



Finance Administration
215 N. Mason
2nd Floor
PO Box 580
Fort Collins, CO 80522
970.221.6788
970.221.6782 - fax
fcgov.com

Council Finance Committee Meeting
November 3, 2022, 4-6 pm
Via Zoom

Council Attendees: Julie Pignataro, Kelly Ohlson, Emily Francis

Staff: Kelly DiMartino, Travis Storin, John Duval, Ginny Sawyer, Dean Klingner, Jen Poznanovic, Nina Bodenhamer, Blaine Dunn, Jo Cech, Amanda Newton, Holly Mason, Randy Bailey, Trevor Nash, Renee Reeves, Caryn Champine, Drew Brooks, Honore Depew, John Phelan, Javier Echeverria-Diaz, Megan Valliere, Josh Birks, SeonAh Kendall, Linday Ex, Gerry Paul, Dave Lenz, Kerri Ishmael, Zack Mozer, Erik Martin, Carolyn Koontz

Others: Kevin Jones, Chamber
Molly Bohannon, Coloradoan
Patrick Picard, Fehr & Peers (Consultant)
Rachel Shindman, EPS (Consultant)
Emily Gallichotte, CSU

Meeting called to order at 4:00 pm

Approval of minutes from the October 20, 2022, Council Finance Committee Meeting. Emily Francis moved for approval of the minutes as presented. Kelly Ohlson seconded the motion. Minutes were approved unanimously via roll call by; Julie Pignataro, Kelly Ohlson and Emily Francis.

A. General Employee Retirement Plan (GERP) Review

Blaine Dunn, Accounting Director
Amanda Newton, Sr. Treasury Analyst

EXECUTIVE SUMMARY

The General Employee Retirement Plan "the Plan" was established in 1971 and was closed to new members in 1999. There are currently 352 total members left in the Plan including active employees, terminated vested employees, and employees receiving a benefit. In 2021 the total pension liability was \$59.6M and the fiduciary net position for the Plan was \$54.6M, leaving a net pension liability of \$5.1M.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Inform and educate Council Finance Committee on the Plan
Does Council Finance desire any additional information?

BACKGROUND/DISCUSSION

The Plan is overseen by the General Employees Retirement Committee (GERC). The GERC is comprised of 6 members, 1 from financial services and 5 current or former employees covered by the Plan. The GERC administers the Plan including setting the investment policy and making any changes to assumptions used in the actuarial valuations. After studying the actuarial valuation report prepared by Milliman, an independent actuarial and consulting firm, the GERC decided to make no changes in the assumptions for 2022. The 15-year average return for the plan is currently 7.7%.

In 2013 Council approved increasing the supplementary contribution to \$1.1M annually. This was to help reach full funding of the plan sooner than previously projected. Based on the present value of future benefits (\$60.2M), the current market value of assets (\$54.6M), and the present value of future payroll contribution (\$1.0M), the shortfall of \$4.6M is anticipated to be funded through the annual supplemental contribution of \$1.1M over the next 5 years. Therefore, it is currently estimated the plan will meet full funding by 2026. This is when the City supplemental contributions will end. However, the full funding year might change year over year based on the actuarial valuation.

The current net pension liability of \$5.1M is the lowest amount the Plan has had since 2007. The current funding ratio of 91% is the highest the Plan has had since 2007 and compares favorably with other public sector plans. The Plan continues to be able to meet all obligations and overall is in a healthy financial status.

DISCUSSION / NEXT STEPS

GENERAL DIRECTION SOUGHT

Inform and educate Council Finance Committee on the Plan
Does Council Finance desire any additional information?

Julie Pignataro and Emily Francis; no questions – thank you



	As of 2021	Through Q3 2022
Net Pension Liability	\$5.1M Lowest since 2007	\$17.0M \$3M higher than 15-year average
Funded Ratio	91% Highest since 2007	72% 4% lower than 15-year average
Full Funding* Target Year	Reach full funding in 2026 with current assumptions	Reach full funding in 2037 with current assumptions

* Supplemental contribution should end when full funding is reached

Kelly Ohlson; (slide 12) see above

It appears now we will need to continue the supplemental funding out to possible 2037 due to stock market performance YTD in 2022.

Blaine Dunn; that is correct – that date changes every year based on the actuarial report. In my tenure, I have seen it out as far as 2042 and as soon as 2026. The 2037 date is a staff estimate not an actuarial estimate.

Kelly Ohlson; I would like to have historical data on the supplemental contribution – when it started and how much by year. I think they absolutely made the right decision in 1999 to close the plan. I support defined contribution but not defined benefit.



Investment Policy Category Allocation

9

	Minimum	Target	Maximum
Mutual Funds			
Domestic	35%	45%	55%
International	5%	15%	25%
Fixed Income/Bonds	30%	40%	50%
Total		100%	

Current portfolio distribution in red (approximate)

Investment Policy Category Allocation (slide 9) see above

Kelly Ohlson; Domestic Mutual Funds at top end of scale -

Travis Storin; from an asset allocation standpoint, with a plan that won't truly sunset until the 2060's, it is actually prudent to have a stomach for the ups and downs of the equity markets. Loading up on fixed income (bonds) in the long haul it is the belief of staff that would cost the city more. It is our belief that over the 40-year horizon, the equity market is the right place to be

Kelly Ohlson; I agree with your answer.

B. Sustainable Funding - Transit

Drew Brooks, Director, Transit

EXECUTIVE SUMMARY

This session is intended to provide an overview of work performed over the last year in development of the Transfort Funding & Fare Free Study. The presentation will include an overview of the project, a summary of the fare free analysis, updates to funding projections for operational and capital needs to buildout the Transit Master Plan (TMP), and a review of new possible transit revenue development and sources.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

What questions do Councilmembers have regarding the information presented?

What additional information would aid in decision-making regarding sustainable funding for transit?

BACKGROUND/DISCUSSION

In the Fall of 2021, Transfort & FC Moves staff conducted a competitive Request for Proposal (RFP) process to hire a consultant team to conduct a funding study for Transfort. The funding study was a key short-term priority of the Transit Master Plan (TMP), adopted in 2019. The TMP identified that significant new funding sources were needed to build and operate the projected new services adopted in the plan.

In December of 2021, work began with Fehr & Peers and their partners EPS and FHU. The study, which will be complete by the end of 2022, will include the following key deliverables:

- Public and partner engagement
- Review of current operations and revenue
- Update of expense projections from the 2019 TMP
- Development of future funding options
- Fare structure review including a fare free analysis
- Implementation plan

The following overview of completed and in process work from the study are illustrated in the presentation:

Fare Free Analysis

The analysis found that Transfort's current farebox recovery is quite low and the costs associated with fare collection are high. Excluding the contractual contribution towards fares with CSU (\$638,000 in 2021), under the current collection system, Transfort has a negative farebox recovery.

