

**Summary Report**

**City of Cherry Hills Village  
Recreation District Exclusion Analysis**

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July 23, 2001

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Recreation District Exclusion Analysis**

**Prepared for**

City of Cherry Hills Village  
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# **Summary Report**

## **City of Cherry Hills Village**

### **Recreation District Exclusion Analysis**

In September 1999, BBC Research & Consulting (BBC) was retained by the City of Cherry Hills Village (City) to assist the City in evaluating the costs and benefits of withdrawing from the South Suburban Park and Recreation District (District). BBC's analysis was updated in May of 2001. This report summarizes BBC's findings and conclusions.

#### **Background**

The South Suburban District currently provides the City with a variety of recreational facilities and services. The District maintains a parks and trails system within Cherry Hills Village and operates a network of recreation facilities outside of Cherry Hills that are available to City residents. As participants in the District, City residents pay District property taxes that support District operations, facility repair and maintenance and capital expenditures.

The objective of this analysis is to evaluate how withdrawal from the District would impact City residents and to determine if withdrawal would provide a net benefit or cost to Cherry Hills Village taxpayers and recreation service users.

#### **Exclusion Definition**

The process of withdrawing from a special district (termed "exclusion") is governed by Colorado state statutes (CRS Section 32-1-501), which define petition and election requirements and specify certain conditions that must be met before judicial sanction can be received. Most notably, the statutes require municipalities withdrawing from special districts to provide "continuation of services" provided by the district in question and to compensate the district for acquisition of any capital facilities located in the municipality.<sup>1</sup> There is very little case law on how elements of these statutes should be interpreted, although the successful exclusion of Greenwood Village in 1971 offers some insight into the statute's intent.<sup>2</sup> We have relied on the statutory requirements as interpreted by the City's attorney to define likely future conditions and develop the cost estimates provided in this analysis.

#### **South Suburban Parks and Recreation District**

The South Suburban Parks and Recreation District was formed in 1959 to provide recreational and cultural opportunities to the residents of the southern suburbs in the Denver metropolitan area. As currently constituted, the District overlaps three counties (Arapahoe, Douglas and Jefferson) and parts of seven municipalities (Town of Bow Mar, Town of Greenwood Village, City of Littleton,

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<sup>1</sup> CRS 32-1-502.

<sup>2</sup> City Council of Greenwood Village, et. al. v. The Board of Directors of South Suburban Metropolitan Recreation and Park District. Arapahoe County Court, Civil Action no. 28939, 1971.

Centennial City, City of Sheridan, City of Cherry Hills Village, Town of Columbine Valley and Town of Lone Tree). The District provides park and recreation services to each of these jurisdictions, in addition to the facilities and services that are provided by these cities and counties.

**District facilities.** The District’s main facilities include 100 miles of trails; three golf courses and two miniature golf courses; two recreation centers; a senior/community center; seven swimming pools; an ice arena; 83 athletic fields; and 61 tennis courts. The District also operates youth and adult leagues for basketball, softball, volleyball, and in-line hockey, a number of other youth programs (camps, clinics) and community education classes.

**Service population.** The District currently serves a resident population of approximately 160,000, in addition to many non-District users. According to the 2000 U.S. Census, residents of Cherry Hills Village number 5,958, which represents 3.7 percent of the District resident population. This percentage has decreased since 1990 as the District population has grown more quickly than the population of Cherry Hills Village (27 percent versus 13 percent). It is likely that Cherry Hills Village residents will continue to make up a declining percentage of the District’s population, since there are more opportunities for growth in the District outside of the City.

**City share of District facilities.** The City of Cherry Hills Village has approximately 75 acres of parkland and 30 miles of trails within its boundaries. These parks are largely composed of natural open space; there are no major developed recreation facilities or regional playing fields in Cherry Hills Village. The District has ownership of four of the parks within the City (approximately 35 acres); the rest either are owned by the City or consist of easements and rights of way. Except for the Highline Canal, public parks within the City are maintained by the District.<sup>3</sup> Exhibit ES-1 below identifies the public parks located within the boundaries of Cherry Hills Village and the facilities available in those parks.

