Appendix F

Citizen's Financial Advisory Committee (FAC) Correspondence

MEMORANDUM

To: Fort Collins City Council
Loveland City Council
Fort Collins City Manager
Loveland City Manager
Poudre School District Superintendent

From: Financial Advisory Committee of the Transit Strategic Plan

Date: April 4, 2009

Committee report on funding alternatives for transit

This letter reports the findings and recommendations of the Financial Advisory Committee of the Transit Strategic Plan for the Cities of Fort Collins and Loveland and the Poudre R-1 School District. Our basic assumption in making these recommendations is that expansion of transit service will be an essential means of adapting to future, potentially, disruptive changes in energy economics, environmental policy, and community demographics.

Overview:

In the immediate time period, the advisory committee recommends establishment of a consolidated management structure for the area's transit operations. While there are several ways to do so, a Regional Service Authority (RSA) could be created without a concurrent tax increase that would provide the platform for future funding efforts as the economy and conditions warrant. In doing so, an RSA would allow for differing levels of funding and service as each City wishes. This will be discussed in more detail below.

The advisory committee also finds that there is no one funding source likely to support the transit improvements envisioned by the Transit Strategic Plan. Instead, a combination of sources will be required. The timing of the funding will have to be informed by the timing of any improvements in the transit system. And, while this advisory committee is forecasting certain levels of support from each potential source, we recognize that further discussion and debate may result in changes to the amounts shown.

The committee was given the singular task of making funding recommendations for proposed improvements in the transit systems of Fort Collins and Loveland and better coordination with the Poudre School District. While we were briefed on the progress of developing the Transit Strategic Plan itself, and availed ourselves of those opportunities to comment, we were not charged with recommending any of the design elements, phasing, or other aspects of the plan. While the committee is supportive of improvements in the transportation system, the Transit Strategic Plan stands on its own.

Management Structure:

The advisory committee looked at several governance options as they might relate to funding possibilities. The three most likely candidates are:

Status quo. Each entity operates its own system, raises its own funds, and only limited intergovernmental agreements exist for routes in common such as the Foxtrot line today. The committee believes that a new approach will be needed to meet the growing needs for transit in the area.

Combined efforts under an IGA. There are already ongoing discussions between the City staffs seeking to improve coordination, operations and efficiency. The Transit Strategic Plan analyzes those possibilities in more detail. While this is an improvement over doing nothing, it fails to capture the economies of scale that a true consolidation offers.

A new operational authority. The committee recommends that a Regional Service Authority (RSA), dedicated to transit with no new funding, be considered as the initial step towards an area-wide transit operation. There appear to be several advantages to this approach for the near term:

- An RSA requires a vote to establish but then becomes its own legal entity for future fund raising, operations, etc. Getting public support for a consolidated effort will build knowledge and support for future growth of the system.
- The RSA can be structured so that each participating entity provides its own funding and contracts with the RSA to provide transit service at whatever level it wishes.
- The RSA starts with an appointed, unpaid board of directors. By contracting with the cities for all staff services, little if any resources are needed to sustain the board itself.
- An RSA allows the participating cities to take best advantage of economies of scale in their transit operations.
- The need for inter-city mobility and federal funding requirements already favor a consolidated transit operation across the study area.
- While this recommendation speaks only to Fort Collins and Loveland, an RSA can be designed so that additional jurisdictions could join now or later.
- The tight focus of an RSA on only transit service helps avoid any confusion with any other regional transportation efforts towards infrastructure.

The City Transit Staffs have more detail about this option and the requirements to establish such an authority.

Potential Revenue Sources: (See Attachment A for summary)

The committee recognizes the differences in transit philosophies between the two cities. As a result, the following discussion of possible sources of funding needs to be combined with the concept of an RSA where each city can pick and choose how it raises the funds for the amount of service it wishes to provide. However, in the interest of brevity, the numbers shown below are for combined Fort Collins and Loveland. The Transit Strategic Plan will have more individual city detail. The mission of this committee was to research how all three phases of the strategic plan could be funded – a total annual need of approximately $37 million dollars by 2015. The numbers shown below illustrate at least one route to that amount. (Numbers shown are estimates and subject to further refinement.)

Attachment B of this letter lists the most promising revenue sources considered by the committee. In evaluating possible revenue streams for the strategic plan, the advisory committee used several criteria to evaluate each:

- Reliable and dedicated source
- Fair: Places burden on users, but not undue burden on those least able to pay
- Ease of administration and implementation
- Revenue grows with the community
- Ability for differentiation by community
- Likely success with voters, public acceptance

In regard to the last item, likelihood of success, the advisory committee is keenly aware of the current economic situation. Timing will require careful judgment.