Benefits to remaining a fare free system include:

- Cost savings
- Increased equity and access
- Ridership growth (long-term)
- Ease of operations
- Fulfilling community transit, equity, and climate goals

There are also possible barriers to remaining fare free that require consideration, though mitigation strategies are possible:

Potential loss of CSU revenue	<ul style="list-style-type: none"> • Negotiate a partnership agreement uncoupled from fare-based • Create funding scenarios linked to service levels • Look to other national examples
Safety and security perception concerns	<ul style="list-style-type: none"> • Front door boarding only • Policy of destination-based use • Work with health and human community resource providers • Enhance transit security presence
Increased demand for paratransit	<ul style="list-style-type: none"> • Follow/update eligibility policies • Travel training to encourage fixed route use • Collaboration with human service transportation providers • Increase service levels and funding
Political concerns	<ul style="list-style-type: none"> • Educate on true farebox recovery • Articulate benefits of fare free • Link to established city priorities
Increased demand	<ul style="list-style-type: none"> • Quantify that large percentage of existing riders already ride free • Educate on off-peak ridership gains vs. peak ridership gains • Understand which routes ridership gains are likely (most have excess capacity)

Updated Revenue Needs

A complete update of the capital and operational expense projections associated with the TMP has been completed. These estimates are divided into three milestone categories with associated projects and service expansions:

Short Term Service Expansion (2022 – 2027)

- West Elizabeth BRT replaces Route 3 & 32
- Add vehicle on Route 6 for reliability
- Increase frequency on Drake from 30 to 15
- Increase frequency on North College from 30 to 15
- Increase off-peak frequency on Shields from 60 to 30
- Add new route with 30 minute frequency on Lemay/Trilby
- New southeast microtransit service
- Add additional trips to city of Boulder on the FLEX
- Add regional service to the town of Wellington

Midterm Service Expansion (2028 – 2033)

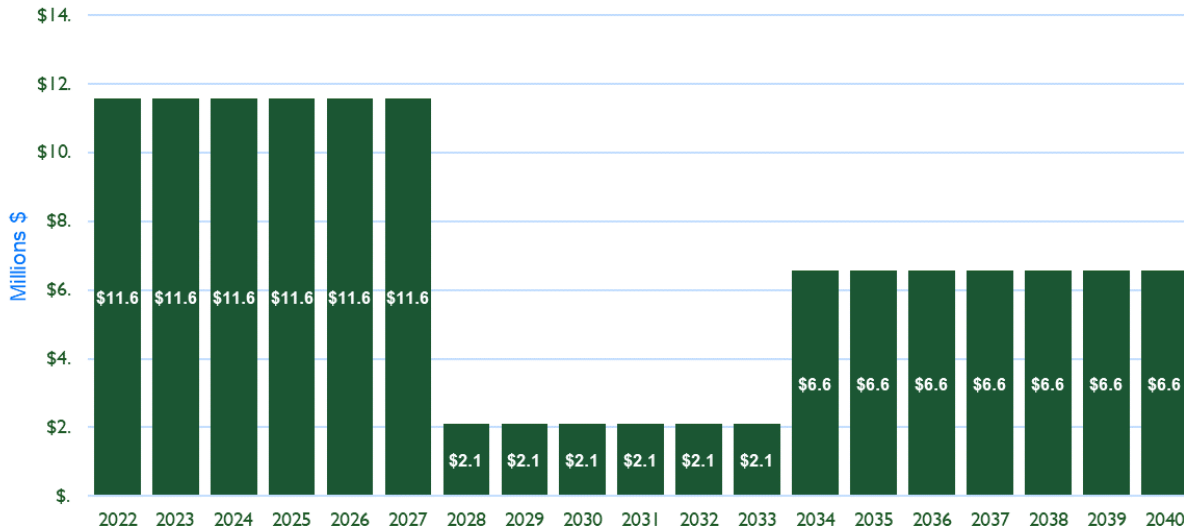
- North College BRT replaces Route 8
- Increase frequency on Route 5 from 60 to 30, realign
- Increase frequency on Taft/Laporte from 60 to 30 combine to new route
- Increase frequency for CSU-DT-Lincoln Route from 30/60 to 15
- Increase frequency on Horsetooth (Route 12) from 60 to 30, realign
- Increase frequency on Route 14 from 60 to 30, realign
- New southwest microtransit service

Long Term Service Expansion (2034 – 2040)

- Harmony BRT replaces Route 16
- Increase frequency on Timberline/Prospect from 60 to 15/30 – restructure route 18
- Add new route to Mountain Vista at 15/30 frequency
- Increase frequency on Shields from 30 to 15/30
- New northwest microtransit service
- Add Saturday FLEX Trips to Boulder
- Increase frequency on the Poudre Express
- Add regional service to the town of Laporte

It is important to note that many of the most expensive capital projects are slated in the short-term category, resulting in an uneven distribution of capital funding needs over the 20-year plan:

Forecast TransfortAdditional Capital Needs (2022 Dollars)



Revenue Sources Under Consideration

The team performed a comprehensive analysis of all possible funding sources utilized by transit agencies nationwide. The current task is a detailed evaluation of all preferred tools using six key criteria:

Revenue Potential How much revenue can be generated?

- Tools that generate more revenue rank higher

Stability What are the chances and frequency of funding?

- Tools that provide ongoing/reliable revenue rank higher

Legal Parameters Can it be done under CO law? Vote required?

- Tools that are currently enabled under law and do not require a vote rank higher

Ease of Administration Can it be implemented with current resources?

- Tools that can be easily implemented with existing resources rank higher

Equity Who benefits? Who pays?

- Tools with more external funding or direct payment/benefit relationship rank higher

Viability What is the likelihood of adopting/using the tool?

- Tools with existing or likely potential rank higher

The comprehensive list of revenue sources is divided into three broad categories: Federal & State, Local Recurring, and Districts & Other. The current evaluation process is intended to inform

development of an overall funding strategy to be complete by the end of the year and to inform and augment Council's current sustainable funding discussions.

DISCUSSION / NEXT STEPS

GENERAL DIRECTION SOUGHT

What questions do Councilmembers have regarding the information presented?

What additional information would aid in decision-making regarding sustainable funding for transit?

Table 9. Estimated Net Farebox Recovery

Revenue & Expenses	Option 1: Maintain Old System with TVMs	Option 2: Convert to New POS System
2019 Farebox Revenue	\$1,201,000	\$1,201,000
Annual Cost of Fare Collection	\$482,000	\$288,000
Net Farebox Recovery (Average Annual)	\$720,000	\$913,000
Net Farebox Recovery Percent	4.1%	5.1%
Net Farebox Recovery Excluding Contributions	\$27,000	\$220,000
Net Farebox Recovery Percent Excluding Contributions	0.1%	1.2%

Key takeaway - If CSU funding partnership can be maintained, going fare-free is straight-forward decision, financially

NOTE: Slide #6 was replaced as the table used in the version distributed wasn't the correct one. (see above for updated slide)

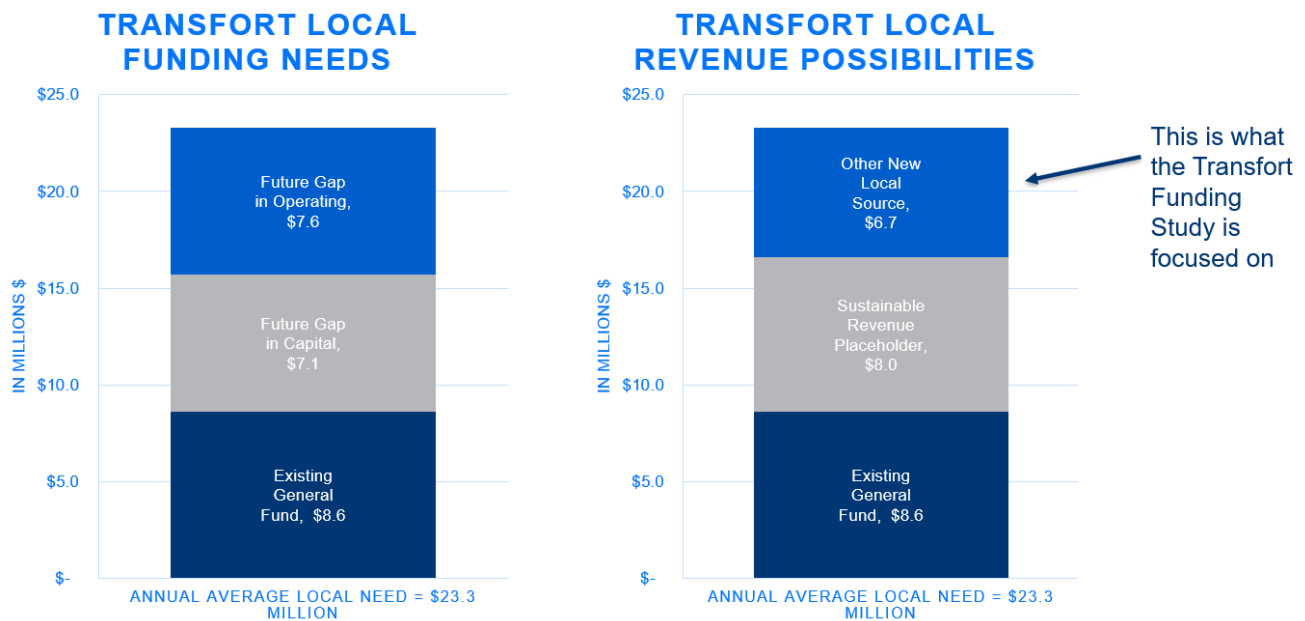
Patrick Picard, Fehr & Peers (Consultant)

