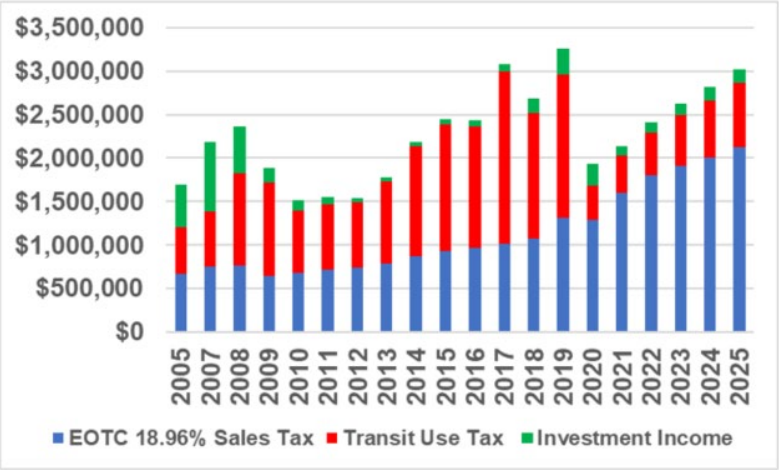
RFTA BOARD OF DIRECTORS MEETING
"PRESENTATIONS" AGENDA SUMMARY ITEM # 6. B.

Meeting Date:	September 9, 2021
Agenda Item:	Findings from PFM Analysis of the Potential Transfer of No-Fare Service from EOTC to RFTA
Strategic Outcome:	Financial Sustainability
Strategic Objective:	4.1 Ensure accurate budget and accounting
Presented By:	Michael Yang, Chief Financial & Administrative Officer Hank Fishkind, PFM Group Consulting, LLC (PFM)
Recommendation:	No decision is required at this time, but staff will present to the Board highlights from the Executive Summary from the PFM analysis, along with a copy of the full report, for discussion and questions. Based on feedback from the Board, staff anticipates to make a recommendation to the Board on this issue as part of RFTA's 2022 budget planning process at the October 2022 meeting.
Core Issues:	RFTA contracted with PFM Consulting Group (PFM) to perform an analysis of the potential for the transfer of the fare offset for the Aspen-Snowmass Regional No-Fare Service from the Elected Officials Transportation Committee ("EOTC") to RFTA. RFTA estimates the fare offset or cost of the no-fare service to range from $814,000 to $1.06 million between 2021 through 2025. The PFM analysis has been completed and the report has been provided for your reference (an Executive Summary can be found on pages 2 through 6). The report reviews the revenue structure and history of the EOTC budget, discusses the econometric forecasting methodology used to project the EOTC budget, presents a summary of the economic outlook for the U.S. and Pitkin County, provides revenue projections for sales and use taxes, examines the potential to transfer the fare offset of the no-fare service. **<u>Highlights from PFM's Executive Summary include the following:</u>** 1. Substantial structural changes have occurred since 2019 which affect the revenue projections for RFTA and EOTC. HB19-1240 changed Colorado's administration of the State's sales tax by taxing Ecommerce sales and shifting the nexus of taxation such that products delivered into Pitkin County are now subject to the County's sales tax. 2. However, the increased scope of the sales tax reduces use tax revenues from construction materials. If the materials pay the County's sales tax, they no longer pay use tax. 3. RFTA and EOTC share the ½ cent Pitkin County transportation sales tax. RFTA's share is 81.04% with the balance of 18.96% going to EOTC. So, the sharp increase in sales taxes benefits both parties. 4. However, EOTC retains 100% of the use tax which is declining sharply after passage of HB19-1240 and the consequent fall in use taxes on construction materials. Most of the negative impact on the EOTC budget occurs in 2020-

2022 as the declines in the use tax exceed the growth in EOTC's share of the sales tax.

5. However, over time the projected increases in EOTC's sales tax revenues are expected to offset declines in use tax revenues through 2025 as Figure E1 illustrates. Overall, EOTC's total revenues are projected to grow from less than $2 million in 2021 to over $3 million by 2025.

