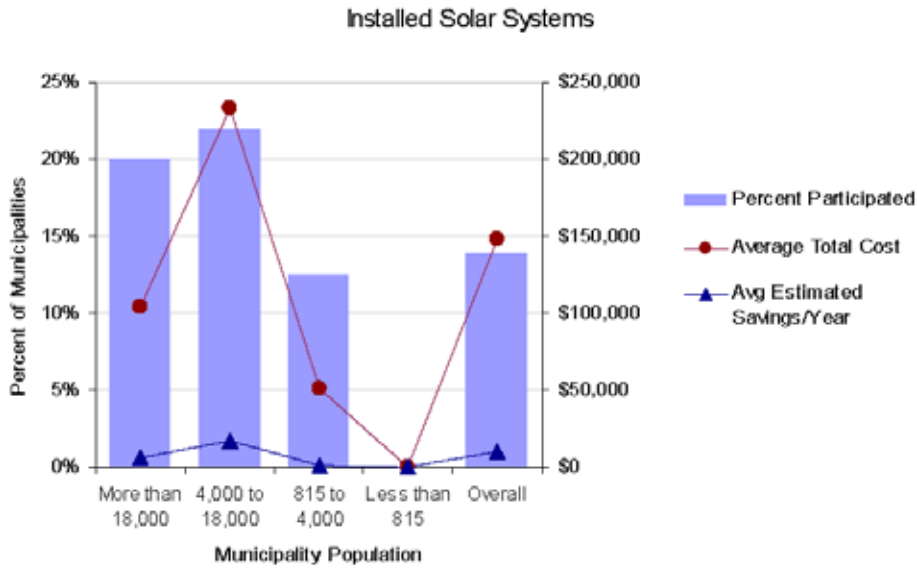


Exhibit 21.5

(Q25. What, if any, special efforts have been made by the municipality to specifically improve energy efficiency in government owned or operated buildings?)

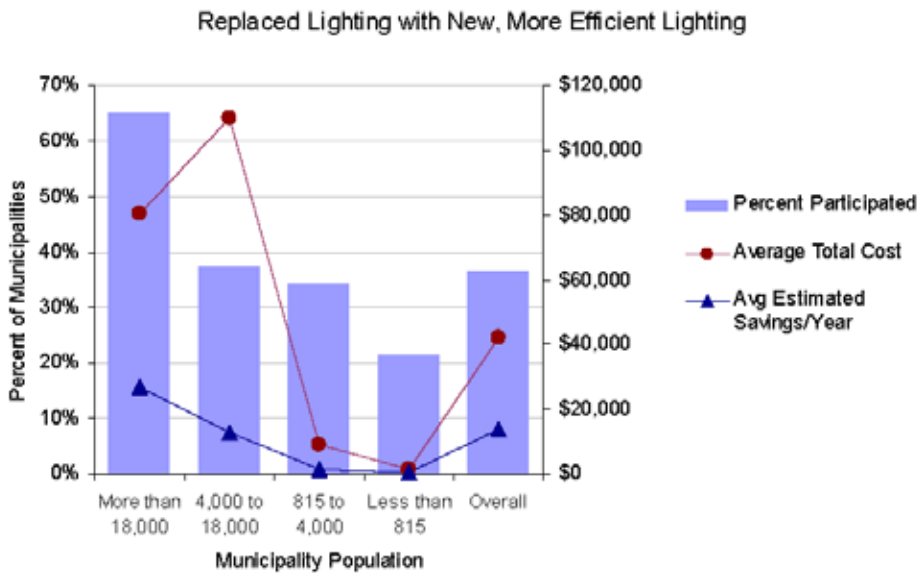


Exhibit 21.6

(Q25. What, if any, special efforts have been made by the municipality to specifically improve energy efficiency in government owned or operated buildings?)