Rachel Shindman, EPS (Consultant)

Ongoing Efforts

- Baseline of existing funding commitment, minimum \$5 million annually from new citywide strategy
- Determine revenue generation potential for shortlist of revenue tools
- Understand potential of general purpose bond as a financing strategy
 - Case study research (Oklahoma City, Wyoming, Denver)
- Package funding sources and financing strategies

Kelly Ohlson; slide 21 Key Questions (see above) says \$5M but slide 14 (see below) which says \$13.7M short per year. Why aren't we simply saying we have a \$14.7M problem?



Drew Brooks; we have heard in the discussion you have been having regarding what a potential sustainable funding source might be – numbers in the range of \$5-8M, potentially \$10M. We know we have a gap, the total being approximately \$14M per year if we average it over the entire 18–20-year timeframe. We have been working with scenarios of - if what you come up with is \$5M per year or \$8M per year and we are trying to figure out where do we come up with the gap after that.

Kelly Ohlson; I am flummoxed – why aren't we just saying we have a \$14-15M transit problem? Let's not complicate it.

Drew Brooks; we were talking about the \$8-10M number initially which was prior to this study being conducted to evaluate what was in the Transit Master Plan and update all those numbers. So, now we have the updated numbers. We were basing numbers off what was in the Transit Master Plan which was dated - 2016 and 2017. The numbers today have been updated.

Kelly Ohlson; you have refined the numbers which is what we asked for and this is good work – why don't we just say we have a \$14-15M transit problem? This would be confusing to our residents whose job is not to study this in depth. I recommend we call it what it is - a \$14-15M transit gap.

Travis Storin; we are likely going to have to prioritize under the \$14M and struggle to deliver on the whole transit master plan and we will have to make some difficult decisions on whether BRT versus certain fixed route expansions versus para transit would take place. I found the \$8-10M to be pragmatic and consistent with what we have talked about here in the past. Difficult decisions regarding what elements of the master plan we really want to put our energies behind.

Kelly Ohlson; I would say we have a \$14.7M transit issue - realistically we won't do it - the sustainable revenue holder which is \$8M – come up with a number that we think is realistic and work toward that goal that dollar figure and prioritize what that buys us. That is my take on this whole thing.

Julie Pignataro; what makes you think one number is more realistic than the other?

Travis Storin; the early part was linked to previous master plans - should update our knowledge if the number has gone higher - some of the mechanisms we have talked about in terms of an additional ¼ cent of sales tax would generate around \$9.5M and is already probably a tall order in and of itself. My own judgment in looking across all four priorities, each of which are indicating a need of between \$6-10M each is that it would be a struggle to meet all four of those priorities and go all the way to the top of the range – as always, we are open to a different level of input from committee members

Julie Pignataro; I like what Kelly is saying - it is what it is - if the number is \$14M - it is confusing the issue

Emily Francis; I think it would be more grounding to say we have this \$14M problem we are talking about and this is where the other dollars may be coming from - a more holistic picture. If we aren't going to do \$14M, are we doing \$8M? Why would we have a plan of \$14M when we can't pay for it even with other revenue sources? Why make a plan outside of what we can feasibly do?

Drew Brooks; this was a plan that was adopted by a very different council – there were probably assumptions made at the time that the funding could or would be found in some way, shape or form. The number has increased due to project costs and inflationary impacts over time. Many of these plans are very aspirational but we do have an intent to build - if we don't find a funding source that reaches the \$14.7M, then we would have to go back to this plan and make an amendment or revision that meets as many of the goals as we possibly can if council feels that is prudent.

Rachel Shindman; part of our job is to understand how we can do it - there are tools out there that can help us do this – whether we can implement them and use them may or may not be possible depending on whether an election is needed or other things – what else is in the hopper for funding? Our role is to help understand what

tools are out there and what could be done to get us to that level – looking at the overall need of \$14M and then understanding the 2 buckets; one is the ongoing sustainable revenue conversation of which transit is a part and the second piece is what are we left with in addition to that and how might we address that and understanding the best tools that meet our needs – there are a lot of grants out there that are only available for capital improvement – understanding of the need – what is the level of grant funding out there for capital so can we start to understand what the need looks like under the \$14M - How much of the grant revenue can we get - How much to capital – how much to revenue - Our job is to try to understand the different ways we can meet it.

Kelly Ohlson; we are putting this through a funnel and making good progress since the last time we discussed this. In my opinion, start with what the master plan is - we have the \$14.7M which is an aspirational plan. So, staff and consultants go back and say - we can't do everything (much like the Natural Areas plan) and then put it through and come up with what we think we absolutely should be doing in transit and what is that number. The goals are great but what we really need to make sure we need to get done – if the number you come up with is low - Council still has the prerogative to move some things up and other things down. I think the next iteration needs to be – the \$14.7M – good work there but is it realistic –most of our plans are aspirational and that is ok, but we need get it to a number we can work toward and how we fund it.

An example - Do I want transit to Boulder for people? Yes - Is it as important as more routes for people living in Fort Collins? No. I would like staff to do the heavy lifting first, both financial and otherwise.

Julie Pignataro; I was thinking along those same lines – if you say the funding commitment based on the plan is \$14.7M and the funding commitment based on your recommendation is \$8M or whatever and the minimum funding commitment would be just to keep the lights on - that would be super helpful in framing what we are talking about. This presentation is divided into 3 sections; 1) fare free transit 2) revenue needs 3) revenue funding to meet those needs

Drew Brooks; we have heard from council members asking us about the option of going fare free. We have been fare free since the beginning of the pandemic. Our costs to collect fares are high but we wanted to do a fully analysis there. If we can work with CSU and retain their contribution – if we keep that there is a pretty good argument that collecting fares doesn't really do much for us and adds additional costs.

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Key takeaway - If CSU funding partnership can be maintained, going fare-free is straight-forward decision, financially

Julie Pignataro: what was the difference with the updated slide #6? (see above) the 4.1%

Patrick Picard; slide #6 that went out with the packet included outdated assumptions and was from a previous version -we updated the assumptions for life cycle of the equipment, when it needs to be replaced. Made the assumption that it would be a little bit longer (10 years instead of 7)

BENEFITS

- Cost savings
- Increased equity and access
- Ridership growth (long-term)
- Ease of operations
- Fulfilling community transit, equity, and climate goals

BARRIERS

- Potential loss of CSU revenue
- Perceived safety and security concerns
- Increased demand for paratransit
- Political pushback
- Meeting increased demand

Julie Pignataro; Benefit and Barriers Slide #7 (see above)

Did we derive these from other communities who have done something similar?