Figure E1. Annual Changes in EOTC Sales and Use Tax Receipts

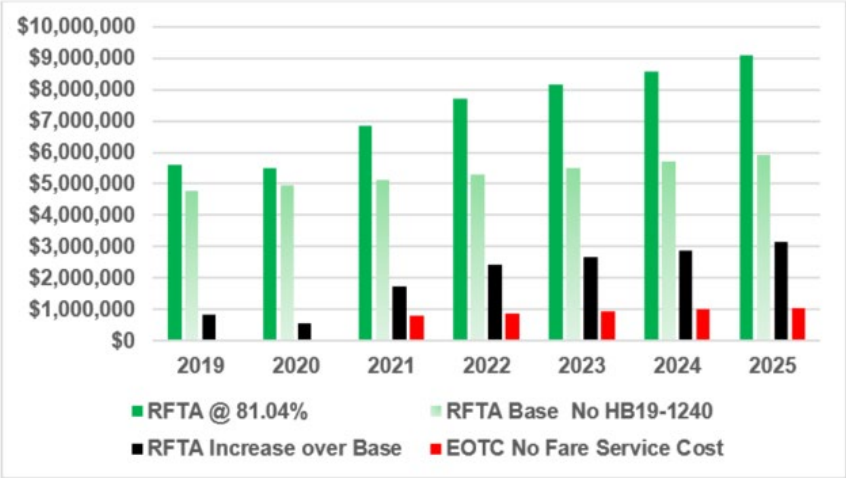


6. RFTA revenues increased substantially in 2019, because of a strong economy and HB19-1240. The 2020 Covid19 Recession caused RFTA revenues to dip. The forecast for 2021 and 2022 is for significant gains as the economy recovers and then for sales tax revenue gains to return to their more normal levels of about 5% per year.

7. Based on these projections, can RFTA absorb the cost of the no-fare service? The answer is yes, as Table E1 shows.

8. The combination of HB19-1240 and a rebounding economy from 2021-23 will result in strong gains in the ½ cent transit sales tax pushing RFTA's 81.04% share up strongly as well. Some of this revenue growth would have occurred without the effect of HB19-1240. From 2005-2018 RFTA's share of the transit tax grew at a 4% annual rate as shown in the column labeled "RFTA Base No HB19-1240." The "RFTA Increase over Base" shows the amount of additional sales tax revenues resulting from HB19-1240, which expanded the sales tax base and taxed products purchased elsewhere, but delivered into Pitkin.

Figure E1. RFTA Revenues and the No Fare Subsidy



9. It is also useful to review the impact of HB19-1240 on EOTC's revenues compared to the estimated cost of the no fare service. Table E2 shows that through 2025 the no fare service has a total estimated cost of $3,860,114. HB19-1240 is projected to increase EOTC's sales tax revenues, but it will also decrease use tax revenues by even more with the net result of a reduction of $2,472,977 by 2025. It is important to note that the forecasted reduction of EOTC revenues is less than the estimated cost for the no fare service for each year through 2025. It is worth consideration for RFTA to absorb the cost of the no fare service up to the amount of forecasted reduction in EOTC revenues and then have the EOTC to contribute the difference.

Table E2. Net Impact on EOTC of HB19-1240 and Shifting the No Fare Service to RFTA

Year	*EOTC No Fare Cost*	*Net Impact of HB19-1240 on EOTC*	*Potential EOTC Contribution*
2022	$870,980	-$432,355	$438,625
2023	$931,949	-$569,416	$362,533
2024	$997,185	-$680,954	$316,231
2025	$1,060,000	-$790,252	$269,748
	=========	==========	==========
Total	$3,860,114	-$2,472,977	$1,387,137

10. Finally, there are additional policy considerations concerning the no-fare service. The same forces that are boosting RFTA revenues will boost sales tax revenues for all the EOTC communities and for all RFTA participants that collect sales taxes. These increases should be factored into the policy decisions concerning the no-fare service.

<u>RFTA staff's comments:</u>

It is evident that the net impact of HB19-1240 benefits RFTA more than the EOTC based on their respective shares of the ½ cent Pitkin County transportation sales and use tax.

