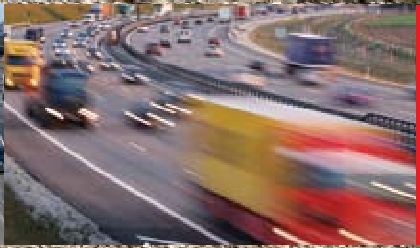

Colorado Transportation Finance and Implementation Panel:

A Report to Colorado

Executive Summary / January 2008

This report is dedicated to
John Parr
in memory of his leadership, friendship and commitment to improved public policy for the State of Colorado.

Colorado's transportation system faces a quiet crisis.

Many motorists, perhaps preoccupied by an inquisitive child or busy on a cell phone, are oblivious to the condition of the roads on which they drive. They may be unaware that many of the state's highways and bridges are in disrepair. Credit can be given to state and local transportation agencies that have managed to hold the system together despite increasing demands and stagnant revenue.

Many drivers also don't realize that, over the last decade, the primary means by which we pay for transportation has eroded to less than a third of its value. Gasoline taxes are no longer a sufficient source of funding. The evidence is the dilapidated underside of many bridges, the eroding shoulders on the sides of many roads and lengthy congestion delays.

Modernizing this outdated, deteriorating system is a key tenet of The Colorado Promise, the 50-page blueprint for the state's future put forth by Governor Bill Ritter Jr. during his 2006 campaign. In March 2007, Governor Ritter appointed the Transportation Finance and Implementation Panel to evaluate the state's transportation needs and identify long-term programs and sustainable funding sources.

The 32 members of the Panel represent a broad spectrum of experts, policymakers, representatives from private industry, community leaders and citizens. They are led by three co-chairs: Douglas Aden, chairman of the Colorado Transportation Commission and a resident of Grand Junction; state Treasurer Cary Kennedy, a Denver resident; and Bob Tointon, president of Phelps-Tointon, Inc. and a resident of Greeley. A Technical Advisory Committee helped the Panel review transportation financing options and other complex aspects of this topic.

An executive order issued by Governor Ritter provided the Panel with guidance:

- Convene a transportation summit
- Make the process inclusive
- Build statewide partnerships among the various stakeholders
- Conduct regional meetings to allow for statewide input
- Build upon existing studies and information, such as the Colorado Department of Transportation's 2030 Statewide Transportation Plan
- Use consensus-building techniques

The summit, regional meetings and CDOT presentations gave Panel members a long, thorough look under the hood at the state's transportation system.

Growing Demand, Aging Infrastructure

The demands placed on roads, bridges and other parts of the system have increased with our growing population and economy. More than 4.7 million people live in Colorado, 44 percent more than in 1990, and another 1.2 million are expected by 2020. Like all of us, these newcomers travel to work, go shopping, have packages delivered and take trips for fun. Because of development patterns, travel is growing at a rate faster than the population. In 2006, 28.5 billion miles were driven on state highways, a 60 percent increase from 1990.

More people are driving more miles on essentially the same highway system, which is why there is more congestion. The amount of time the average motorist sits in traffic in congested corridors during peak hours every day is expected to double in 10 years. And all that traffic leads to extra wear and tear on roads and bridges already showing their age.

Without increased resources, it will not be possible to maintain the current surface condition of state roads. This will have a major impact. Today, if you drive an hour on an average stretch of highway, you will spend about 20 minutes on rough pavement. By 2016, you will spend about 40 minutes on rough pavement. This is bad news, not only for your driving comfort but because that rough pavement takes a toll on your car's tires and suspension and eventually your wallet. It is bad for state finances, as well. Roads and bridges that are not maintained today will cost more to repair tomorrow.

Consistent themes emerged from the Panel's regional meetings, from the pleas of rural residents for essential road maintenance to the appeal of nearly everyone for more transportation options.

"Rural Colorado is sending a clear message," said Cas Garcia, a Panel member and former transportation commissioner from the San Luis Valley, summarizing public comments from meetings on the Western Slope and Eastern Plains. "They are talking about basic survival – needs, not wants. Maintain the roads. Keep the bridges from falling down. Give us a little shoulder to work with."

