

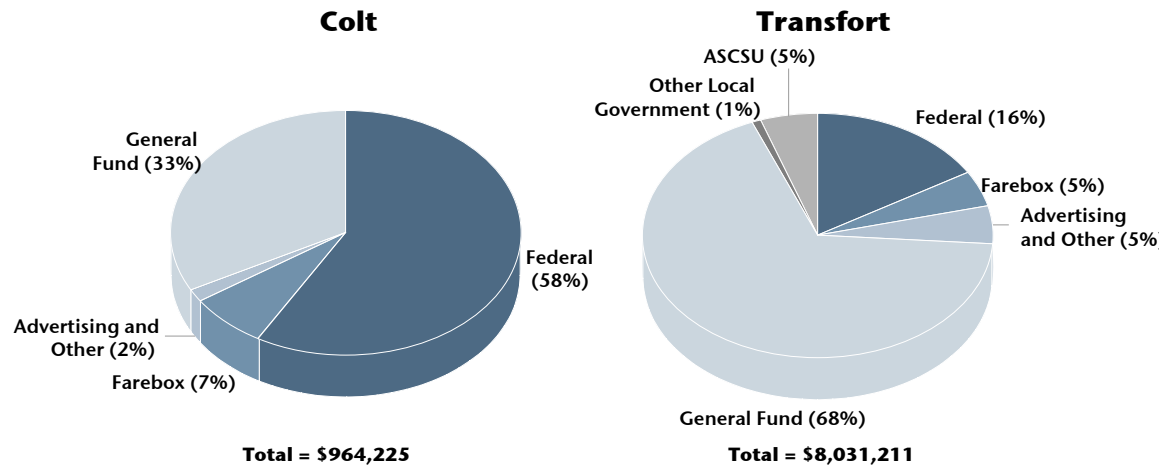
# Transfort/COLT Funding Plan

BBC Research & Consulting, (BBC) was retained as a subcontractor to assist the Financial Advisory Committee (FAC) and consultant team in identifying transit funding options for Transfort and COLT and, with input from the FAC, develop a preferred funding plan. The following section describes the process undertaken by BBC and the FAC for identifying and evaluating funding alternatives and developing a fair and practical funding model.

## Existing Financial Conditions

Transfort and COLT currently operate as a service provided by the Fort Collins and Loveland public works departments, respectively. Transfort’s total operating budget in 2008 is about \$8 million; COLT’s 2008 operating budget is about \$900,000. The following exhibit shows current sources of revenue for Transfort and COLT.

**Exhibit 1.**  
**Current Revenue Sources—Transfort and COLT**



Source: Cities of Fort Collins and Loveland.

Major revenue sources for Transfort include a large general fund transfer (70 percent of revenue) and revenue from the Federal government (16 percent). Federal revenues include payments from Medicaid for the provision of para-transit services and ongoing transfers from the Federal Transit Administration. Other Transfort revenue sources include a negotiated agreement with the Associated Students of Colorado State University (ASCSU), farebox revenue and advertising and other revenues (each contributing 5 percent). Transfort also receives a small amount of revenue from Larimer County and the city of Loveland for regional transit services (1 percent).

COLT receives about 90 percent of its operating revenue from the Federal government and transfers from Loveland’s general fund. Fares, advertising and revenue from other sources make up the remaining 10 percent of COLT operating revenue.

All funding scenarios are based on an assumption that there will be a “maintenance of effort”, where current funding practices, including general fund transfers, negotiated agreements, farebox revenue, federal grants and advertising revenue will continue to be used and grow according to Transfort and COLT internal projections.

### **Transit Benefits**

Beneficiaries of transit improvements are those individuals, property owners or businesses that experience increased business volume, travel convenience, time savings or property value enhancement because of transit improvements and more efficient traffic flow. Improved Transfort/COLT service provides transit riders and the community at large with the following benefits:

- A safe and reliable alternative to driving;
- A method of transportation for those unable to drive;
- Traffic congestion relief;
- Regional connections between residences and employment and entertainment centers;
- Environmental benefits; and
- Municipal savings on road maintenance expenses.

BBC developed a list of funding mechanisms that allocate costs to reflect benefits. DEA estimated an annual operating funding shortfall of about \$37 million above current funding methods at build out in 2015.