Where did these all come from?

Patrick Picard; Benefits are from doing research on what has occurred in other communities.

The report includes some peer studies that we did. The issues are slightly different in each community. The barriers that we identified are ones that either staff is already experiencing are just seem more likely given the context of Fort Collins. I think cost is a major issue in other communities but is not the issue in Fort Collins

RTD gets 25-30% of their revenue from fares. If they went fare free, it would be a much bigger barrier. For Fort Collins, If you can overcome the CSU thing it is not much of a barrier.

Drew Brooks; one thing to add is the increased demand for paratransit and Dial-A-Ride services. The cost per ride is \$42. If we had zero fare, we would have to do that for Dial-A-Ride as that is a federal requirement. We would probably see an increase in costs to cover this but we don't know what that percentage would be.

Julie Pignataro; what kind of riders are using that service? Could our buses be equipped to support them?

Drew Brooks; if we had much more frequent and more broad-based system, probably more people who have a disability would use the system as opposed to Dial-A-Ride. The intent of Dial-A-Ride is to provide a complementary service to those who can't access the fixed route system. Users are all members of our community who have a disability and qualify to use this service.

Julie Pignataro; what percentage of our riders is that?

Drew Brooks; we don't have that as a percentage of our riders because it is a service that they must qualify for. I can get back to you with how many actual riders are utilizing the service. We have 30-35K rides per year and that has started to increase as the pandemic has been dwindling.

Patrick Picard; it is a requirement for federal funding that they provide this service and the most you can charge is 2x the fare. Any agency that converted to fare free saw an increase in para transit service. We listed some Of the mitigation strategies and one of the ones that is commonly done is being stricter on eligibility – a lot of times there is a little more leeway given as this is a very vulnerable population that probably needs it. Some that have gone fare free just budget more for their para transit services which is a basic need of the community.

Julie Pignataro; if we stay at fare free which I didn't realize we were still fare free. The pandemic policies we started didn't end at the same time and some didn't end. My family loves the free bus, and we may have ridden more in the last year if we had known.

Drew Brooks; we remained fare free for a few reasons – one if that jour services are reduced we can afford to remain fare free at this time because we don't have as many expenses. As we are hopefully able to increase our services that will be a consideration going forward. Another consideration is the equipment we use to collect fares has been dormant and some has become obsolete so we would have to use some other method. Ticket Vending Machines (TVM) on the Max – even if we go back to collecting fares, we won't use them again as they are past their useful life so we would go to some other method of collecting fares. We were waiting to finish this study and see where that led us and see where the breakpoint is where we need to collect fares or fill that gap.

Julie Pignataro; we want more ridership growth (better for the environment and the system as a whole). Does that lead to a more expensive system?

Drew Brooks; not necessarily, we have the capacity today if we have the growth - we are still at significantly lower rider levels – pre-pandemic – we have not returned anywhere near what ridership was in 2019. We are still down about 50% - which is a typical reduction for a university town.

Julie Pignataro; would higher ridership lead to more potential grants?

Drew Brooks; it does have a relationship, but it hasn't been the case currently because of the impacts of the pandemic – the federal dollars have not been tied to ridership over the last few years.

Julie Pignataro; CSU subsidizes for students to ride free

Drew Brooks; We also have a grant from the Bohemian Foundation which is intended for youth (17 and under) to ride free.

Patrick Picard; CSU likes the data they can get from students tapping a card which seemed like a bigger issue than funding.

Emily Francis; presumably other communities collect fares and make money - why is our system different where we are losing money? Why wouldn't we just get a new fare collection system?

Drew Brooks; the primary reason is that so much of our ridership is based on CSU and they pay a fee so that all students, faculty, and staff ride free so that brings down the number significantly. What we collect at the fare box is very small. If we were to go back to collecting fares, we would use a new system that would be less expensive to operate.

Patrick Picard; smaller cities don't get much money from fares. (often less than 10% of their operating expenses). It is usually the urban areas – and many are moving to fare free (Kansas City and Albuquerque have changed to fare free recently). Ridership varies from place to place.

Travis Storin; rarely do transit / bus agencies recover more than 20% of their costs from fares. Public transit is generally speaking heavily taxpayer funded (federally / locally). The vast majority of transit agencies are money losers if you just look at fares.

Patrick Picard; RTD is 25-30%. The best in the country is New York City which is at 55% - so 45% of their funding is not from fares but from local and federal funding.

Emily Francis; where are we with the PSD study? Is that also being discussed with the funding?

Drew Brooks; that study is just getting underway - we are hoping to have that one bid by the end of the year and planning to get started right after the first of the year. That is in the pipeline and will be a piece of any future discussions. Learn more about if there are opportunities to share resources with PSD, The study should be rather short in duration.

Federal and State Funding Sources	Revenue Potential	Stability	Legal Parameters	Ease of Administration	Equity	Viability
Federal						
1 RAISE Grant	High	Low	High	Medium	High	Medium
2 New Starts Capital Investment Grant	High	Low	High	Medium	High	Low
3 Small Starts Capital Investment Grant	High	Low	High	Medium	High	High
4 Core Capacity Investment Grant	High	Low	High	Medium	High	Low
5 Expedited Delivery Program for CIG Pilot Program	N/A	Low	High	Medium	High	Medium
6 * Buses and Bus Facilities Grant	Medium	Medium	High	High	High	Currently Used*
7 Transportation Infrastructure Finance and Innovation Act	N/A	High	High	Medium	High	Low
8 Private Activity Bonds	N/A	High	High	Medium	High	Low
9 Grant Anticipation Notes (GANS)	N/A	High	High	Medium	High	Low
10 Immigrant Investor Program EB-5	Medium	Low	High	Low	High	Low
Federal/State						
11 Surface Transportation Block Grants	Medium	Low	High	High	High	High
12 * Congestion Mitigation and Air Quality Improvement Program	Medium	Medium	High	High	High	Currently Used*
13 * Enhanced Mobility of Seniors & Individuals with Disabilities	Low	Medium	High	High	High	Currently Used*
14 Urbanized Area Formula Grants	High	Medium	High	High	High	Currently Used*
State						
15 FASTER Transit Grants	Low	Medium	High	High	High	High
16 Colorado High Performance Transportation Enterprise (CTO)	Unknown	N/A	High	Medium	High	Low
17 Revitalizing Main Streets Grant Program	Low	Medium	High	High	High	Medium
18 Multimodal Transportation and Mitigation Options Fund	Medium	Medium	High	High	High	High
19 Volkswagen Settlement Trust Bus Replacement Program	Medium	Low	High	High	High	Medium
20 Clean Transit Enterprise	Low	Medium	High	High	High	Medium

Current work:

- Identify grants & programs that correspond to project and operations needs
- Understand revenue potential of various grants & programs
- Determine local funding needs if grants & programs are utilized

Local Recurring Funding Sources	Revenue Potential	Stability	Legal Parameters	Ease of Administration	Equity	Viability
21 *General Fund	Low	High	High	High	Medium	Low
22 *Community Capital Improvement Program	High	High	High	High	Medium	High
23 * Agreements and Partner Contributions	Medium	Medium	High	High	High	High
24 Transportation Utility Fee	High	High	High	Medium	Medium	Medium
25 Parking Charges	Medium	High	High	Low	Low	Medium
26 Motor Vehicle Registration Fee	Low	High	Medium	Medium	Low	Low
27 Climate Action Plan Tax	Low	Medium	Medium	Medium	Low	High
28 ** Special Purpose Sales Tax	High	High	Medium	High	Medium	High
29 **Property Tax	Medium	High	Medium	High	Medium	High
30 ** Transportation Capital Expansion Fee	Medium	Medium	Medium	High	High	Low
31 Excise Tax/Fee	Medium	Medium	Medium	Medium	High	High
32 Occupational Privilege Tax	High	High	Medium	Low	Low	Medium
33 Road Usage Charge/Vehicle Miles Traveled Tax	Low	Medium	Medium	Low	Low	Low
34 Marijuana Tax	Low	High	Medium	Medium	Low	High
35 Rideshare Fees	Low	Medium	Medium	Low	Medium	High
36 Scooter/Bikeshare Fees	Low	Medium	High	Medium	Medium	High