	If PFM's revenue projections are accurate, then it appears that RFTA will generate sales tax revenues in excess of its base revenues before impacts from HB19-1240 that will be sufficient to cover the estimated cost of the no-fare service. However, this scenario reveals that the net impact of HB19-1240 on the EOTC's revenues will result in revenue losses, but not greater than the estimated fare offset that it would pay to RFTA. This creates an opportunity for the EOTC to contribute a portion of the estimated fare offset and RFTA use sales tax revenues to fund the remaining portion. If actual revenues come in under PFM's projections, then it is possible that RFTA could not generate enough sales tax revenues over its base revenues to cover the estimated fare offset. Under this scenario, the net impact of HB19-1240 on EOTC's revenues would result in greater revenue losses which would also reduce its ability to contribute any portion of the estimated fare offset. The 1st draft of the 2022 RFTA budget reflects a full contribution from the EOTC to RFTA for the fare offset for the no-fare service. If the RFTA Board would like staff to explore a cost-sharing approach between the EOTC and RFTA, then RFTA staff can plan to collaborate with the EOTC staff to develop a cost-sharing methodology to determine a manner in which to calculate the annual contributions from the EOTC to RFTA to cover a portion of the no-fare offset.
Background:	1. At the November 14, 2019 Board meeting (see attachment below on page 19), staff presented to the Board anticipated impacts of the Colorado HB 19-1240 Sales and Use Tax Administration (effective June 1, 2019). This state law was the result of the U.S. Supreme Court decision, i.e. South Dakota vs. Wayfair, which requires all retailers, including out-of-state retailers that do not have a physical presence in Colorado, to collect state and local sales tax at the point of delivery. This tax law impacted the sales and use tax revenues, including those levied in each of RFTA's member jurisdiction under RFTA's Regional Transportation Authority (RTA) 1% sales and use tax authorization and the Pitkin County mass transit sales taxes dedicated to RFTA by Pitkin County voters in 2000 and 2004. At that time, there was insufficient data available to accurately estimate the financial impact; however it was anticipated that this law would result in an increase in local sales tax collections, but will likely result in a reduction in use tax on construction materials and fabricated goods. 2. The primary issue communicated to the Board was regarding the impacts of the 0.5% Pitkin County Sales and Use Tax revenues to the EOTC and, ultimately, RFTA. The funding for the EOTC comes from two sources: a. 0.5% Pitkin County Use Tax on construction goods, fabricated goods, and motor vehicle registration 100% dedicated to EOTC activities, and b. 0.5% Pitkin County Sales Tax 18.96% dedicated to EOTC activities, and 81.04% to RFTA. 3. Moving forward, the majority of the use tax revenues are expected to come from motor vehicle registrations. The EOTC's anticipated increase in sales tax revenues will not fully offset the reduction in use tax collections, which will create long-term revenue concerns for the EOTC that will greatly impair its ability to maintain current programs and projects, one of which is annual fare offset

	contribution to RFTA to support the Aspen-Snowmass Regional No-Fare Service. Because RFTA anticipates increased revenues from its dedicated share of the 0.5% Pitkin County Sales tax as a result of the tax law, the EOTC wanted to initiate discussion with RFTA about having RFTA assume all or a portion of the No-Fare service fare offset. Considering the symbiotic and mutually beneficial partnership between the EOTC and RFTA, and because the anticipated reduction in the EOTC use tax should result in corresponding increase in RFTA sales tax, the request by the EOTC for RFTA to absorb the cost of the No Fare offset seemed worthy of consideration by the RFTA Board. 4. For 2020, the EOTC approved a transitional budget which included to fully fund the fare offset for the Aspen-Snowmass Regional No-Fare Service. During the 2021 budget planning presentations to the RFTA Board from August to November of 2020, staff provided updates on this item resulting from discussions with the EOTC staff. For 2021, due to the economic uncertainty created by the COVID-19 pandemic in the region, the EOTC approved $813,678 of budget to continue the no-fare contribution to RFTA. 5. As part of RFTA's 2021 work plan, staff has been continuing to discuss RFTA assuming all or a portion of the No-Fare service fare offset and have been analyzing actual sales and use tax collections. In the May RFTA Board Agenda Packet, (on page 31) the CEO report included an update on staff's efforts to consider the EOTC's request to discuss having RFTA assume all or a portion of the No-Fare service fare offset due to the anticipated reductions in EOTC revenues as a result of the tax law change from HB19-1240. Based on staff's initial findings over the period between 2018 through 2020, it appeared that the 0.5% Pitkin County Use Tax revenues decreased while the 0.5% Pitkin County Sales Tax revenues increased. However, the net impact to the EOTC over the two-year period was a decline in its dedicated share of 0.5% Pitkin County Use Tax revenues while the net impact to RFTA was an increase in revenues. 6. The actual sales and use tax revenue trends are consistent with the initial expectations made in 2019. The increase in revenues to RFTA appear to be sufficient for RFTA to assume all or a portion of the No-Fare service fare offset. However, information is not available to identify the exact amount of sales tax revenues that are attributable to the tax law change on June 2019. 7. A third party consultant, PFM Group Consulting, LLC (PFM), has been utilized to provide an analysis of the potential for the transfer of the No-Fare service fare offset from the EOTC to RFTA. Part of PFM's due diligence included a conference call with Pitkin County and City of Aspen staff, which was facilitated by RFTA staff. PFM completed their analysis and submitted a draft report to RFTA staff for review and comment. RFTA staff also shared a copy of the draft report with Pitkin County and City of Aspen staff for their reference and comment.
Policy Implications:	Board Job Products Policy 4.2.5 states, "The Board will approve RFTA's annual operating budget (subject to its meeting the criteria set forth in the Financial Planning/Budget policy)."
Fiscal Implications:	None at this time. However, if RFTA decides to cover all or a portion of the fare-offset for the no-fare service, then there may be a reduction in the annual contribution from the EOTC.