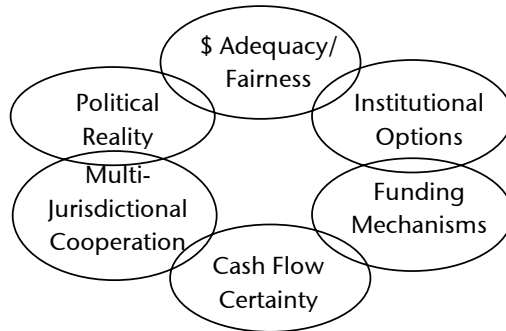
### **Funding Evaluation Process**

The FAC was formed by Transfort and COLT staff and consists of an eight-member panel of Fort Collins and Loveland residents. FAC members represent a broad range of community interests, including business, real estate, university and transit advocacy. The FAC held semi-monthly meetings from November 2008 to April 2009. FAC members were presented with a conceptual framework with which to evaluate and recommend a funding strategy to accompany the service upgrades associated with the Transit Strategic Plan. Over the course of the 6-month education and deliberation period the group discussed the benefits and deficits of a wide range of broad and targeted funding mechanisms and fund collection institutional structures.

The conceptual framework of Transfort COLT Strategic Plan funding model is the concept that the cost of transit improvements should be borne principally by those that benefit from improved transit service and that beneficiaries should participate in rough proportion to their degree of benefit. Early in the planning process, consultants, FAC members and Transfort and COLT staff acknowledged that defining a fair and practical funding plan meant balancing many disparate factors. The following Exhibit 2 shows a visual representation of the factors that must be in balance to achieve an equitable funding strategy for Transfort and COLT.

**Exhibit 2.  
Funding Challenge:  
Finding Balance**

Source:  
BBC Research & Consulting.



Early in the FAC discussions, the above was used to represent the core issues involved in fashioning an appropriate transit funding solution and to demonstrate that the requirement for practicality implied an imperfect balancing of multiple community objectives.

BBC presented several funding mechanisms and supporting institutions (e.g. regional transportation authority, special districts) for FAC evaluation that could be used to generate and collect funds for transit improvement. The following exhibit presents a list of potential revenue generation tools and administrative institutions that were evaluated by FAC members.

**Exhibit 3.  
Revenue Generation Mechanisms and Taxing Institutions**

Revenue Mechanism	Institutional Structure
<ul style="list-style-type: none"> <li>• General Fund</li> <li>• Property Tax</li> <li>• Fares</li> <li>• Negotiated Agreements</li> <li>• Impact Fees</li> <li>• Vehicle Registration Fees</li> <li>• Federal Funding</li> <li>• Advertising</li> <li>• Utility Fee</li> <li>• Dedicated Sales Tax</li> <li>• Visitor Benefit Tax</li> <li>• Occupational Privilege Fee</li> <li>• Congestion Fee</li> </ul>	<ul style="list-style-type: none"> <li>• Metro District</li> <li>• Urban Renewal Authority</li> <li>• Special Improvement District</li> <li>• General Improvement District</li> <li>• Regional Transportation Authority</li> <li>• Local Improvement District</li> <li>• Intergovernmental Agreement</li> <li>• Regional Service Authority</li> </ul>

Source: BBC Research & Consulting.

The revenue generation tools in the above list were evaluated against a series of criteria, including revenue stream certainty, revenue stream growth along with community growth, placement of funding burden on users, ability to have funding flexibility across both municipalities and likelihood of public acceptance.

Once an appropriate mix of funding mechanisms was identified, administrative institutions were evaluated based on a set of standards that included ease of formation, administrative requirements and public acceptance and legislative authority to impose the selected taxes, assessments and/or fees.

The FAC selected a mix of funding mechanisms that offer a fair apportionment of costs and reliable revenue production. The selected administrative institution has broad revenue raising power, offers broad flexibility for each Fort Collins and Loveland and provides relative ease to accommodate other municipalities or jurisdictions in the future.

### **Selected Funding Mechanisms**

The following funding mechanisms were chosen because they can be employed in a manner that meets the core criteria expressed above, generates a reliable revenue stream and grows with the community. During the selection process, BBC produced revenue projections for each funding mechanism, demonstrating a wide range of tax and fee rates for the FAC to consider different balances of revenue options. Funding mechanism options included the following:

- **Maintenance of effort.** Both Transfort and COLT receive municipal general fund revenues, Federal and State support, passenger fares and other revenue to operate transit service. This strategic plan anticipates continuation of that effort and growth in fares commensurate with an increased level of service. Internal Transfort/COLT revenue projections for existing revenue sources are included in revenue projections.
- **Dedicated sales tax.** A dedicated sales tax is an excise tax on retail goods imposed at the point of sale and dedicated to a specific purpose. The FAC evaluated several tax rates and settled on a 0.35-cent tax as the appropriate rate for public acceptance. This tax rate is nearly the same as the dedicated open space tax rate (1/4 cent) in Fort Collins and discussions were held about whether an additional sales tax or a rededication of an existing sales tax would be appropriate with an additional increase of 1/10 cent. The group was undecided about which is more appropriate, but agreed that a dedicated sales tax is necessary for the productivity and reliability of the tax. Virtually all residents of Fort Collins and Loveland benefit from transit in one form or another and a sales tax is borne by most residents. A sales tax increase or rededication will require passage by voters in a general election.
- **Transit utility fee.** A transit utility fee is an additional fee charged on residential and business utility accounts. Both Fort Collins and Loveland operate electric utilities and would most likely use these municipal enterprises as a means to collect the fee. There are several methodologies for calculating this fee: (1) a flat fee for every electric account; (2) an excise fee based on the amount of the electricity bill; and (3) a fee based on trip generation factors for different land use types (e.g., residential, office, retail, industrial). Ultimately the FAC recommended a 5 percent excise fee on electrical usage, although several members requested more research into trip generation based fees. It should be noted that Loveland currently charges a utility fee for road maintenance and Fort Collins imposed a road maintenance utility fee for several years until revenue was dedicated to road maintenance from other sources and the utility fee was deemed unnecessary.

- **New negotiated agreements.** Currently, the ASCSU pays an annual fee of about \$420,000 to Transfort in exchange for fare-free service for all registered Colorado State University (CSU) students. The agreement is renegotiated every three years and is based on historic student ridership. Transfort intends to change the structure of the agreement to be based on a heavily-discounted (\$25) annual pass for all CSU students. This new arrangement will provide more revenue for Transfort and simplify the terms of the agreement. Transfort is also actively seeking other partners in a similar arrangement. The revenue projections for negotiated agreements include similar \$25 pass sales to Front Range Community College (FRCC) students and eligible Poudre School District (PSD) High School students. As of the printing of this report, the city of Loveland has not identified new groups to approach for negotiated agreements. The city currently provides discounted fares to school-age children, a program which is included in the “maintenance of effort”.
- **Special assessment.** A special assessment in this context is an annual per household or square foot charge placed on property within a special improvement district, proposed under the strategic plan as the Mason Street Corridor. A special assessment may only be levied against parcels of real estate that have been identified as receiving a direct and unique "benefit" from a public project, which in this case is the new Mason Street bus rapid transit line. The special assessment rates considered in this analysis are between \$200 and \$300 per year for residential units and between \$0.05 and \$0.06 per built square foot per year for commercial property. The annual special assessment rates would decline as more residences and commercial establishments are built as this revenue source is targeted to raise about \$1 million at build out. Funds generated by special assessment may only be used for operation of the Mason Corridor.

The funding mechanisms described above are targeted to place the burden of transit funding on the community at large and individual populations that benefit from Transfort and COLT services. The FAC concluded that negotiated agreements, continuation of fares and the special assessment target individual transit users and those specially benefitted by transit service improvement. The continuance of general fund support, transit utility fee and dedicated sales tax is targeted to the broader community, which also receives benefit from improved transit service. At the end of the evaluation process, the FAC was pleased with the balance of funding they recommended.

### **Selected Administrative Institutions**

The municipalities of Loveland and Fort Collins have the power to impose and collect all revenue generation mechanisms described above, however the FAC recommended the formation of a Regional Service Authority (RSA) to serve in the administration, organization and consolidation of transit operations for Fort Collins and Loveland.

An RSA is a form of government designed to provide specified services on a regional basis, in this case public transportation. In order to form an RSA, a majority of countywide voters must approve the RSA's formation and stated purpose. Just under 70 percent of the Larimer County population live in either Fort Collins or Loveland, and are within the geographic service area of Transfort and COLT. The FAC chose the RSA because it felt that it met the evaluation criteria of revenue raising authority,

inter-jurisdictional flexibility between Ft. Collins and Loveland, ease of formation and public acceptance. Specifically, the RSA will provide:

- A direct and effective means of achieving transit service objectives;
- A consolidating administrative body to leverage Federal and State funds;
- A focus on transit service, which helps avoid confusion with other regional transportation infrastructure efforts;
- An effective structure, where each member jurisdiction provides its own funding and contracts with the RSA to provide an appropriate level transit service; and
- A framework for additional jurisdictions to join.