**Exhibit ES-1.  
Parks and Facilities Located within Cherry Hills Village**

Parks/Facility	Ballfield	Multi-Purpose Fields	Horseshooting Area	Natural Open Space	Playground	Wildlife Viewing	Ownership
Blackmer Common				X		X	SSD
Cherry Hills Elementary School/Park	X	X			X		School District
Dahlia Hollow Park				X		X	SSD
John Meade Park			X	X	X	X	SSD
Three Pond Park			X	X		X	CHV/SSD
Woodie Hollow Park			X	X		X	CHV

Note: SSD stands for South Suburban Park and Recreation District and CHV for Cherry Hills Village. Three Pond Park is jointly owned by the City and the District.

Source: South Suburban Park and Recreation District, Parks and Facilities Map.

<sup>3</sup> The Highline Canal is owned and maintained by the Denver Water Board. The Canal Trail is maintained through Cherry Hills by the District under contract to Denver Water.

## **District Funding and Debt**

The District provides the recreational services discussed above for an annual cost of approximately \$30 million (in 2000). The District has two primary sources of revenues: property taxes paid by District residents and fees charged to participants in educational and sports programs. The District operates under a philosophy that property taxes should be used to fund parks, trails and open space since these benefit the entire district. Recreation facilities, on the other hand, are funded primarily by user fees because users receive the majority of benefits. Subsidized recreation programming is limited to programs that provide special public benefit (special needs, elderly, etc.).

**Property Tax Revenues.** All residents of Cherry Hills Village contribute to the South Suburban Parks and Recreation District through their payment of property taxes. In 1999, the District's mill levy was 6.47 mills. For 2000, the District's mill levy was 7.838 mills, of which 2.41 mills is required to cover debt service on asset purchases.<sup>4</sup> The 2000 mill levy includes a voter approved 1-mill increase for open space and park acquisition, and trail development. The mill levy increase is expected to increase District revenues by \$1.7 million annually.<sup>5</sup>

Property tax revenues are based on the assessed valuation of residential and commercial properties within the District. Between 1998 and 2000, the assessed valuation of the District increased nearly 30 percent, from \$1,380,065,660 to \$1,788,007,780<sup>6</sup> (as reported by the District in its 2001 budget). This represents a compound annual growth rate of about 13 percent, or more than double the rate experienced between 1995 and 1998.<sup>7</sup>

The City of Cherry Hills Village has also experienced healthy growth in its assessed valuation during the past two years. The Arapahoe County Assessor's Office reports a 2000 assessed valuation of \$177,752,920<sup>8</sup> — a 25 percent increase from the value of \$141,924,910 in 1998.

Based on the year 2000 assessed valuation, the City of Cherry Hills Village contained 9.94 percent of the District's total property valuation and, as such, will contribute an estimated \$1.5 million in property tax revenues to the District. However, as noted above, Cherry Hills Village has less than 4 percent of the District's population. As a result, residents of Cherry Hills Village pay nearly 3 times as much in property taxes per capita as other residents in the District. This is illustrated in Exhibit ES-2 on the following page.

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<sup>4</sup> State of Colorado, Department of Local Affairs, Division of Property Taxation. Phone conversation in May 2001. The 2.41 mills for debt service are a composite of the mills pledged to various debt issues.

<sup>5</sup> *2001 Budget*, South Suburban Park & Recreation District, January 1, 2001.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> *2000 Valuation and Revenue Per Tax Warrant Roll*, Arapahoe County Assessor, <http://www.co.arapahoe.co.us/AS/2000/ValueRevenue.htm>

**Exhibit ES-2.  
Per Capita Property Tax Contribution (1995-2000)**

Category	1995	1996	1997	1998	1999	2000 (est).
South Suburban Property Tax Revenue (1)	8,140,031	\$8,400,329	\$8,789,956	\$9,057,371	\$11,019,140	\$14,014,954
Cherry Hills Village Contribution (2)	\$940,044	\$937,826	\$916,760	\$931,453	\$1,137,602	\$1,393,227
South Suburban Population (non-Cherry Hills Village) (3)	135,815	138,592	141,469	144,389	147,747	150,821
Cherry Hills Village Population (4)	6,185	6,248	6,268	6,302	5,958	5,958
<b>Non-Cherry Hills Per Capita Property Tax Contribution</b>	<b>\$53.01</b>	<b>\$53.85</b>	<b>\$55.65</b>	<b>\$56.28</b>	<b>\$66.88</b>	<b>\$83.69</b>
<b>Cherry Hills Per Capita Property Tax Contribution</b>	<b>\$151.99</b>	<b>\$150.10</b>	<b>\$146.26</b>	<b>\$147.79</b>	<b>\$190.94</b>	<b>\$233.84</b>