Current work:

- Calculate revenue potential of high priority tools
- Compare revenue potential to funding needs (one-time and ongoing)
- Understand different impacts of new and existing revenue tools, as well as those currently under consideration for citywide strategies

Local District Tools Funding Sources	Revenue Potential	Stability	Legal Parameters	Ease of Administration	Equity	Viability
37 Regional Transportation Authority	High	High	High	Low	Medium	High
38 Local Improvement District (LID)	Medium	High	High	Low	Medium	Low
39 ** General Improvement District (GID)	Medium	High	High	Medium	Medium	Medium
40 Transportation Reinvestment Zones (TRZ)	Low	Low	Low	Low	High	Low
41 Tax Allocation District	Low	Low	Low	Low	High	Low
42 TOD/Multi-Station TIF District	Low	Low	Low	Low	High	Low

Current work:

- Determine revenue potential of various district and financing tools
- Consider how funding and financing tools can be combined into a comprehensive strategy

Other Local Tools Funding Sources	Revenue Potential	Stability	Legal Parameters	Ease of Administration	Equity	Viability
43 ** Certificates of Participation	N/A	High	High	High	N/A	High
44 Public-Private Partnerships	Medium	High	High	Low	High	Low
45 Naming Rights/Sponsorship	Low	Low	High	Medium	High	Medium
46 Joint Development & Sale/Lease of Assets	Low	High	High	Low	High	Low
47 TIF & Value Capture Concepts of TOD	Low	Medium	High	Low	High	Medium

* Currently used for transit funding

Revenue Sources (slides 18-20) see above

Kelly Ohlson; #37 on the list above, Regional Transportation Authority (RTA)

I played a role in defeating two RTAs that weren't for transit but were for road projects.

Assuming this RTA would be a transit RTA – not one masquerading

Rachel Shindman; the tools listed don't complete on the same field – we wanted to share information on what it could look like. Understand an RTA can be used for transit and other transportation projects but we are not at that point in our analysis yet to know – it is still in the hopper and there is no recommendation

Kelly Ohlson; I don't want to see an RTA that isn't almost all exclusively transit.

It did get defeated for those other reasons.

Drew Brooks; any items in the Revenue Sources List (see slides above) that you want us to run away from or any that you want to move forward with?

Kelly Ohlson; I don't want naming rights that come bring in 3% of the money I despise naming rights - involved in sponsorships 45 on the list.

Drew Brooks; we are only looking seriously at the options highlighted in green

Travis Storin; we are bringing all four priorities to the December 13th as a status check with the full council

Julie Pignataro; maybe specifically ask that question about the list of revenue sources of the full council.

Emily Francis; some guidance on funding sources – aligning with our values and priorities

C. Sustainable Funding - Climate Options

Honore Depew, Sr. Manager, Environmental Sustainability

John Phelan, Energy Services, Senior Manager

Javier Echeverria Diaz, Sr. Analyst Finance

Megan Valliere, Coordinator, Project Management

EXECUTIVE SUMMARY

The purpose of this item is to respond to the requests at the September 1, 2022, Council Finance Committee (CFC) meeting and provide several models for climate revenue generation for consideration. Five options for generating climate-focused revenue are summarized, along with the current revenue built into Utilities' electricity rate structure that supports climate initiatives.

The options presented include:

- 1) Sustainable Revenue – for parks, transit, housing, and climate (in alignment with the ongoing CFC discussions)
- 2) OPTION 1: Dedicated Sales Tax – specifically for climate initiatives
- 3) OPTION 2: Natural Gas – excise tax
- 4) OPTION 3: Natural Gas – as proxy fee for emissions
- 5) OPTION 4: Large Emitter Fee

These options are summarized based on initial research and case studies of peer municipalities. If directed, extensive additional legal and policy analysis will be needed for those options selected to be explored further in 2023. Given the additional time needed to conduct in-depth analysis for further consideration of each option, staff is requesting to know which approaches CFC members would like to remove from consideration at this time. Staff recommends exploring Options 1 & 2 further. Greater detail on future revenue use will be part of the December 13 Council Work Session.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Which climate revenue generating approaches would CFC members like to see prioritized for further analysis in 2023 and which should be removed from consideration?

BACKGROUND/DISCUSSION

Over the last year, City staff have identified and presented to Council Finance Committee (CFC) various revenue generation mechanisms to provide necessary resources for parks, housing, and transit. Since the conversation began, CFC has indicated a desire to see climate funding included as the “fourth corner” of the dedicated funding discussion. During the September 1, 2022, CFC meeting, staff presented a brief and general overview of potential revenue generation mechanisms for ongoing climate funding. After the staff presentation, which included only brief remarks on fees for large emitters, staff heard a clear request by committee members to present additional research and data exploring ways to both generate climate revenue and drive changes to systems and behaviors.

The analysis contained in this agenda item summary details the high-level, conceptual research in this area for CFC review. Should CFC desire more information about any of these options, it will require more in-depth policy and legal analysis in 2023 to determine how they would be implemented in the context of the City of Fort Collins, our existing finance and revenue generation tools, and the suite of options being presented to Council for sustainable revenue for parks, housing, transit, and climate.

The options detailed below and included in an attached summary table (See **Appendix 1**) are divided into two categories - *Core, Ongoing Climate Funding* and *Acceleration Opportunities / Enhancements to Core*. Staff considers *Core Funding* to include funding from the existing Utilities rate structure and possible new funding from the outcomes of the broader Sustainable Revenue project. Potential *Acceleration Opportunities* include options that would generate dedicated climate revenue while also working toward Our Climate Future goals using financial incentives and disincentives that encourage systems and behavior change within the community. The options are summarized below with detailed discussion available in the attached Appendix 2. The summaries include a brief overview of the funding mechanism (i.e., description, potential uses of funding, revenue potential (when available), flexibility of funds) and key policy considerations (equity considerations and implementation notes).

Core, Ongoing Climate Funding

Core Funding includes revenue from the existing Utilities electricity rate structure and possible new funding from the outcomes of the broader Sustainable Revenue project.

Existing Revenue (Utilities)

Overview

The existing electrical rate structure generates funds directly from customers to help manage community electricity use and carbon emissions. Current electric use would be 21% higher without this funding, which has been in place since 2005. A portfolio evaluation of Utility programs confirmed that for every \$1.00 invested, Utility efficiency programs recognized \$1.80 in local community benefits.

- **Uses:** Program resources are available for residential, commercial, and industrial customers and are closely coordinated with Platte River Power Authority. The funds are used to support a range of climate initiatives, including energy efficiency, increased renewables, and enhanced grid flexibility.
- **Revenue:** Fort Collins Utilities generates more than \$6 million annually from the existing rate structure. City Council approves the Utility customer electric rate structure by ordinance annually or when needed.
- **Flexibility:** Funds are allocated through the Fort Collins Budgeting for Outcomes (BFO) process. As a result, the funds can be used for a wide array of purposes that align with the Fort Collins Utility charter.