After reviewing a wide range of possible funding sources, the committee recommends further consideration of the revenue sources described below. These recommendations reflect the general consensus of the committee except for the Transit Utility Tax as discussed below.

<u>Maintenance of Effort</u>: Today both Loveland and Fort Collins are using General Fund revenues along with Federal and occasional State support to operate the current level of transit service. This report anticipates continuation of that effort. However, in packaging a suite of community improvements with a tax increase, it may prove advantageous to combine all transit funding in a common statement of need. <u>Today, the existing sources of funding (local, state and federal) contribute $9.5 million to the transit systems</u>. <u>With projected volume and inflationary increases, those sources will produce $15.1 million by 2015.</u>

<u>Fares</u>: A fare is the fee someone pays each time they step aboard a vehicle. It can take the form of cash; a pre-paid monthly or yearly pass (with or without a discount); a transfer from another bus; or a waiver based on some factor such as age. Typically the fare-box revenues cover 10% to 15% of the cost of operating the system. Commuters taking a lengthy inter-regional bus to work might pay most of the cost of the trip, while a fully subsidized local service that caters to tourists and shoppers might not charge at all. Too high of a fare becomes a regressive burden on the low-income transit-dependent population and discourages choice riders from giving up their alternatives, typically automobiles. As a result, setting of fares is a philosophical question regarding the overall mission of the transit system as it relates to mobility, congestion, economic development, air quality, etc. <u>For the purposes of this study, the advisory committee recommends continuation of the existing fare levels which will grow by an additional $1million by the time the system is built out.</u>

<u>General Sales Tax</u>: This has the greatest capacity to raise funds. It is also the most sought after revenue source and competition by other City needs will be intense. Any increase in the rate of sales tax, or redirection of an existing sales tax, will require a

public vote. The advisory committee recommends by the time of the final build out of Phase 3 of the strategic plan, $11.2 million additional dollars per year for transit should be funded by sales tax which is just over a ¼ cent tax on non-grocery sales. This would be about $11 per month per household.

Transit Utility Fee: A fee would be added each month to an existing utility bill to pay for the basic mobility service provided by the transit system.

- The majority of the committee supports this approach on the belief that all members of the community receive direct and/or indirect benefits of the fully-developed transit system. The benefits apply to drivers as well as non-drivers since the reductions in congestion, improvement in air quality, etc. extend beyond the transit ridership. The fee would be applied as a flat rate for households, but may vary for businesses based on their traffic generation potential. Properly designed, a fee can be assessed by the City Council without a public vote. Up to $6.7 million dollars per year can be raised by a 5% utility fee which would cost just under $7 per month per household – or perhaps as low as $3 per month if businesses are assessed at a higher level commensurate with their traffic needs.
- Two committee members do not support this approach for several reasons. For one, in difficult times like this, it is felt that citizens should vote on any fee or tax increase since many households already have to make difficult spending decisions. Also there is the concern that such a fee is not a stable resource since new councils can redirect or stop the funding. And, finally, there is a concern that assessing fees on businesses based on volume of rides generated could be subjective and place an undue burden on businesses.

Negotiated Agreements: Today the Associated Students of Colorado State University (ASCSU) pays a fee to Transfort in exchange for which all students with a current I.D. can ride any Transfort bus without paying a fare. The bus routes serving CSU are the most heavily used, and Transfort is able to share the economies back to the students with a collective fee that is much lower than if all riders paid the current fare box rates. Also, as a marketing tool, businesses are offered the opportunity to buy highly discounted annual passes for their employees. The advisory committee believes there may be a few places where special, additional service might be offered in exchange for a flat fee such as used with CSU. Following an extensive analysis of this option the committee was disappointed to find that negotiated agreements can generate no more than an additional $1 million per year, and it could be some time before that level of funding could be reached. The committee notes that the existence of an area-wide RSA would improve the ability to recruit new partners thanks to the broader service area.

Special Improvement Districts: There is already a great deal of interest in the development and business community around the Transit Oriented Development possibilities of the Mason Corridor and its Bus Rapid Transit system. Other transit corridors, such as along Harmony Road in Fort Collins are envisioned in the long-term Transit Strategic Plan. Additional revenues are possible in such a district through either an increase in property values such as the Fort Collins Downtown Development Authority, or through a tax increment financing, or even a special district sales tax. This source could ultimately have considerable potential. In the time horizon of the study, by 2015 Special Improvement Districts could generate $2 million per year of revenue.