- Source: (1) State of Colorado, Division of Property Taxation Annual Report, 1995-1999. 2000 based on South Suburban Park and Recreation District 2001 Budget.  
(2) BBC calculation based on State of Colorado, Division of Property Taxation Annual Reports and South Suburban Park and Recreation District 2001 Budget.  
(3) South Suburban Park and Recreation District, Financial Statements and Supplemental Information, 12/31/97. 1998-2000 numbers are BBC calculations based on average annual growth in prior years.  
(4) 1995 - 1998 data are estimates based on State of Colorado, Division of Local Affairs Demographic Information. 1999 and 2000 figures are from the 2000 U.S. Census data, released in May 2001.

In sum, Cherry Hills Village contributes more property tax revenue on a per capita basis than the remainder of the District. Cherry Hills residents have paid an average of \$1 million per year over the past six years, or approximately \$170 per capita, as opposed to an average of \$61 per capita for the remainder of the District. By the year 2000, that imbalance had grown to a near three-fold differential of \$234 per Cherry Hills resident versus \$84 for all other District residents.

**Outstanding debt.** The South Suburban District issues debt to pay for activities such as land acquisition and facilities development. At year-end 1999, the District had approximately \$26.7 million (principal) of General Obligation debt outstanding.<sup>9</sup> This debt is scheduled to be retired in 2013. In fall 2000, District voters approved a \$20 million bond issue that is expected to fund several long-term projects, including a recreation center in Lone Tree, a community center and park in Littleton, and an 80 acre regional athletic complex (containing playing fields, a skate park, and a motocross track). This debt is scheduled to be retired in 2019.<sup>10</sup>

<sup>9</sup> South Suburban Park and Recreation District, Financial Statements and Supplemental Information, December 31, 1999.

<sup>10</sup> 2001 Budget, South Suburban Park & Recreation District, January 1, 2001.

## Costs of Exclusion

If the City were to withdraw from the District, it would incur a number of costs associated with maintaining parks and recreation services levels for City residents. Five areas of prospective new City costs have been identified:

- Annual expenses associated with the acceptance of responsibility for maintenance of the City's newly acquired parks and trail systems;
- Ongoing City expenditures necessary to replicate the park and recreation services currently offered by South Suburban to District residents;
- One time costs associated with the process of withdrawal, including legal fees, consulting fees and City staff time;
- Continuation of the City's share of expenses associated with the retirement of the District's existing capital debt; and,
- The potential capital costs of purchasing South Suburban park property located within the City boundaries.

These cost components and our estimates of each are discussed in turn below.

**Operating and maintenance costs.** If the City withdraws from the District, it would either assume responsibility for the City parks that are currently maintained by the District or contract with the District (or others) for maintenance. This analysis assumes that the City would accept park and trail maintenance responsibilities.

The City has examined the potential costs of assuming maintenance of the parks within its boundaries. The City estimates that 3 full time employees (1 crew chief and two equipment operators) and 1 seasonal, part time employee will be required, at an annual personnel cost of \$144,852. Total annual operating costs for 2001 are estimated at \$200,000. The City also anticipates the need for \$312,000 in start-up capital expenditures to purchase vehicles for park maintenance. BBC has examined the City estimates and confirmed that these projected costs are in accord with local and national park operating and maintenance cost standards.

Given the above estimates, for the purpose of this analysis, the annual operating costs for City maintenance of the parks and trails within its boundaries is estimated at approximately \$200,000. In addition, start up capital costs will be covered by a \$40,000 annual lease or debt service payment on the vehicles and equipment (about a 12 year life and amortization, at 8.0 percent financing costs). Total operating and lease costs are \$240,000.

**Recreation reimbursements.** The State statute governing exclusion requires municipalities that withdraw from special districts continue to provide the same level of services to their residents. When Greenwood Village withdrew from South Suburban Park and Recreation District, the city agreed to reimburse residents for a portion of the fees they incur to use facilities provided by other recreation providers. From the resident perspective, this results in the same service levels they currently enjoy, which is a legal requirement of withdrawal.