Key Policy Considerations

- **Equity:** The BFO process and staff program design can support equitable distribution of the funds. Past examples include Epic Homes focus on rental properties, the Larimer County Conservation Corp Energy and Water Program and targeted small business lighting incentives.
- **Other Considerations:** These ongoing and evolving programs have a proven track record of positively impacting environmental, social, and economic conditions in Fort Collins and contributing to the outcomes of the Our Climate Future plan.

Sustainable Revenue (Climate, Transit, Housing, Parks)

Overview

The New Revenue Core Team has presented and discussed the pursuit of sustainable revenue via a repurposed sales tax, property tax, excise tax, user fee, or other mechanisms identified and discussed in past CFC meetings. Splitting this revenue between parks, transit, housing, and climate will provide ongoing funding for all four areas, enabling targeted spending on climate initiatives that will support the City and community in reaching our climate mitigation and resilience goals.

- **Uses:** A wide range depending on the structure of the revenue funding model which could support residential, commercial, and industrial structures and users.
- **Revenue:** Depends on the chosen structure.
- **Flexibility:** Since any of the revenue generation mechanisms included in past discussion can be written broadly to allow for a wide variety of investments and last for as many years as the Council and community would like, this revenue will provide for both flexibility and consistency in our approach.

Key Policy Considerations

- **Equity:** These mechanisms affect a broad swath of the community and collect revenue from most individuals in the city. Depending on structure, this approach will likely be regressive (having a proportionally greater impact on low-income community members). Equity considerations should be built into these revenue options to reduce the impact on specific community populations.
- **Implementation:** These mechanisms, aside from user fees, require voter approval.

Acceleration Opportunities / Enhancements to Core

Potential *Acceleration Opportunities* include options that would generate dedicated climate revenue while also working toward Our Climate Future goals using financial incentives and disincentives that encourage systems and behavior change within the community.

OPTION 1: Dedicated Sales Tax for Climate Initiatives

Overview

This option could be considered separately from or as part of the new sustainable revenue package being developed for parks, housing, transit, and climate funding. One possibility would be to put forth a voter-approved tax for climate (inclusive of parks, housing, and/or transit) to help accomplish Our Climate Future goals, or it could be an additional dedicated tax separate from the package of new revenue tools discussed above. Examples include Denver's Climate Protection Fund and the Portland Clean Energy Community Benefits Fund (both are described in detail in the attached **Appendix 2**).

- **Uses:** Both Denver and Portland's funds can be applied to a wide range of allowable uses, including buildings, renewables, workforce, transportation, environmental & climate justice, regenerative agriculture, green infrastructure, adaptation & resiliency, future innovations, and administration.
- **Revenue:** Denver's fund generates \$40 million annually and Portland's generates \$30 to \$60 million depending on the source. Local revenue generation would depend on the rate and applicability of the tax and should be expected to be significantly lower given the population differential between Fort Collins and Denver/Portland.
- **Flexibility:** A dedicated sales tax can be written to have a wide range of allowable uses, as in the Denver and Portland case studies. Staff views this potential revenue source as highly flexible as well. As in the case of core new revenue, this funding could last as long as Council and the community would like, and it would impact the entire community as well as visitors who enter the City and pay sales tax as part of their purchases while in town.

Key Policy Considerations

- **Equity:** Sales taxes are inherently regressive, but Denver has found a way to distribute resources generated from their tax equitably. Denver's ordinance creating the Climate Protection Fund (CPF) states that it "should, over the long term, endeavor to invest fifty percent (50%) of the dedicated funds directly in the community with a strong lens toward equity, race and social justice." Portland only assesses a surcharge on gross revenues

from large retailers due to their outsized impact on climate change. Small retailers were excluded to minimize impacts on small- and medium-sized businesses within the community.

- **Implementation:** A dedicated sales tax requires voter approval.

OPTION 2: Natural Gas Excise Tax

Overview

One policy option that could both raise revenue and disincentivize emissions is an excise tax on natural gas use. A new tax could be assessed on the delivery of natural gas and charged directly to the entities that deliver natural gas (e.g., Xcel Energy). The delivery entity would have discretion on how to pass the cost along to customers. A local example is Boulder's experience in environmental revenue generation through a similar tax structure (for a detailed description of the current and proposed Boulder approaches see the attached **Appendix 2**).

- **Uses:** In Boulder, the revenue collected from their existing climate taxes has been put toward rebates and incentives to help residents and businesses reduce energy usage and implement solar solutions, piloting innovative technologies, implementing local policies, lobbying and advocacy for regulatory changes at other levels of government, and other initiatives related to reaching the City's clean energy goals. Their proposed natural gas excise tax includes allowable uses for revenue such as direct cash assistance for energy efficiency, microgrid energy storage, building electrification, transportation infrastructure electrification, natural climate solutions, and wildfire resilience.
- **Revenue:** Revenue generation locally will vary depending on how it is structured and could be one of the higher-impact options to consider. Because staff expects the community to slowly phase out its dependence upon natural gas, revenue generated from an excise tax of this type will likely endure for greater than ten years and into the foreseeable future. In Boulder, the combined total of average annual revenue for their existing two taxes is roughly \$3.9 million per year and could increase to \$6.5 million per year with their tax consolidation proposal this November.
- **Flexibility:** The Council can structure allowable uses for the tax as broadly as it would like in the ballot language, therefore, this revenue generation mechanism could be highly flexible.

Key Policy Considerations

If Council is interested in pursuing this option, staff will need to conduct additional research and analysis to determine estimates for implementation and administrative costs.

- **Equity:** Staff would classify this mechanism as regressive since the City maintains little control over how natural gas providers pass costs onto their customers and because an excise tax on a utility will likely impact low-income customers to a greater degree than middle- and high-income customers. Boulder is pursuing options to enhance the equitable application of the tax.
- **Implementation:** A new excise tax requires voter approval. There may be several legal complexities with implementing a general tax on natural gas providers that is then passed onto consumers, especially given the City's current contract with Xcel Energy. The City currently maintains a franchise fee agreement with Xcel Energy which grants them the nonexclusive right to use City streets, public utility easements, and other City property for the purpose of providing natural gas service in exchange for a fee, which they pass down to consumers. More information about the City's franchise agreement with Xcel Energy can be found below.

OPTION 3: Natural Gas as Proxy Fee

Overview

When considering potential revenue from medium-sized emitters (entities not required to report to the EPA because they are under the 25k MT CO₂e/year) natural gas consumption could be used as a proxy for emissions, and a fee could be charged to medium-sized emitters. This option is the least-well understood due to staff's inability to find local, regional, or other peer examples of this type of program.

- **Uses:** The use of these funds would need to be tied to the actions or behavior of the feepayer limiting the ability to achieve broader Our Climate Future goals and objectives.
- **Revenue:** For the same reason as the previous option, staff believes that revenue generated from this mechanism will endure for greater than ten years and into the foreseeable future.
- **Flexibility:** Fees must legally have a narrower use that applies these recovered dollars to the cost of programs that address shortfalls imposed by fee payers. The use of revenue generated via this mechanism would be restricted to a greater degree than a voter-approved tax. Council and City Staff would need to brainstorm creative ways to use revenue to target emissions in a way that ties the fee revenue to the costs incurred due to activities related to GHG emissions by the City's largest emitters.

Key Policy Considerations

Since the City does not supply natural gas, staff does not currently have access to consumption levels by account within the community. Should Council be interested in pursuing this type of revenue generation, staff will need to invest time and resources into understanding the legal and policy-related complications that may arise from the use of a fee-based mechanism. Researching how staff will collect data on the largest natural gas emitters in the community will present an additional hurdle for this option.