Implementation:

If a Regional Service Authority is to be established, additional study will be needed with legal and operational experts to design the underlying agreements and ballot language. Then a campaign effort will be needed to present the concept and benefits to the voters. The committee recommends that other potential partners, such as Larimer County and the City of Berthoud be contacted to see if their transit operations would be candidates for inclusion.

Once the governance structure is decided, timing and approach to funding and service levels then revert to local leadership:

- Transit Utility Fees, fares, and negotiated agreements are within the purview of the City Councils and thus the quickest sources to raise additional funds.
- Special improvement districts typically require a vote of the property owners within the district. While these sources individually and in combination can fund a number of improvements, they are not sufficient to fund the full build out of the transit system as envisioned in the strategic plan.
- Sales tax increases or redirections will require a popular vote which can be held on a city by city basis. The timing of such votes must coincide with established elections and generally require a non-governmental organization to champion and fund the campaign.

The advisory committee noted that the City of Denver successfully used a multiple choice tax referendum called “A to I” where voters could chose among several options. Knowing there are other varying calls for funding in Fort Collins, Loveland and Larimer County (police, jails, pavement, parks, mental health, etc.) structuring a common, singular campaign seems problematic across all jurisdictions. However, the concept of increased voter choice within each individual jurisdiction warrants additional study.

Justification and conclusion:

Double digit increases in transit ridership followed the spike in gasoline prices last year. In the future our communities will likely see the return of higher fuel costs, continued air quality and climate issues, increasing road congestion, and an aging population. The need for, and growing value of, mass transit options is clear.

According to the American Automobile Association, it costs a family about $500 per month to own and use an automobile. Use of a high service transit system by family members can offset the need to fuel, or even own, one or more automobiles. This can free up a considerable amount of household wealth for other needs. To a low income family that might mean the difference in finding and holding a job, or qualifying for a mortgage or educational loan. To an upper income family, elimination of the second or third family vehicle would put funds currently being exported to car manufacturers and oil companies back into the local economy.

Whatever route is pursued, improved transit service must in the end make sense to the population. Any endeavor to ask officials and voters for additional funding will have to connect the benefits of transit back to the individual.

The advisory committee wishes to compliment the City and School District staffs for their professionalism and dedication to their work. It has been a pleasure to work with them on this effort. Our community is already the richer for having such people in its employ.

Thank you for considering this recommendation. We will be happy to answer any questions at your convenience.

On behalf of the Financial Advisory Committee,

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Attachment A: Recommended possible revenue sources
Attachment B: All revenue sources considered
Attachment C: Roster of advisory committee

Attachment A
Recommended possible revenue sources vs. needs

Phase	Annual Costs	Sources	Revenues	Balance needed
2009 Current	9,500,000	Existing local and federal funds	9,500,000	0
2015 Phase III	37,000,000			37,000,000
		Maintenance of Effort	15,100,000	21,900,000
		Add’l fares	1,000,000	20,900,000
		¼ + cent sales tax	11,200,000	9,700,000
		5% utility fee	6,700,000	3,000,000
		New negotiated agreements	1,000,000	2,000,000
		Special improvement districts along corridors	2,000,000	0

Amounts shown are projected estimates including inflation.

Attachment B
Funding Sources Considered with Strengths and Weaknesses

General Fund (sales tax)	▪ Has ability to raise large amounts of revenue. ▪ Majority of regional retailers are located in Fort Collins and Loveland. ▪ Diffuses funding burden over many people and businesses, including out-of-region visitors. ▪ Easy to administer. ▪ Represents majority of existing revenue and unable to keep pace with rising costs. ▪ Requires City Council to allocate additional funding to transit budget. ▪ Competes with other City services. ▪ Subject to changes in biennial City budget (BFO). ▪ Vulnerable to business cycles and may stagnate or decline during economic downturn. ▪ Seen as regressive but rebates possible to lessen impact.
Federal Funding	▪ Historically reliable source of funds. ▪ 5307 Funding is formula based, so as revenue hours increase funding increases. ▪ Generates decent revenue, but would not keep pace if system were to grow. ▪ Easy to administer. ▪ Federal funding is generated from national sources not just local. ▪ Mostly only available for capital assistance. ▪ Does not provide enough funding to meet capital needs. ▪ No guarantee of increased annual amounts.
Fares and Passes	▪ Users are paying for service. ▪ Discounted pass sales has resulted in a growing segment of fare revenue and large increase in ridership. ▪ New Technology could increase fare recovery rate. ▪ Represents only 5% of current operating costs. ▪ Limited in amount that can be increased due to impacts on ridership. ▪ Not keeping pace with increased operating costs. ▪ Challenging to have 100% fare recovery except on long distance lines.
ASCSU Agreement	▪ Represents approximately 16% of the costs to deliver service to campus. ▪ Provides a higher revenue recovery than if we collected fares from riding students. ▪ Contracts are negotiated regularly (strength and weakness) ▪ Easy to administer. ▪ Contracts are negotiated with students who have short term interests.