It is not feasible for the City of Cherry Hills Village to replicate the full range of recreational services currently provided by the District by constructing new facilities. Instead, the City would follow the model established by the City of Greenwood Village in its exclusion from the District under which Greenwood Village maintains its own parks and trails and then compensates residents for expenses incurred in using other recreation facilities available from South Suburban and other recreation providers in the area. This system allows residents to use services in other jurisdictions with the City reimbursing residents for their expenses. The court upheld this method of contracting for services in the Greenwood case as sufficient provision of “essentially the same services.”<sup>11</sup>

This analysis assumes that Cherry Hills Village would follow the same process as Greenwood Village. Based on Greenwood Village’s experience and the demographics of Cherry Hills Village residents, an estimated 20 to 25 percent of Cherry Hills Village residents would participate in a reimbursement program. Participation at this level would cost the City \$90,000 to \$115,000 annually in reimbursement expenses.

**Withdrawal expenses.** The withdrawal process would involve a number of costs, including legal expenses, title work, asset acquisition expenses, appraisal costs, and financial analysis. If the District opposes the City’s withdrawal effort, the costs will be higher than if negotiations proceed smoothly. Based on input from the City Attorney and interviews with Greenwood Village, one-time withdrawal and litigation costs could reach \$450,000. To be conservative, this report uses the upper bound to estimate withdrawal costs for this analysis.

**Debt obligations.** As noted above, as of year-end 1999 the District had approximately \$26.7 million (principal) of General Obligation debt outstanding. In fall 2000, District voters approved a \$20 million bond issue that retires in 2019. Both of these bond issues are pledged against property tax revenues from the cities and counties within the District, including Cherry Hills Village. The District has not identified any specific mill levies as obligated toward debt reduction.

The City has the obligation to continue to support payment of the existing debt against which its property taxes were pledged. Under current circumstances, the City is obligated to repay the District its pro rata share of the District’s current debt service obligations. In 2001, the City’s portion of the District’s debt service is estimated at \$429,000. The average annual amount of debt service between 2001 and 2019 is approximately \$380,000.

The City may also be obligated against any debt that is issued with the backing of the 1-mill levy increase that voters approved in 2000. As of May 2001, bonds (that would be used to purchase open space and trails for which the mill levy is dedicated) have not been issued against the new mill levy. For the purposes of this analysis, it is assumed, however, that a withdrawal would occur after the District issues such debt and, therefore, the 1-mill levy would be included in the City’s long-term obligation to the District.

**Asset purchases.** As noted above, the District owns three parks within the City of Cherry Hills Village: John Meade Park, Dahlia Hollow, and Blackmer Common. The District and the City jointly own a fourth park, Three Pond Park. Under the terms of exclusion, it is likely that Cherry

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<sup>11</sup> City Council of Greenwood Village, et. al. v. The Board of Directors of South Suburban Metropolitan Recreation and Park District. Arapahoe County Court, Civil Action no. 28939, 1971.



Hills Village would be required to purchase these parks from the District. It is very difficult to value property zoned as parkland, since there are seldom any market transactions that provide comparable appraisals. At this point, the value of the District parks within Cherry Hills Village is uncertain. Should the City be required to purchase the parks, the valuation will be determined during withdrawal negotiations between the City and the District.

In sum, the City's exclusion costs are estimated to include the following:

- Annual operating and maintenance costs of \$200,000, and \$40,000 in lease or debt service for vehicles and equipment;
- Annual reimbursement costs of resident recreation expenses of \$105,000;
- A one time withdrawal expense of \$450,000, to be paid over the course of the withdrawal process (estimated as 2 years);
- The City's share of District debt service, averaging about \$560,000 per year; and,
- Potential costs of asset (parkland) acquisition.

Therefore, annual costs are estimated at about \$1 million and one-time withdrawal expenses are estimated at \$450,000. In addition, the City may incur modest additional start up and operating costs for maintaining City parks during the transition between the District and City park management.

A five-year forecast of these cost estimates is summarized in Exhibit ES-3.