In all parts of the state – urban, rural and resort areas – Coloradans spoke of a growing need for more and better transit services. "Our roads are no longer just farm-to-market or tourist roads," said Diane Mitsch-Bush, a Routt County commissioner and vice chairwoman of the Northwest Transportation Planning Region. "Our roads are vital for commuters. We need to expand our well-used commuter transit services. Transit reduces traffic, increases safety and provides reliable transportation for our workforce during inclement weather. This matters to workers and employers alike."

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Impacts of a Deteriorated System:

- Greater Long-Term Cost
- Speed Reductions/Rough Roads
- More Congestion/Less Reliability
- Weight-Posted Bridges
- More Hours of Closed Roads
- Closing Additional Mountain Passes
- Less Safe Roads

Interstate 70 Viaduct. Built in 1964 for $12.5 million, the 1.2 miles of elevated roadway in Denver carried 100,000 vehicles a day by 2000 and 140,000 vehicles a day just six years later. Cost to replace: $800 million.

Climbing Costs, Stagnant Revenue

Paying for the maintenance and expansion of the transportation system is becoming much more challenging as stagnant revenue streams lag behind rising construction costs. Motor fuel taxes – 22 cents per gallon on gasoline and 20.5 cents per gallon on diesel – are the primary funding source for Colorado's roads, along with federal taxes of 18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel. A mid-size car driven 15,000 miles a year pays about $132 in state gas taxes and $110 in federal gas taxes annually. Motor fuel tax revenue depends on the number of gallons sold, not the sale price. Despite the fact that Coloradans are driving more than ever, the increasing fuel efficiency of motor vehicles has led to a decline in the rate of growth of motor fuel tax collections, slowing the growth of transportation funding.

Compounding this effect is the fact that the last gas tax increase in Colorado happened 17 years ago (16 years ago for the tax on diesel). In contrast, between 1977 and 1992 the fuel tax increased a penny per year on average. Revenue restrictions in the Taxpayer Bill of Rights (TABOR) have since prevented state lawmakers from raising taxes to keep pace with construction-cost inflation, which has averaged 6.4 percent per year since 1992. Keeping up with inflation would have required a penny-and-a-half increase in the gas tax per year.

Since 1997, during good economic times, the legislature has allocated money from the state's General Fund to supplement gas tax revenue. But this is a sporadic and unpredictable source of funding for transportation.

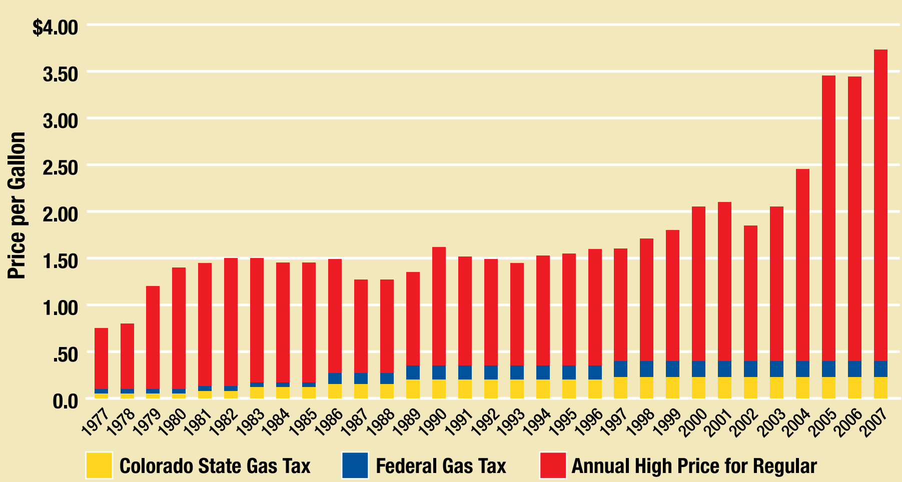
Recommended Policies

Panel members unanimously support an increased investment in transportation that would address a broad range of infrastructure needs, both roadway and transit. It is critical the state play a role in providing not only for those who own cars and trucks but for those dependent on transit. Safety of the traveling public must be an integral part of every transportation program and project.