- **Equity:** Since the fee would directly target the community's largest emitters, it would be levied equitably. Nonetheless, Council and staff would still need to make intentional investments of fee revenue in ways that are both legal and equitable to enhance the community-wide impact of the revenue.
- **Implementation:** A fee does not require voter approval. The largest barrier to this type of program is determining exactly which consumers would be subject to the fee (i.e., the top 50 or 100 consumers, consumers above a certain threshold, etc.) and how the City would collect that information. At this time, staff does not have an estimate of the implementation/administrative costs of a natural gas proxy fee, in part due to a lack of peer examples in this space.

OPTION 4: Large Emitter Fee

Overview

A "large emitter" would be defined as those entities reporting more than 25,000MT CO₂e annually, as reported to the EPA. The recommended fee would be based on the Social Cost of Carbon, which is priced at \$51/MT of carbon emitted. At this level of carbon emissions, there are three facilities within City limits to which the fee would apply, Broadcom, Colorado State University, and Anheuser Busch (details on emissions available in the attached **Appendix 2**).

- **Uses:** Fees require the organization to use the recovered revenue in pursuit of programs and policies that connect to the issue caused by the behavior or actions of the feepayer. Consequently, the safest investment of fee revenue would result in the City providing programs or rebates that earmark funding for these entities to address large sources of emissions and their impact on climate and environment in our community.

- **Revenue:** Assuming a fee of \$51/MT of carbon emitted this revenue mechanism could generate as much as \$10.9 million annually (details of the revenue calculation available in the attached **Appendix 2**). As with many behavior-based policy interventions, revenue is expected to decrease over time as emitters align their behavior with the expectations of the policy in an attempt to reduce their overall costs.
- **Flexibility:** Fees must legally have a narrower use that applies these recovered dollars to the cost of programs that address shortfalls imposed by feepayers, the use of revenue generated via this mechanism would be restricted to a greater degree than a voter-approved tax. Council and City Staff would need to brainstorm creative ways to use revenue to target emissions in a way that ties the fee revenue to the costs incurred due to activities related to GHG emissions by the City's three largest emitters.

Key Policy Considerations

Further staff analysis is necessary to understand the resource-intensiveness of this approach in terms of administrative costs as staff is unaware of other analogous programs for comparison. In terms of equity, staff's evaluation is that this mechanism is generally more progressive in nature than other options since it targets the highest emitters in the community. Nonetheless, it also creates an arbitrary line between emitters that are required to report to EPA and those just under the threshold of 25MT, potentially creating equity issues between entities just above and below the line.

- **Equity:** Since the fee would directly target the community's largest emitters, it would be levied equitably. Nonetheless, Council and staff would still need to make intentional investments of fee revenue in ways that are both legal and equitable to enhance the community-wide impact of the revenue.
- **Implementation:** Because this revenue generation strategy is not a traditional tax, it does not require voter approval via ballot initiative. This may ultimately lessen the procedural hurdles toward implementation. CSU is a separate governmental entity unlike the other two private enterprises, the likelihood of legal complexity is relatively high according to analysis by the City Attorney's Office.

Additional Lever – Natural Gas Franchise Fee

The City assesses a tax called an occupational privilege gas service tax paid by Xcel Energy to the City in exchange for the non-exclusive right of the company to use City streets, public utility easements, and other City property for the purpose of providing utility service to the City and residents. The franchise agreement specifies that Xcel must collect the fee via a surcharge upon City residents who are customers of the company. The fee is then remitted to the City in monthly installments.

Allocation of Existing Franchise Fee Revenue

The revenue generated from this tax averages nearly half a million dollars per year (historical detail available in the attached **Appendix 2**), all of which is then funneled directly into the general fund.

The franchise fee was originally instated in 1987, and several updated agreements between the City and Xcel have been executed in the decades since. The latest agreement was signed in 2018 and stipulates the terms of the franchise fee, including the maximum surcharge to be collected from customers, which is set at 3%. The current franchise agreement is set to terminate in 2038.

While franchise fees can provide reliable and sustainable revenue for the general fund which can then be allocated flexibly based upon the needs of the greater organization (as is currently the case in Fort Collins, Greeley, Thornton, Lakewood, and Frisco, CO) some municipalities have leveraged these funds creatively in pursuit of climate and environmental health goals (examples are available in the attached **Appendix 2**).

Importantly, redirecting the use of franchise fee revenue at its currently negotiated level of 3% for climate-related goals, policies, and programs does not constitute new revenue generation in the context of the present sustainable revenue conversation.

Renegotiation of Franchise Fee

While redirecting the use of current franchise fees solely to climate-related programs does not create new revenue, Council could endeavor to reopen and renegotiate the terms of the current agreement to raise the surcharge on customers. If, for example, the surcharge was doubled to 6%, the City could generate an additional \$300k - \$500k per year on average. This could raise the annual revenue to a total yearly average of between \$600k - \$1M which could be leveraged in pursuit of GHG reduction goals outlined in Our Climate Future plans.

Staff Recommendation and Next Steps

Staff recommends further legal and policy analysis of Options 1 & 2 as part of the broader Sustainable Revenue conversation. These tax-based options for climate revenue generation are anticipated to have longer timeframes, higher flexibility for use of funds, and fewer legal complications compared with (fee-based) Options 3 & 4.

Next steps for this process will be:

- Take CFC guidance on which options to investigate further
- Provide a timeline to the full City Council at the December 13 Sustainable Funding Work Session that includes future analysis of the selected revenue generation strategies

The December Work Session will also be an opportunity to go deeper into what new revenue may be used for. As shared in the recent OCF Work Session, there will be many investments needed to achieve adopted climate and waste goals, in alignment with the OCF Pathways and the Council OCF Action Roadmap.

DISCUSSION / NEXT STEPS

GENERAL DIRECTION SOUGHT

Which climate revenue generating approaches would CFC members like to see prioritized for further analysis in 2023 and which should be removed from consideration?

Recommended funding options	Flexibility of funds use	Legal complications	Time-frame
Sustainable Revenue (Climate, Transit, Housing, Parks)	Higher	Low	Longest
OPTION 1: Dedicated Sales Tax for Climate Initiatives	Higher	Low	Longest
OPTION 2: Natural Gas Excise Tax	High	Low/Med	Long
OPTION 3: Natural Gas as Proxy Fee	Low	High	Medium
OPTION 4: Large Emitter Fee	Lowest	Highest	Short/Med

Julie Pignataro; the reason we know who the top 3 emitters are, is because they must report to the EPA, correct?

Honore Depew: the EPA defines a large emitter as anyone over 25K metric tons of CO2 equivalent (can be various greenhouse gas emissions) annually - three such emitters in the city of Fort Collins

Julie Pignataro; is there anything like a medium / medium high classification?

Honore Depew: not so much about the classification but more about the reporting requirement – if you are less than 25K metric tons per year, you are not required to report to the EPA.

Julie Pignataro: so, we couldn't define a medium?

John Phelan; the other key distinction for a large emitter is that those units (metric tons) are directly in carbon dioxide, once you get below that threshold, there is no carbon dioxide metric to report so you have to switch to some other measurement to determine medium, medium high etc. From our initial research, it looks like natural gas use would be the next best option that would apply in a broad way across the community. There simply isn't anything that measures carbon as an emission.

Julie Pignataro; is the natural gas use information private or available / public?

John Phelan; we would have to go through some extensive work to get that information - we get aggregate information currently from Xcel Energy – large blocks of commercial, residential - not detail. In order to get the specific information, we would have to ask as part of our research. Our attorneys and our policy staff. The data does exist but is a matter of us getting access to it.

Julie Pignataro; would I have to give permission for someone to get the data for my home? Businesses would have to give their permission too.