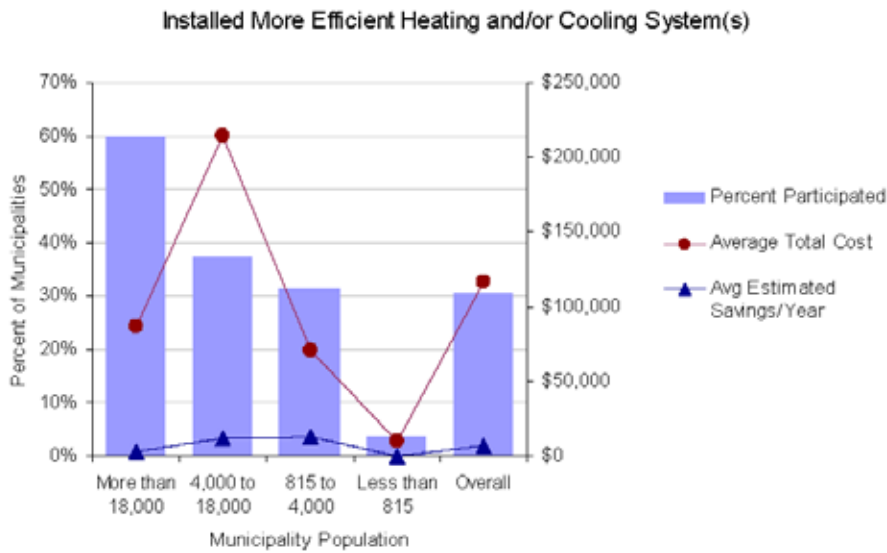


Exhibit 21.7

(Q25. What, if any, special efforts have been made by the municipality to specifically improve energy efficiency in government owned or operated buildings?)

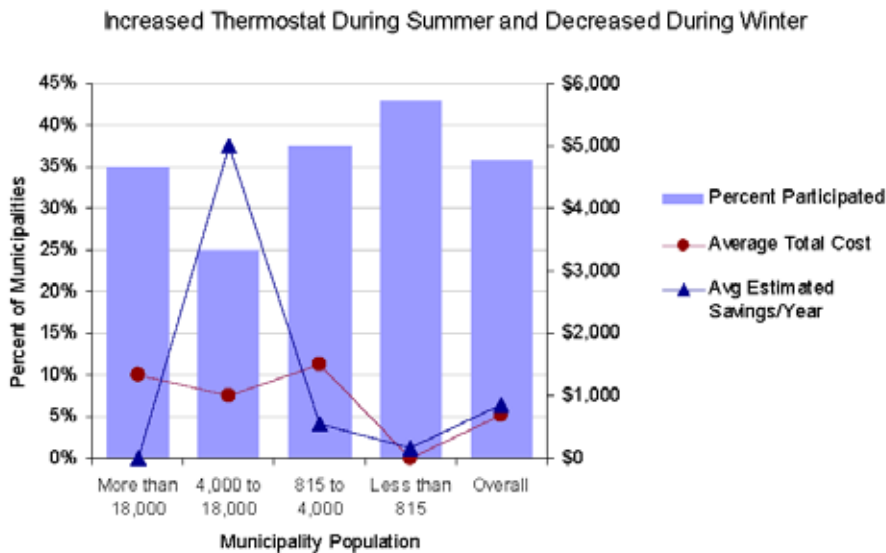


Exhibit 21.8

(Q25. What, if any, special efforts have been made by the municipality to specifically improve energy efficiency in government owned or operated buildings?)

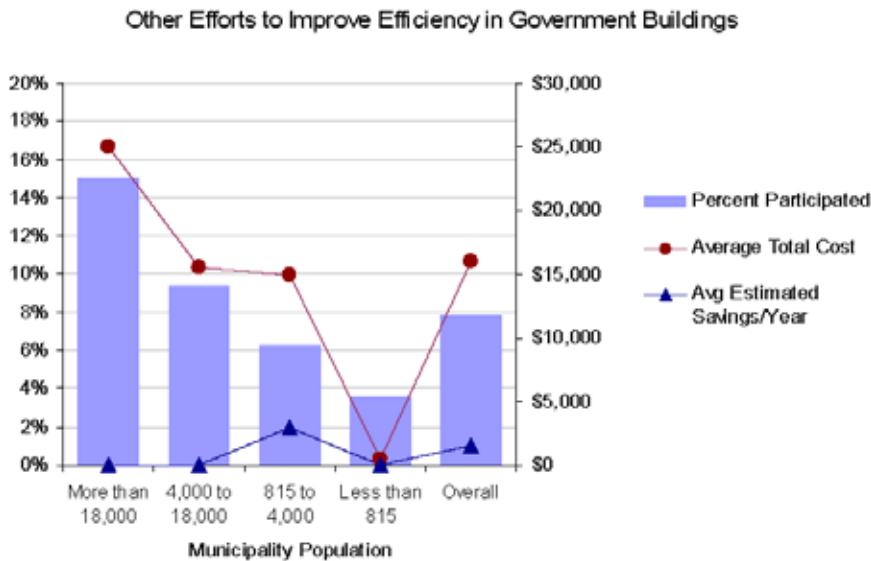


Exhibit 22.1

(Q26. What, if any, type of community programs or efforts has your municipal government put in place to specifically help citizens increase their energy efficiency?)