**Exhibit ES-3.**  
**Costs for Cherry Hills Village (2001-2006)**  
(In \$000's)

	2002	2003	2004	2005	2006
<b>Outlays (\$In 000's)</b>					
Debt Obligations to SS District:					
Outstanding bonds	\$411	\$380	\$371	\$371	\$372
1 mill levy increase	\$187	\$187	\$187	\$187	\$187
Operating & Maintenance Costs	\$240	\$252	\$265	\$278	\$292
Withdrawal Costs	\$225	\$232	\$0	\$0	\$0
Recreation Reimbursements	\$105	\$106	\$106	\$107	\$107
<b>Total Outlays (In \$000's)</b>	<b>\$1,167</b>	<b>\$1,156</b>	<b>\$929</b>	<b>\$942</b>	<b>\$957</b>

Note: Figures do not include asset acquisition costs.

Source: BBC Research & Consulting.

### Benefits of Exclusion

If the City were to withdraw from the District, it would receive new revenues from three sources:

- Property taxes (either by collection or rebate to residents) — currently about \$1.5 million annually, including the previous voter approved 1-mill levy increase;
- Specific ownership taxes (i.e., personal property tax) dedicated to park and open space maintenance — currently about \$65,000 annually; and,
- State Conservation Trust Funds — about \$27,000 annually.

These revenues total \$1.5 million in 2001. Exhibit ES-4 shows a six-year forecast of the estimated revenues that the City would receive if it were to withdraw from the District.

**Exhibit ES-4.**  
**Cherry Hills Village Contribution to District (2001-2006)**  
**(In \$000's)**

	2001	2002	2003	2004	2005	2006
Property Taxes						
Assessed Valuation, CHV	\$177,753	\$186,641	\$195,973	\$205,771	\$216,060	\$226,863
Assumed Mill Levy, District	7.84	7.84	7.84	7.84	7.84	7.84
Property Tax Revenues	\$1,393	\$1,463	\$1,536	\$1,613	\$1,693	\$1,778
Specific Ownership Taxes	65	67	69	71	73	75
Conservation Trust Fund	27	28	29	30	30	31
<b>Total Revenues</b>	<b>\$1,485</b>	<b>\$1,558</b>	<b>\$1,634</b>	<b>\$1,713</b>	<b>\$1,797</b>	<b>\$1,885</b>

Source: BBC Research & Consulting.

**Net Benefit of Exclusion**

The net economic benefit or cost of exclusion is calculated by comparing new revenues that the City would receive with the additional one-time and ongoing costs the City would incur. Exhibit ES-5 shows this comparison.

**Exhibit ES-5.**  
**Net Benefit to Cherry Hills Village from Exclusion (2001-2006)**  
**(In \$000's)**

	2001	2002	2003	2004	2005	2006
<b>Revenues</b>						
Property Taxes						
Assessed Valuation, CHV	\$177,753	\$186,641	\$195,973	\$205,771	\$216,060	\$226,863
Assumed Mill Levy, District	7.84	7.84	7.84	7.84	7.84	7.84
Property Tax Revenues	\$1,393	\$1,463	\$1,536	\$1,613	\$1,693	\$1,778
Specific Ownership Taxes	65	67	69	71	73	75
Conservation Trust Fund	27	28	29	30	30	31
<b>Total Revenues (In \$000's)</b>	<b>\$1,485</b>	<b>\$1,558</b>	<b>\$1,634</b>	<b>\$1,713</b>	<b>\$1,797</b>	<b>\$1,885</b>
<b>Outlays</b>						
Debt Obligations to SS District:						
Outstanding bonds		\$411	\$380	\$371	\$371	\$372
1 mill levy increase		\$187	\$187	\$187	\$187	\$187
Operating & Maintenance Costs		\$240	\$252	\$265	\$278	\$292
Withdrawal Costs		\$225	\$232	\$0	\$0	\$0
Recreation Reimbursements		\$105	\$106	\$106	\$107	\$107
<b>Total Outlays</b>		<b>\$1,167</b>	<b>\$1,156</b>	<b>\$929</b>	<b>\$942</b>	<b>\$957</b>
<b>Net Benefit to CHV (In \$000's)</b>		<b>\$390</b>	<b>\$478</b>	<b>\$785</b>	<b>\$855</b>	<b>\$928</b>

Source: BBC Research & Consulting.