The FAC recommended that an RSA dedicated to transit and with no internal funding, be the initial step towards an area-wide transit operation. A major factor in the FAC decision is that an RSA structure with no internal funding mechanisms will let each member jurisdiction raise its own funds and purchase transportation service from the RSA. For Fort Collins and Loveland, the likely funding mix has been described above, but other jurisdictions will be able to raise funds by any means when they join the RSA.

In addition to the RSA, a special improvement district must be formed around the Mason Street Corridor, to provide an administrative entity to collect the proposed special assessment. A special improvement district could be formed by either the proposed RSA or the city of Fort Collins, but must be approved by a majority of the property owners within the district. The district's primary purpose is to assess the costs of public improvements to those who are specially "benefited" by the improvements. "Benefit" in this case is defined as any increase in property value or adaptability of the property to a superior or more profitable use by the addition of the bus rapid transit line. Costs are generally assessed on an equitable and rational basis of determining benefit, in this case by built square footage and by residential unit. By law, the benefits of Mason Corridor landowners are required to be at least equal to the cost of the special assessment imposed. The funds generated by the special assessment must be spent within the special improvement district.

## **Revenue Modeling**

After the appropriate revenue generation strategy and administrative institution were selected, the following assumptions were used to model revenues.

- **Maintenance of effort.** Internal projections from Transfort and COLT were used to model the continuance of general fund support, fare growth, federal support and other current revenue streams.
- **Dedicated sales tax.** Current taxable sales data, obtained from the cities of Fort Collins and Loveland, are added together and projected forward with a 2 percent rate of inflation. A 0.35 percent dedicated tax rate is applied to future taxable sales.

- **Transit utility fee.** Current electric utility revenue data, obtained from the cities of Fort Collins and Loveland electric utility enterprises, are added together and projected forward with a 2 percent rate of inflation. A 5 percent utility excise fee rate is applied to future revenue.
- **Negotiated agreements.** A \$25 annual pass fee is modeled based on current enrollment of all students at CSU and FRCC Larimer Campus. The current CSU contribution of \$420,000 is netted out of the calculation as it is considered a maintenance of effort. The \$25 annual pass is also modeled for PSD students, but for only those students ineligible for school district provided bus service.
- **Special assessment/Special improvement district.** The special assessment imposed by the Mason Corridor special improvement district is modeled based on residential and commercial land use data and growth projections obtained from the *Mason Corridor Economic Analysis* commissioned by the city of Fort Collins in 2007. Special assessment rates are between \$200 and \$300 per year for residential units and between \$0.05 and \$0.06 per built square foot per year for commercial property and are targeted to recover a portion of Mason Corridor bus rapid transit operations costs.

The exhibit on the following page shows revenue projections based on the revenue generation mechanisms and assumptions described above. The mix of funding is demonstrated to meet the projected revenue shortfalls calculated by Transfort and COLT staff by build out of the proposed transit improvements. There is a substantial amount of excess revenue in the early phases of system construction. It is suggested that either the funding mechanisms are phased in appropriately or the excess revenue be used to fund capital purchases or kept in reserve for future need.

Appendix A provides more detail on funding methods, the FAC process and revenue projection by municipality.

**Exhibit 4.**  
**Transfort/COLT Operations Revenue Projections**

Funding Mechanism	Phase I	Phase II		Phase III	
	2011	2012	2013	2014	2015
Maintenance of Effort/Fares	10,414,634	11,756,727	14,101,695	15,165,173	16,100,951
Dedicated Sales Tax (0.35 %)	11,815,532	12,051,843	12,292,879	12,538,737	12,789,512
Transit Utility Fee (Excise - 5%)	6,303,971	6,430,050	6,558,651	6,689,824	6,823,621
Negotiated Agreements (CSU, FRCC, PSD)	610,792	632,251	654,165	676,543	699,395
Mason Corridor Special Improvement District	<u>873,936</u>	<u>891,415</u>	<u>909,243</u>	<u>927,428</u>	<u>945,976</u>
<b>Total</b>	<b>\$ 30,018,864</b>	<b>\$ 31,762,286</b>	<b>\$ 34,516,633</b>	<b>\$ 35,997,705</b>	<b>\$ 37,359,455</b>
Less: Projected Revenue Shortfall	14,535,755	19,217,241	26,990,954	31,991,547	36,992,141
<b>Net Surplus/Deficit</b>	<b>\$ 15,483,109</b>	<b>\$ 12,545,045</b>	<b>\$ 7,525,680</b>	<b>\$ 4,006,158</b>	<b>\$ 367,315</b>

Source: BBC Research & Consulting.