Energy Efficiency Programs for Citizens: All Municipalities			
	Percent Participated	Average Total Cost	Avg Estimated Savings/Year
Public outreach and education programs	24%	\$33,040	\$1,000
Home energy audits	10%	\$16,660	\$42,500
Rebates on energy efficient appliances	4%	\$179,700	--
Programs to distribute energy efficient CFLs, timers, or other items to reduce energy	12%	\$56,730	\$18,167
Programs to help conserve energy at peak consumption	8%	\$196,225	\$25,250
Ordinances designed to encourage energy conservation	17%	\$28,056	\$11,741
Other	10%	\$20,917	\$18,500

Note. Double dashes (--) in this series of graphs denote missing data where none of the municipalities reported a value for that question.

Exhibit 22.2

(Q26. What, if any, type of community programs or efforts has your municipal government put in place to specifically help citizens increase their energy efficiency?)

Energy Efficiency Programs for Citizens: Municipalities of 18,000 and Larger			
	Percent Participated	Average Total Cost	Avg Estimated Savings/Year
Public outreach and education programs	50%	\$30,843	--
Home energy audits	30%	\$20,825	\$85,000
Rebates on energy efficient appliances	15%	\$179,700	--
Programs to distribute energy efficient CFLs, timers, or other items to reduce energy	30%	\$109,000	\$18,167
Programs to help conserve energy at peak consumption	15%	\$392,450	\$100,000
Ordinances designed to encourage energy conservation	20%	\$1,250	\$33,224
Other	25%	\$24,375	\$35,000

Exhibit 22.3

(Q26. What, if any, type of community programs or efforts has your municipal government put in place to specifically help citizens increase their energy efficiency?)

Energy Efficiency Programs for Citizens: Municipalities of 4,000 to 18,000			
	Percent Participated	Average Total Cost	Avg Estimated Savings/Year
Public outreach and education programs	34%	\$53,375	\$1,000
Home energy audits	9%	--	--
Rebates on energy efficient appliances	3%	--	--
Programs to distribute energy efficient CFLs, timers, or other items to reduce energy	9%	\$2,000	--
Programs to help conserve energy at peak consumption	6%	--	--
Ordinances designed to encourage energy conservation	22%	--	\$2,000
Other	13%	\$13,000	--

Exhibit 22.4

(Q26. What, if any, type of community programs or efforts has your municipal government put in place to specifically help citizens increase their energy efficiency?)

Energy Efficiency Programs for Citizens: Municipalities of 816 to 4,000			
	Percent Participated	Average Total Cost	Avg Estimated Savings/Year
Public outreach and education programs	13%	\$53,000	--
Home energy audits	3%	--	--
Rebates on energy efficient appliances	3%	--	--
Programs to distribute energy efficient CFLs, timers, or other items to reduce energy	9%	\$150	--
Programs to help conserve energy at peak consumption	3%	--	\$1
Ordinances designed to encourage energy conservation	22%	\$50,000	--
Other	3%	--	--

Exhibit 22.5

(Q26. What, if any, type of community programs or efforts has your municipal government put in place to specifically help citizens increase their energy efficiency?)

Energy Efficiency Programs for Citizens: Municipalities of Less than 815			
	Percent Participated	Average Total Cost	Avg Estimated Savings/Year
Public outreach and education programs	11%	\$250	--
Home energy audits	4%	--	--
Rebates on energy efficient appliances	0%	--	--
Programs to distribute energy efficient CFLs, timers, or other items to reduce energy	7%	\$10,000	--
Programs to help conserve energy at peak consumption	4%	--	\$1,000
Ordinances designed to encourage energy conservation	7%	--	--
Other	7%	\$15,000	\$2,000