Attachments:	Yes, please see "PFM Analysis Report 9.3.2021.pdf" included in the September 2021 RFTA Board Meeting Portfolio.pdf, attached to the e-mail transmitting the Board Agenda Packet. Also, for additional background regarding the EOTC No Fare subsidy issue, please see RFTA staff briefing from the November 14, 2019 budget presentation titled, "Anticipated RFTA and Elected Officials Transportation Committee Pitkin County Mass Transit Sales and Use Tax Revenue Impacts Resulting from Passage of HB 19-1240," attached below.

2020-2021 Budget Issues (*from November 14, 2019, Budget Presentation****):***

Anticipated RFTA and Elected Officials Transportation Committee Pitkin County Mass Transit Sales and Use Tax Revenue Impacts Resulting from Passage of HB 19-1240:

Colorado HB 19-1240 Sales and Use Tax Administration went into effect on June 1, 2019. The new state law is the result of the U.S. Supreme Court decision, i.e. *South Dakota vs. Wayfair*, which requires all retailers, including out-of-state retailers that do not have a physical presence in Colorado, to collect state and local sales tax at the point of delivery. Although insufficient data are available to accurately estimate the financial impact, this law should result in an increase in local sales tax collections, but will likely result in a reduction in use tax on construction materials and fabricated goods. With respect to sales and use taxes levied in each of its member jurisdictions under RFTA's Regional Transportation Authority 1% sales and use tax authorization, this means that reductions in use tax collections should be more than offset by increases in sales tax collections.

Similarly, RFTA should see an increase in the Pitkin County mass transit sales taxes dedicated to it by Pitkin County voters in 2000 and 2004. As background, when the Region Transportation Authority was formed in 2000, Aspen, Snowmass Village, and Pitkin County decided to dedicate portions of the existing 1986 and 1993 1.5% Pitkin County mass transit sales taxes to RFTA, rather than impose new and additional sales and use taxes using RFTA's sales and use tax authorization. So, in 2000, Pitkin County voters were asked to dedicate a tax rate of .7215% from the 1.5% Pitkin County mass transit taxes to RFTA.