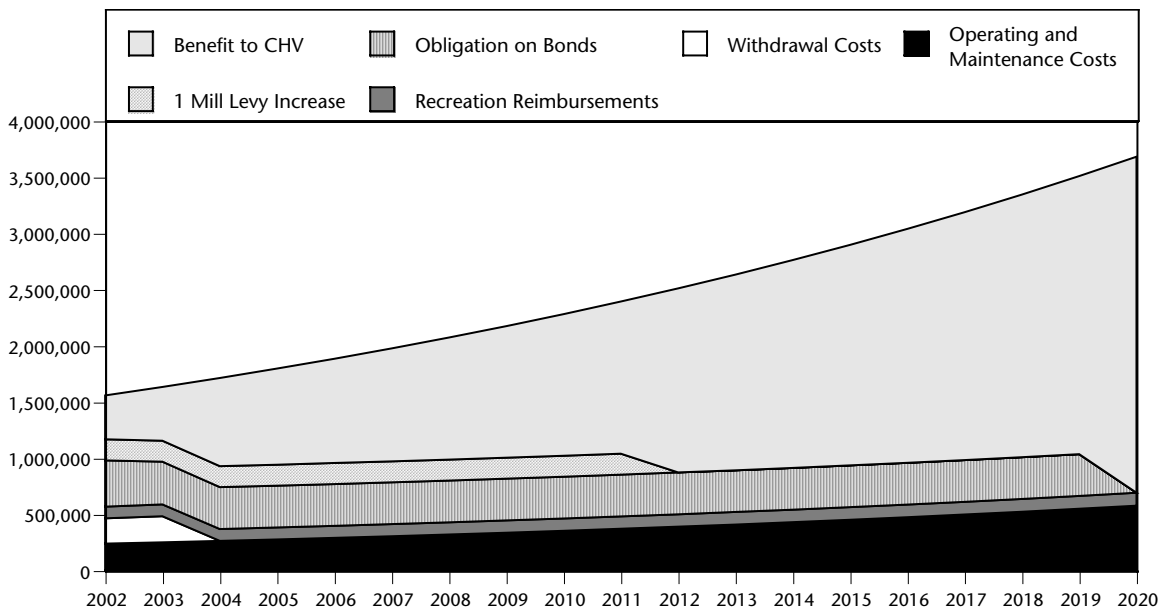
As shown above, the City is currently contributing about \$1.5 million to the South Suburban Park and Recreation District. In addition, the City would be entitled to Conservation Trust Funds and Specific Ownership Taxes of approximately \$92,000.

Revenues will be offset by the obligations to the District. It is estimated that the City is obligated to an average annual payment of \$380,000 through 2019 for retirement of District debt that was pledged, in part, against City property tax revenues. Finally, the City may be obligated to the recent 1-mill levy increase, which is estimated at \$187,000 per year.

Therefore, if the City elected to keep the mill levy as is, it would have adequate revenues to pay off both the new bonds issued to purchase District assets and cover operating and maintenance costs. The financial benefit to the City is estimated to be \$390,000 in 2002, and increasing to \$785,000 in 2004, after withdrawal costs have been absorbed. When the new 1-mill levy expires (in 10 years), the City would realize an additional \$187,000 per year. Finally, after 2019, when the District debt to which the City is obligated is retired, the City would realize an additional \$380,000 per year. This assumes that the City elects to keep the District's current mill levy (including the recent 1-mill addition) in place. It should be noted that, at any point, the City could choose not to collect some property tax revenues and pass on the savings to its residents.

Exhibit ES-6 below illustrates how and when the net benefit of exclusion would accrue to the City.

**Exhibit ES-6.**  
**Costs and Net Benefits for Cherry Hills Village of District Exclusion**



Source: BBC Research & Consulting.

A common way to evaluate costs and benefits is through net present value (NPV) analysis. Net present value calculates the current value of a stream of revenues and expenses over time. The net present value of the above revenues and expenses is estimated to be about \$13 million through 2020. This means that if the benefits associated with exclusion between 2002 and 2020 were to be realized by the City today, the City would have an additional \$13 million.

On a per capita basis, the City's savings equates to \$2,200 net present value per resident, or an average of \$240 per resident per year through 2020.

### **Limitation of Analysis**

It should be noted that there are uncertainties associated with initiating exclusion procedures. Key issues involve the uncertain costs of the District withdrawal process and the operating expenses associated with new City maintenance obligations. A second and larger element of uncertainty involves the valuation of District assets. As noted above, the valuation would likely be determined through withdrawal negotiations between the District and the City.