

# BOARD OF DIRECTORS REPORT

To: David A. Genova, Interim General Manager and CEO

From: Heather Copp, CFO/AGM, Finance & Administration

Date: October 7, 2015

Subject: Fiscal Sustainability Task Force Recommendations Update

Date: October 14, 2015
GM
Board Meeting Date: October 20, 2015

## BACKGROUND

A Fiscal Sustainability Task Force (Task Force) was formed in November 2010 for the purpose of making recommendations detailing opportunities for operating efficiencies and revenue enhancement for the Base System to ensure RTD’s long-term fiscal sustainability. The Task Force consisted of 22 members with 12 of those members being external to RTD. The Task Force presented its written recommendations to the Board of Directors in June 2011. The Board of Directors subsequently approved those recommendations and directed Staff to pursue implementation of each recommendation. The Task Force reconvened for a final meeting in July 2012 to be briefed on the progress of their recommendations and provide an opportunity for feedback.

## DISCUSSION

The Task Force made revenue enhancement, expense reduction and fiscal policy recommendations to the Board of Directors which were approved for further consideration and/or implementation. The majority of the recommendations made have been completed or their status has not changed since our last report in March 2015. We continue to report on the status of the Task Force recommendations as follows:

### **Recommendations - Completed**

#### Removing the Volatility from Sales and Use Tax Projections

RTD contracted with the University of Colorado, Leeds School of Business – Business Research Division (Leeds) to provide sales and use tax forecasts beginning in March 2011. Each quarter, Leeds provides a forecast containing short-term (one year by quarter), medium-term (six year SBP period) and long-term (30 year APE period) sales and use tax projections. This was implemented to provide RTD with expert economic analysis and sales and use tax forecasts using sophisticated financial modeling techniques not available internally. These forecasts are intended to provide a better analysis of RTD’s expected sales and use tax collections which comprise approximately 2/3 of RTD’s recurring revenues.

#### Service Optimization

In 2012, RTD implemented modifications and reductions in service representing approximately \$10.7 million or an 8% net reduction in service. Service optimization was recommended by the Task Force and implemented with Board approval in order to match services provided with available funding sources. Since that time, service has been gradually restored as needed within budgetary constraints. We will assess service optimization in context of the new FasTracks lines opening in 2016.

#### Fund Balance Policy

Due to the volatility of RTD's largest single revenue source, sales and use taxes, the Task Force recommended implementation of a more robust fiscal policy regarding fund balances. Fund balances represent financial assets that are available to RTD after allowing for obligations that have been incurred. Fund balances increase when fund sources exceed fund uses and vice versa. Fund balances, therefore, exist as a form of savings account to be used for specific purposes when needed and replenished when economic circumstances allow. In response to this recommendation, RTD implemented a fund balance policy with a target level of \$90 million for the Base System, which is approximately three months of operating expenses. The target fund balance for FasTracks is two months of operating expenses (with the third month contributed to FISA). These targets were established based on levels recommended by the Government Finance Officers Association (GFOA) best practices. The Fund Balance Policy further categorizes the available fund balances into the categories of a Board Restricted Fund, a Capital Replacement Fund and an Unrestricted Fund. At FYE 12/31/14, combined fund balances (including FasTracks) totaled \$29.9 million.

#### Sales and Use Tax Exemptions

In Colorado, legislation establishes products and services that are subject to sales and use taxation and those that are exempt from taxation. The state, cities, municipalities and special districts in Colorado each have different sales and use tax rates and often have differing items subject to taxation due to legislation establishing exemptions. Exemption parity was identified by the Task Force as providing a benefit to RTD during difficult economic conditions when the state implements exemption changes and vice versa. In addition, exemption parity removes the complexity to vendors of RTD having different taxable items than the state. RTD introduced legislation that was passed in May 2013 to establish parity with the state regarding items subject to sales and use taxation. Exemption parity took effect 1/1/14. RTD estimates that parity generated a net increase of \$2.7 million in 2014 based on 2012 figures, however, this will be difficult to track due to the way vendors report sales tax components.

#### Technology and Energy Innovation

RTD conducted a comprehensive energy audit of the oldest and largest operating division (the Platte facility) to determine the potential scope of savings that may be available through equipment and lighting upgrades. The audit identified that facility lighting upgrades could result in potentially significant energy savings. Areas for minor energy savings were identified for other building systems; however, these have a very significant capital investment and long pay-back periods. RTD budgets for energy upgrades throughout the District in the Strategic Budget Plan, and we will continue to address energy efficiency in building systems as on-going projects are completed. Facilities Maintenance has done lighting upgrades replacing older metal-halide fixtures with energy-efficient fluorescent fixtures at the East Metro, Boulder, and District Shops operating facilities and installed solar panels at East Metro. We are realizing average savings of approximately \$3,000/month at East Metro due to the combination of solar and lighting upgrades; Boulder is showing approximately \$500/month in savings with a lighting upgrade, and to date District Shops is even. Since our previous report, the following have also been constructed with energy saving features: 1) Platte: lighting upgrades with the addition of LED lighting in the employee parking lot, 2) Blake: cooling system/ice builder replacement and copy center ventilation upgrade, 3) District Shops: HRU replacement, 4) Boulder: lighting upgrades, 5) Boulder Transit Center: replacement of air cooled condensing unit and coil.