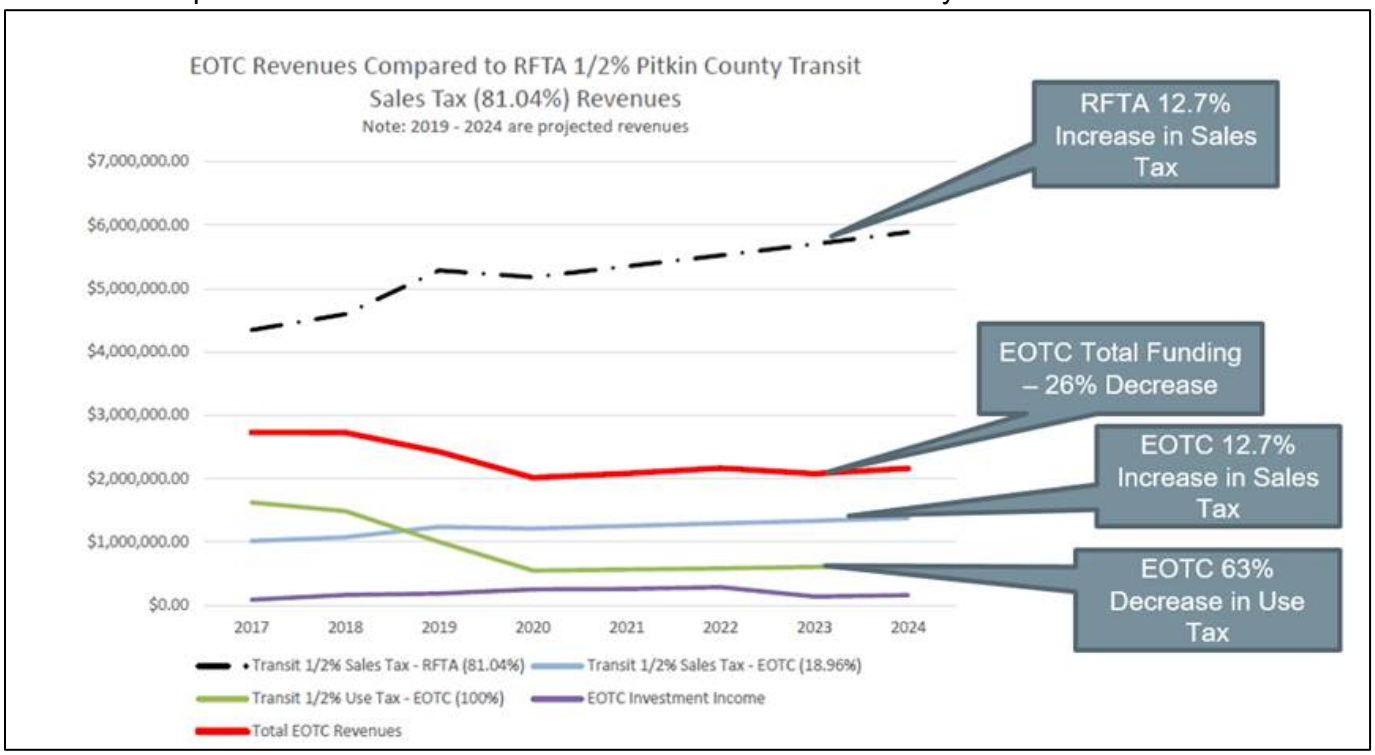
In a separate 2001 Intergovernmental Agreement (IGA), between Aspen, Snowmass Village, and Pitkin County, it was determined that the .7215% portion of the 1.5% Pitkin County sales taxes dedicated to RFTA would be comprised of a tax rate of .4813% of the 1986 1% Pitkin County mass transit sales tax and a tax rate of .2402% from the 1993 Pitkin county .5% mass transit sales and use tax. The 1% sales tax never had a use tax component, whereas the .5% mass transit tax was approved as a sales and use tax. In the 2000 vote, though, only the sales tax portion of the .5% sales tax was dedicated to RFTA by Pitkin County voters. Although no use tax was dedicated to RFTA with the sales tax, in 2000, when the RFTA Formation IGA was being crafted, it was agreed by all of the signatories that the amount of funding generated by the sales tax rate of .7215% from the Pitkin County mass transit sales taxes was sufficient for Aspen, Snowmass Village, and Pitkin County to defray an equitable share of the new RFTA dedicated financing.

The companion IGA was necessary because it set forth the percentage amounts that each jurisdiction would contribute from the 1% Pitkin County mass transit tax that would be dedicated to RFTA, with Pitkin County contributing 100% of the 1% of the tax collected in unincorporated areas, and Aspen and Snowmass Village contributing approximately 36% each of the amounts collected within their jurisdictions. Pitkin County agreed to contribute all of its 1% sales tax so that both Aspen and Snowmass Village could retain a sufficient amount of the 1% Pitkin County mass transit tax to operate their local services.

In 2004, RFTA asked voters to increase dedicated sales and uses taxes by .2% in Glenwood Springs, Carbondale, Eagle County, and Basalt. Aspen, Snowmass Village, and Pitkin County again decided to dedicate an additional dedicated tax rate of .165% from the remaining portion of the .5% sales and use tax, bringing the total amount dedicated to RFTA in 2000 and 2004 from the 1% and .5% sales taxes to a tax rate of .8104%. Again, these jurisdictions opted to retain the .5% use tax portion of the .5% sales and use tax which, with the remaining .1% sales tax was used to fund projects and programs approved by the Elected Officials Transportation Committee (comprised of Aspen, Snowmass Village and Pitkin County).