John Phelan; You would have to give permission and the same for a business. Boulder is our best proxy for this as they have been using a similar approach for many years. They have worked with Xcel to apply the tax through their billing system. Boulder is not getting the usage information on individual customers, but, they have an agreement with Xcel. We would have an additional challenge as we want to go beyond Xcel. We want the buyers who buy from any natural gas provider, the City of Fort Collins as an example, only uses Xcel pipes but does not buy the gas from Xcel. It seems plausible that we could find out through our regulations, requirements and working with our partners– but we don't have any specific examples of seeing it done that way.

Javier Echeveria-Diaz; Boulder is trying to achieve and pass a tax rate on transport natural gas providers, There are 14 of them. They will do it on revenue versus gas usage because it is easier to track. I don't know if it was a legal barrier or just the intricacy of the detail work.

Julie Pignataro; it might be worth finding out why they do it that way. Question for John Duval, if it is a fee, there must be a connection, right? Could it be a fee that could fund transit (because it is somewhat connected to air quality) or would it need to be more connected than that?

John Duval; any fee we collect must reasonable benefit the fee payers. The difficulty with transit would be how do the emitters benefit with the fee going toward transit? There is the example of the Aspen case where they charged a fee for the plastic bags and used the money for recycling and recycling education, so it is possible to look into that framework. The Supreme Court upheld that as a valid fee. Might be useful in coming up with a process or a use of the fees that at least, indirectly benefit the fee payers (the emitters). If you wanted us to pursue that route, we would have to look more into the detail of how we would set up the program so we could defend it as in some way benefitting the fee payers.

Julie Pignataro; Option 2 - Natural Gas Excise Tax – was it stated that would just be turned over to the customer or did I misread that?

John Phelan; so, the large emitter fee with only 3 entities potentially paying that fee would be most restrictive in terms of potential uses. Whereas, a Natural Tax Excise Tax, because it is a tax, would require voter approval and uses could be framed in the ballot and would have quite a bit of flexibility. Its kinds of hits a middle spot between longevity and intending natural gas use to decrease over time over a course of a larger group of customers would be providing revenue for quite a few years versus the large emitter fee which could drop off a cliff rather quickly if any of the 3 go below the 25K metric tons per year and they all have intentions of doing so.

Travis Storin; what is passed through to the end user and equitability. The example around Boulder (we will find out next Tuesday when that goes to the voters) is being levied on the 15 gas transporters. It is a safe assumption that that increase will get passed on to the user. Presumably, large consumers like a big commercial entity utilizing higher volumes of natural gas will pay a greater share than an individual resident would.

Emily Francis; my understand is that option #2 is only for gas providers – the amount they are emitting is just a tax

Travis Storin; the correlation we were looking to draw is that you would disincentive consumption of natural gas – the optimal amount of revenue is \$0 – maybe someday, over time we reach that point but the less gas you use the less tax you pay – for the end user – assuming this would be done in a Boulder like type model.

Emily Francis; most homes are still built with gas so what do I do, not turn my stove on?

The reason we were looking at those large emitters is because we want them to reduce their emissions.

To my knowledge, they aren't doing it that quickly so yes, that funding could run out or decline but say over 5 years we have revenue that we could choose what to do with, knowing that it is going to end.

The goal is we want it to go down. so we are going to put a fee on it until you do. The end goal of why we are trying to do the emitter fee is different than the natural gas. That is one way to tax, but I think it is regressive still and people can't choose right now as most homes are built to use gas.

Does option #3 incentive people to reduce their emissions?

John Phelan; in all cases, fee, or tax, we are using this to get them to reduce their use whether it be carbon emission or gas. For either option #2 or #3, you could define thresholds where it doesn't impact residential or has a very small impact on residential users and only target the larger users. If approved as a tax, there would be more flexibility in use than as a fee, so they are very similar, just different approaches. You could draw a line as to who you are targeting with a variety of levels to shield those who cannot pay.

Honore Depew; to bring it back to Emily's point earlier about how it feels regressive -asked to turn off their gas stoves but in the long run, yes as you saw at the work session in the Council Action Roadmap, the performance standards – we need to electrify our building stock, both new and existing. While providers can decide how to pass along a fee to their customers / end users. We can also build in equity-based exemptions to the way that is designed to incentivize or directly fund that type of convergent away from natural gas using devices in the home.

I am going to turn it over to Lindsay Ex to address the concern Emily also brought up about the declining rate of fees paid by large emitters over time,

Lindsay Ex; what we do know, there are three entities that were identified as large emitters that do the federal reporting. CSU and Anheuser-Busch are two of those and they have publicly stated goals to reduce emissions over time and are actively working on that. While Broadcom doesn't have public goals yet, we have been meeting with them quarterly particularly since the inclusion of the industrial process and product emissions were built into our inventory by council a few years ago to better understand what they are doing as a company to reduce your emissions. We are able to share that between 2015 and 2021, they have reduced their emissions by nearly 60% and they are doing so at such a fast rate that as an example when we did the initial numbers as a result of this inquiry, in 2020 that revenue would have been approximately \$7.1M but based on their decreases in 2021 alone, that revenue would have decreased to \$6.4M, so that helps to show at a high level how these large emitters are already taking action. Because of the nexus requirements of any fee, all the benefits would go right back to these 3 emitters anyway.

Emily Francis; some organizations make goals and don't accomplish them. That was helpful

I am not opposed to natural gas but would like to see more of a phased approach as I don't think as a city we are ready to implement and move forward with requiring electrification of all home or to converting homes. I would be hesitant to start that fee or tax now when we don't have that in place. Like Julie, I am not opposed to any of

them. For the sustainable funding source, I would like to see that in a stack related to how that would play out with the others. Maybe a combination

John Phelan; if that natural gas approach was targeting large users rather than residential, does that change how you think about those options?

Emily Francis; I guess I just don't see how it wouldn't be passed on.

Travis Storin; the point in us bringing it up is that it goes to an end user and with a minimum threshold could exempt certain households or residential entirely. But our high-volume users and high-volume emitters would be given that incentive because whatever amount they get passed through they will pay less if their gas bill is lower. This tax will likely manifest itself in a higher per therm rate or some kind of surcharge on their bill.

Kelly Ohlson; for the large emitters, is this self-reporting – how do we know there are not more hitting that number but just not reporting.

John Phelan; there could be some risk there – it is self-reported based on protocols for how to do greenhouse gas emissions. I can't state categorically that there is not someone else who should be reporting. Reporting is related to the regulatory environment of the air permits that they have – the size of the plants they have.

Kelly Ohlson; cutting to the chase - we are not making any decisions. I am reluctantly willing to perhaps save some time to take the large emitter fee off the table for a couple reasons; CSU is a tad questionable (legally) and if PRPA was located within our city limits, they would fall into that category.

John Phelan; yes, they would fall into that category

Kelly Ohlson; I am not willing to eliminate the other options. I think staff wanted to discontinue work on option #3 I am not willing to let that go yet until we have more data Willing to let option #4 go and keep the others alive and request more work.

Julie Pignataro; I am willing to let option #4 go for now but it does bring up an interesting question when we talk about all of the electrification if PRPA isn't lock step with us – because they will have to use more natural gas as they bring down the coal use.

Honore Depew;
Continue looking at climate revenue sources as part of the larger sustainable revenue
Conversation to include a potential sales tax

Research further using natural gas as a proxy with options around a fee or a tax – not excluding either at this point

Letting the large emitter fee go as we move into the December work session.

Kelly Ohlson; coming up on this work session – it is Council's prerogative to not do what we recommend We are letting the large emitter fee go but are not giving any direction on the first part -we have spent 5 meetings on these

Travis Storin; I wanted to reinforce that the previous topic is very much in the conceptual stage, and I don't want the committee to have the expectation that the climate topic will be fully flushed out by the December 13th work session.. The work session is intended to be holistic around all four priorities.

Meeting Adjourned at 6:10 pm