#### **Recommendations – Ongoing**

##### Sales and Use Tax Compliance Reviews

The Colorado Department of Revenue (DOR) collects and audits sales and use taxes for RTD. The Task Force identified an opportunity for revenue enhancement by performing additional sales and use tax compliance reviews based on the favorable collection experiences of Colorado cities and municipalities

that implemented these reviews. Compliance reviews consist of RTD providing additional resources from a contracted provider to supplement the DOR's audit function and is intended to provide the DOR with the additional resources necessary to ensure complete and timely tax compliance by vendors. RTD contracted with Revenue Recovery Group (RRG), an audit firm with substantial experience providing compliance review services to several Colorado municipalities, and the program began in April 2014. To date, 80 compliance reviews have been approved to be undertaken by RRG. Additional compliance reviews were terminated during discovery due to a determination of collection potential. Of the 80 undertaken, 60 are ongoing and 20 are complete. While the 20 completed compliance reviews must still undergo a review and approval process by DOR, assessments total \$646,743 vs. costs of \$529,058.

#### Naming Rights

In August, the RTD Board approved the first naming rights/corporate sponsorship agreement under the Board-adopted naming rights policy with the University of Colorado for naming the commuter rail A Line and creating an advertising presence on the Flatiron Flyer bus rapid transit line. In return, RTD will receive from the University of Colorado total gross payments of \$5 million over the next five years, less implementation costs and commission, with a possible five year extension if both parties agree. By way of background, RTD's naming rights consultant WME/IMG presented to the Board in 2013 an inventory and financial analysis of RTD facilities, services, and assets that could lend themselves to naming/sponsorship value-added contracts. WME/IMG completed the valuation of RTD assets and was given the green light to begin pursuing potential clients, resulting in the public launch of the program in the third quarter of 2014. Any additional proposed naming rights/corporate sponsorship contracts will continue to be brought to the RTD Board for approval.

#### Partnerships and Privatization

The Task Force described this recommendation as a broad area that could include items such as privatizing routes and administrative and operational functions to reduce expenses. RTD has undertaken some actions under this recommendation such as the lease of the DUS historic building, IGAs for improvements to US36 and the East Line, as well as TOD activities. RTD continues to look for partnership and privatization opportunities on an ongoing basis. RTD has received an unsolicited proposal regarding its parking facilities that may present further opportunities for working with the private sector.

#### **Recommendations – Low Priority**

Recommendations made by the Task Force and categorized at the 2012 Board Retreat as having lower priority and their status follows:

#### Charge for Parking

RTD currently charges out-of-District patrons parking fees to use parking facilities as well as fees charged to in-District patrons parking for longer than 24 hours. The Task Force identified charging parking fees to all patrons as a possible revenue enhancement source. This recommendation could be perceived as a fare increase. In 2013, the state legislation regarding RTD charging for parking was amended to allow a third party to charge in-District patrons as long as RTD receives no revenue.

#### Tolling and Managed Lanes

The Task Force recommended investigating the possibility of RTD generating additional revenues through charges for tolling and managed lanes. Enacting this recommendation would require coordination with CDOT and other agencies. The US36 BRT project is an example of how tolling and managed lanes can enhance RTD operations and save costs. The agreement guarantees running times, allows for bus on shoulder operations to facilitate schedule adherence on local service, and provides for

maintenance of managed lanes with no contribution from RTD. Prior to entering into agreements with CDOT for managed lanes, RTD contributed to maintenance and snow removal on the I-25 HOV lanes.

Home Rule Initiative

The Task Force recommended that RTD consider becoming a "Home Rule" entity which would allow RTD to collect and audit its sales and use taxes instead of the DOR. This initiative would require legislation. RTD met several times with the DOR to discuss this initiative as well as sales and use tax compliance reviews. Although the DOR did not object to RTD performing these services itself, the Colorado Municipal League and other entities recommended against it. "Home Rule" is a state constitutional authorization for creating municipalities. It could only be secured for RTD by statewide constitutional amendment. As discussed earlier in this report, RTD has entered into an agreement with DOR to facilitate better tax compliance and monitoring, which has been coupled with simplification of state and RTD taxation through legislation that provides for uniformity on items taxed.

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