This background has been provided to explain why, in the case of the portion of the Pitkin County mass transit sales taxes dedicated to RFTA, RFTA should see an increase in sales tax revenue due to the passage of HB 19-1240, without a corresponding decrease in use tax, since RFTA has never received use tax related to these revenue sources. However, the EOTC (which uses the remaining .1% of the .5% sales tax and .5% of the corresponding use tax to fund its capital and operating needs) will see a significant reduction in use tax that will

not be offset by the increase in sales tax. The chart below (which was presented to the EOTC by David Pesnichak, Regional Transportation Administrator Pitkin County-EOTC, on October 17, 2019) illustrates what the forecasted impacts of HB 1240 will have on the EOTC's revenue in the years ahead:



Based on the current forecast, the .5% Pitkin County mass transit use tax that largely funds the EOTC is anticipated to decline by 63%, whereas the EOTC's .1% Pitkin County mass transit sales tax is only expected to increase by 12.7%. Overall, it is currently estimated that the EOTC will see a 26% decrease in total funding, which will greatly impair its ability to maintain current programs and projects, one of which is the Aspen/Snowmass No Fare service.

2009 was first full year of the No Fare service, which was implemented as a strategy to incentivize transit use in the upper Roaring Fork Valley and help take cars off the road. The 2009 fare offset amount of approximately $429,000 was an estimate based on RFTA ridership and survey data. The amount was adjusted upward in 2010 to approximately $551,000, which represented approximately 33% of operating costs. The farebox recovery ratio for other regional services is approximately 20%, however, the high volume on tourists using the Aspen/Snowmass service, that paid the cash fare, contributed to a higher than average farebox recovery ratio for the Aspen Snowmass service compared to the rest of the system. In 2010, the Woody Creek Van service was also made fare free, which had a negligible impact on the EOTC fare offset because of historically low ridership. RFTA continued to receive approximately $553,000 per year from the EOTC for the fare offset until, in 2015, when it was agreed that the fare offset would be calibrated to be 33% of audited annual operating costs, and the fare offset was increased to $621,658 at that time. Since 2015, the fare offset has gradually increased and, in 2020, the offset will be $690,075.

For 2020, the EOTC has approved a transitional budget, which will fully fund the Aspen/Snowmass fare offset and other EOTC programs and projects. However, it is not anticipated that the EOTC will be in a position to fund the Aspen/Snowmass No Fare service in 2021, due to the anticipated significant reduction in use tax revenue. That is why the EOTC wants to initiate a conversation with the RFTA Board about having RFTA assume all or a portion of the No Fare service fare offset, because RFTA will likely see a corresponding increase in its .4% share of the .5% Pitkin County mass transit sales tax (due to the impact of HB 19-1240). The EOTC's commitment to fund the No Fare service through 2020 will allow time to better understand the impact of HB 19-1240 on the EOTC's and RFTA's Pitkin County mass transit sales and use taxes, based on a year's worth of actual sales and use tax collection data. Then, as RFTA begins its 2021 budget cycle, the

EOTC would like to determine whether, going forward, RFTA would agree to assume all or a portion of the No Fare service cost.

The EOTC has been a valued partner with RFTA over many years, contributing to the cost of hybrid buses, contributing to the cost of the Bus Rapid Transit Service Implementation Plan, constructing $9 million in exclusive bus lanes in the upper Roaring Fork Valley, contributing to cost of the Rubey Park Transit Center renovation project, contributing to the cost of the Aspen/Airport Business Center and Basalt pedestrian underpasses, contributing to the cost of the Battery Electric Bus Pilot Project, and contributing $335,000 to the cost of the Grand Avenue Bridge closure transit mitigation service. It has also provided ongoing financial support for WE-cycle and the Winter X-Games transit services. The EOTC is also planning to provide approximately half of the funding necessary to expand the paved portion of the Brush Creek Park Ride facility, as well as construct bathrooms at that location. Given the symbiotic and mutually beneficial partnership between the EOTC and RFTA, and because the anticipated reduction in the EOTC use tax should result in corresponding increase in RFTA sales tax, a request by the EOTC for RFTA to absorb the cost of the No Fare offset seems worthy of consideration by the RFTA Board. No decision is required at this time, but staff will be providing the Board with updates on this issue in the months ahead.