

BOARD OF DIRECTORS REPORT

To: David A. Genova, General Manager and CEO
From: Heather McKillop, CFO/AGM, Finance & Administration
Date: November 8, 2017
Subject: Fiscal Sustainability Update

Date: November 8, 2017
GM
Board Meeting Date: November 14, 2017
Information

BACKGROUND

A Fiscal Sustainability Task Force (Task Force) was formed in 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 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 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 2017. Per Board policy, we continue to report periodically on the status of the Task Force recommendations below. Each recommendation is summarized below and expanded comments are provided for those that have had a change in status since the last report.

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 2011. These forecasts are updated semi-annually by CU-Leeds.

Service Optimization

Service optimization was recommended by the Task Force and implemented with Board approval in order to match services provided with available funding sources. Service modifications were brought forward to accommodate the new FasTracks lines opening in 2016 and we continue to assess service optimization.

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. In response to this recommendation, RTD implemented a fund balance policy with a target level of three months of operating expenses for both the Base System and FasTracks. While FasTracks has met this objective, the Base System has not and is not expected to fully meet this goal within the six-year term of the Strategic Budget Plan.

Sales and Use Tax Exemptions

Exemption parity with the state of Colorado was identified by the Task Force as providing a benefit to RTD during difficult economic conditions when the state implements exemption changes. In addition, exemption parity removes the complexity to vendors of RTD having different taxable items than the state. Through legislation introduced by RTD, exemption parity took effect in January 2014. This change in legislation has been challenged and the Colorado Supreme Court granted a Petition for Writ of Certiorari. Oral arguments are scheduled for November 2017.

Technology and Energy Innovation

RTD conducted an energy review of the major operating facilities and installed equipment and lighting upgrades where possible. RTD budgets for energy upgrades throughout the District in the Strategic Budget Plan. We will continue to address energy efficiency in building systems as on-going projects are completed.

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. While assessments from this effort exceeded the costs, it was not clear to what extent those assessments would be collected. RTD staff decided not to extend the contract for this work beyond 2015 due to the limited remaining opportunities for assessments outside of the scope of work of the DOR.

Recommendations – Ongoing

Naming Rights

The first naming rights/corporate sponsorship agreement under the Board-adopted naming rights policy was reached 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. 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. These have included the lease of the DUS historic building, IGAs for improvements to US36 and the East (A) Line, as well as TOD activities. RTD continues to look for partnership and privatization opportunities on an ongoing basis.

Recommendations – Low Priority

The status of recommendations made by the Task Force and categorized as having lower priority follows:

Charge for Parking

RTD currently charges parking fees to out-of-District patrons, in-District patrons that park longer than 24 hours, and for reserved parking. In 2013, the state legislature allowed daily parking fees only at non-District facilities. In 2016, RTD staff presented a parking management briefing at a study session that focused on a consultant pay-for-parking study, parking management program update, and FasTracks partnering projects. Since the inception of the parking management program through the third quarter of 2017, \$774,402 has been contributed to the general fund.

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.

Home Rule Initiative

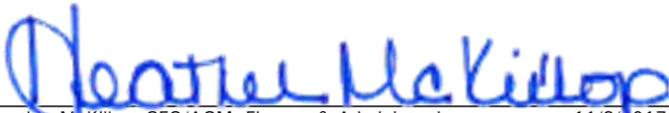
The Task Force recommended that RTD consider becoming a "Home Rule" entity which would allow RTD to collect and audit its sales and use taxes instead of the DOR. This initiative would require legislation. The Colorado Municipal League and other entities recommended against it. It could only be secured for RTD by statewide constitutional amendment. As discussed earlier in this report, RTD has effected simplification of state and RTD taxation through legislation that provides for uniformity on items taxed.

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