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MEMORANDUM

To: Transfort/COLT Financial Advisory Committee
From: BBC Research & Consulting
Re: Transit Financing Mechanisms: Pros and Cons
Date: October 23, 2008

This memorandum presents funding mechanisms that are commonly used to support public infrastructure and public transit. The role of the financial advisory committee is to consider the funding mechanisms presented in this document and narrow down the list of acceptable funding mechanisms to those most appropriate for funding Transfort and COLT planned improvements. Evaluation criteria include:

- Revenue productivity;
- Revenue reliability;
- Ease of administration/implementation; and
- Equity/Fairness.

This document is intended merely to start the conversation about each funding method. It is the task of the committee to consider each mechanism in the context of the local economic and political climate and decide which methods are the best fit. It will likely take a combination of several methods to ensure enough reliable revenue is generated each year for operations and capital improvements.

Sales Tax

A sales tax is an excise tax placed on retail sales transactions occurring within a jurisdiction. It is levied on a percent of sales value basis and can be below 1 percent. The previous Transfort strategic plan evaluated a 1/10 and a 2/10 percent sales tax. A sales tax is generally the most frequently used revenue generation mechanism of transit authorities in Colorado. This can also be in the form of a lodging tax, placed on hotel accommodations. A lodging tax can be imposed in addition to any sales tax.

Advantages. A sales tax has the potential to raise large amounts of revenue when compared to other proposed financing mechanisms. Much of the region's retail development is in either Ft. Collins or Loveland, and the prospect of regional retailing centers shifting from these two cities elsewhere is unlikely. One of the most attractive aspects of a sales tax is that it diffuses the funding burden over many people and businesses including out of region visitors.

Disadvantages. A sales tax is by nature a regressive tax: i.e., low-income individuals would pay a much higher share of their incomes than wealthy individuals. A sales tax is vulnerable to business cycles and may stagnate or decline during an economic downturn.

Likely administration. Municipalities can impose and dedicate sales taxes. This would require city council support and potentially a referenda vote of the citizens. There would likely need to be some form of intergovernmental agreement between Loveland and Fort Collins that determines where funds are pooled and how funds are allocated between Transfort and COLT. A transportation authority can also levy a sales tax, although it would require additional effort to form an authority with uncertain benefit. A lodging tax may only be levied by counties or transportation authorities.

Property Tax

A property tax is an ad valorem tax placed on real and personal property in a certain jurisdiction. In Colorado, an assessment ratio (7.96% for residential, 29% for commercial) is applied to land values to calculate assessed value. Then a mill levy is applied to the assessed value to calculate the amount of property tax owed.

Advantages. Like a sales tax, a property tax has the potential to produce substantial reliable revenue. Property tax revenues will rise with rising property values in the region. A property tax can be tailored, through a district, to be imposed on those that benefit the most from property value increases related to transit improvements.

Disadvantages. Property tax is also a regressive tax, affecting lower income households more than higher income households. A property tax will be fully funded by landowners in the taxing jurisdiction with no outside help from visitors, as is the case with sales tax. Commercial landowners pay a higher property tax per dollar value of property because of the uneven assessment ratios.

Likely administration. Municipalities can impose and allocate property taxes through a dedicated mill levy specifically for transit purposes. This would require city council support and potentially a referenda vote of the citizens. There would likely need to be some form of intergovernmental agreement between Loveland and Fort Collins that determines where funds are pooled and how funds are allocated between Transfort and COLT. Property taxes can also be imposed in specific regions of the city through the use of an existing or new improvement or metropolitan district.

Motor Vehicle Registration Fees

A motor vehicle registration fee is an annual flat fee assessed on each motor vehicle licensed within a jurisdiction.

Advantages. Directly tied to transportation. A registration fee is assessed on motorists who contribute to congestion on roadways. Reliable and steady income.

Disadvantages. Not as productive as sales or property taxes, therefore this option must be used in combination with other methods.

Likely administration. Only a transportation authority has the statutory ability to impose a motor vehicle registration fee. The fee is capped at \$10 per registered vehicle per year.

Impact Fees

An impact fee is charged on new commercial or residential construction. Revenues from impact fees fund capital expansion projects, which address growth-related impacts. Impact fees are a widely used tool in Colorado to fund infrastructure for transportation, parks, and other municipal and county capital projects.

Advantages. Requires new growth to “pay its own way” for transit infrastructure. Captures both residential and commercial development.

Disadvantages. Not as productive in revenue generation as sales or property tax. Must demonstrate rational nexus, and rough proportionality in the fee amount, i.e., the fee must be levied only in the proportion to which new growth is deemed responsible for the needed capital improvements.

Likely administration. Impact fees can be collected by municipalities and improvement or metropolitan districts.

Farebox

“Farebox” revenues are fares charged for each use of the transit system. They generally only cover a small portion of operating costs. Transfort and COLT fares are currently at \$1.25 per ride for adults. Fares must be regionally competitive (Denver RTD fare is \$1.75) and must not price out low-income riders.

Negotiated Agreements

Transfort currently has a negotiated agreement with the Associated Students of CSU, the student body organization at the university. The terms of the agreement are negotiated every three years. Certain improvements in the plan targeted to CSU student service could be directly funded by the ASCSU if there is the will to negotiate for a larger annual contribution from the student

organization. The ASCSU agreement is ultimately funded through student fees levied by the university. This style of funding agreement can also be applied to the Poudre School District.

Federal Grant Funds

There are several established federal grants that are awarded to transit providers on a competitive basis. These include discretionary, capital and operating, and planning grants awarded by the Federal Transit Administration (FTA). These funds are generally administrated through CDOT. The Department of Energy (DOE) also awards grants for use of alternative fuels in transit. Transfort and COLT are active in competing for these grant funds. It is assumed that they will remain active. Grant funds are generally used for capital investment, not operating expenditures.