Advertising	▪ 20 year Contract with Next Media covers all bus stop installation costs, and generates revenue. ▪ Increased opportunities for additional advertising with new technology at stops and transit centers. ▪ Easy to administer. ▪ Funds coming through commercial advertising. ▪ Revenue represents a little over 2% of total operating costs. ▪ Growth in advertising revenue is limited to space available to advertise. ▪ Does not keep pace with increased operating costs.
Misc. Grants	▪ Provides unexpected revenue primarily for capital needs. ▪ Very unreliable.
Sales Tax (Other than General Fund)	▪ Has ability to raise large amounts of revenue. ▪ Majority of regional retailers are located in Fort Collins and Loveland. ▪ Diffuses funding burden over many people and businesses, including out-of-region visitors. ▪ Considered a regressive tax but rebates possible to lessen impact. ▪ Vulnerable to business cycles and may stagnate or decline during economic downturn.
Property Tax	▪ Potential for substantial reliable revenue. ▪ Revenue will rise with rising property values. ▪ Can be imposed on those that benefit most from property value increases related to transit. ▪ Is a regressive tax, affecting lower income households more than higher income households. ▪ Fully funded by landowners in taxing jurisdiction. ▪ Commercial landowners pay higher property tax per dollar due to Gallagher Amendment. ▪ If a district is used, could have equity arguments.
Motor Vehicle Registration Fee	▪ Directly tied to transportation. ▪ Assessed on motorists who contribute to congestion of roadways. ▪ Not as productive as sales or property tax. ▪ Fee is capped at $10 per registered vehicle per year. ▪ Similar problem as Gas Tax, as more people ride transit fewer autos are being purchased. ▪ State just added a new fee.

Impact Fees	▪ Requires new growth to "pay its own way" for transit infrastructure. ▪ Captures both residential and commercial development. ▪ Only available for capital assistance. ▪ Not as productive in revenue generation as sales or property tax. ▪ Must demonstrate rational nexus and rough proportionality in the fee amount.
New Negotiated Agreements	▪ Would provide a higher revenue recovery than if we collected fares from passengers. ▪ Would potentially increase ridership, which would in turn increase Federal funding. ▪ Could target apartment complexes, school districts, CSU admin., existing districts (DDA), business parks, etc. ▪ Agreements can be terminated at any time. ▪ Agreements can be renegotiated. ▪ Could increase overhead costs to manage various agreements and contracts.
Improvement Districts	▪ See property tax.
Visitor Benefit Tax	▪ Visitors, not residents, will fund improvements. ▪ Reliable revenue source. ▪ Could face lodging industry opposition. ▪ Lodging industry claims high visitor benefit taxes hurt tourism.
Transit Utility Fee	▪ Steady revenue stream, keeps pace with growth. ▪ Relatively easy to administer with existing utilities already in place. ▪ Relatively low revenue production with a flat fee. ▪ Can be regressive, rebates can lessen impact on low income households.
Head Tax Fee	▪ Direct link to transportation impacts. ▪ Residents and commuters pay the fee. ▪ Employer and employee share the fee (Denver model). ▪ Potential citizen aversion to a "new" tax. ▪ Not as productive as sales or property tax.
Congestion Fee	▪ Direct link to transportation. ▪ Residents and commuters pay the fee. ▪ Will keep pace with growth. ▪ Reliable revenue stream. ▪ Exogenous benefits. ▪ Unprecedented in the United States. ▪ Upfront infrastructure investment – How do we collect this revenue? ▪ Potential adverse effects on businesses.
Carbon Credits	▪ N/A

Attachment C
Roster of Advisory Committee

Mary Atchison
Larimer County United Way, Senior Vice President for Community Investment

Donna Chapel
Chapel and Collins Wealth Management, Co-Founder
Board of Directors for the Fort Collins Area Chamber of Commerce

Dan Gould
CSU Professor, Retired
Former Fort Collins Transportation Board Member

Robert Heath
Heath Construction, Founder

Daniel Hill
Loveland Outlet Malls, General Manager
Loveland Transportation Advisory Board Member

Doug Johnson
UniverCity Connections, Director of Implementation

Gary Thomas
SAINT, Executive Director
Loveland Transportation Advisory Board, Chair
Fort Collins Transportation Board, Chair

Kitty Wild
Wild Real Estate Services, Broker/Owner