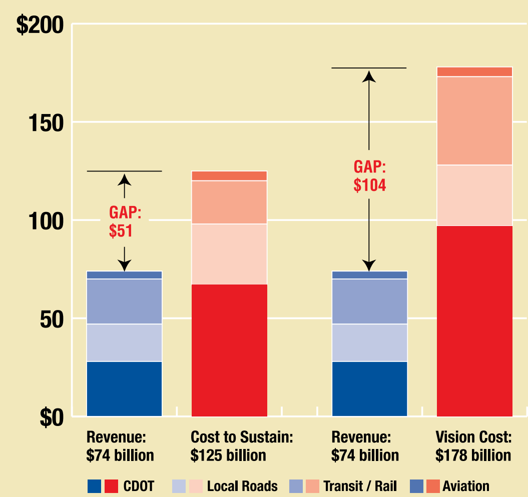
The Panel's main policy recommendations:

- Maintain existing infrastructure as the first priority. Address deteriorating components of the highway system, including bridges and shoulders.
- Address safety and congestion through large corridor reconstruction projects.
- Increase access to jobs, health services and recreation by expanding transit, including more options for the elderly and people with disabilities, more lines in rural areas and inter-regional transit to connect communities around the state.
- Make non-motorized travel options safer and more convenient by adding more pedestrian and bike paths.
- Promote environmental stewardship to mitigate the impacts of maintenance and construction.
- Allocate dollars to local governments to invest in roads and transit, recognizing that both are part of the broader transportation network.

State gas tax remains steady as prices climb



2030 Funding Gap *in billions of dollars*



Revenue Options

Everyone in Colorado benefits from a statewide transportation system that is properly maintained, moves people safely and efficiently and is built to accommodate future growth and development. So it is appropriate that everyone – including visitors and interstate truckers – share the cost. The Panel considered 39 alternatives for generating more revenue for transportation, evaluating each on 16 criteria such as administrative burden, flexibility and whether the revenue source is stable. The Panel recommends five primary revenue sources:

Revenue Source	Incremental Fee or Tax	Revenue Generated*	Voter Approval Required?
Highway Maintenance Fee	Average fee increase of $100	$500 million	no
Motor Fuel Tax	13¢ per gallon increase	$351 million	yes
New Visitor Fee	$6 per day	$240 million	no
Sales & Use Tax	0.35% increase	$312 million	yes
Severance Tax	1.7% effective increase	$96 million	yes

**Estimated first full-year revenues are in FY 2007-08 inflation-adjusted dollars.*

- **Highway Maintenance Fee**

Specifics: Add a new annual "State Highway Maintenance Fee" to the cost of registering a motor vehicle. All proceeds, after the cost of administration, would be dedicated to maintenance operations for the state highway system.

Rationale: A well-maintained highway system is essential for motor vehicles to be driven safely, expeditiously and without incurring damage.

Estimated revenue calculation: There are about five million vehicles registered in Colorado. An average fee per vehicle of approximately $100 would generate about $500 million.

- **Motor Fuel Tax Increase**

Specifics: Increase excise taxes on motor fuels. The taxes either would be indexed to inflation or the ballot measure would include a schedule of future incremental rate changes.

Rationale: Colorado historically has relied on motor fuel taxes to finance public roads, and this revenue source is consistent with the concept of having users pay for transportation.

Estimated revenue calculation: Colorado's current fuel taxes generated about $577 million FY 2005-06. Each penny of motor fuel tax generates $22 million annually.

- **Visitor Fee**

Specifics: Establish a fee for renting a car and staying in a hotel or motel. The revenue would go to transportation-related projects.

Rationale: Visitors to Colorado, either for tourism or business reasons, benefit from the state's transportation system. While they may pay some fuel taxes, adding a visitor fee would provide another way to make sure they contribute to construction and maintenance.

Estimated revenue calculation: A $6 fee per night and per daily car rental would generate an estimated $240 million annually.

- **Sales & Use Tax Increase**

Specifics: Increase state taxes on the sale of retail items to individuals and the use of items purchased by businesses. The revenue would be dedicated to transportation.

Rationale: Because revenue from vehicle fees and fuel taxes must, under the state Constitution, only be used for state highways, an additional revenue source is needed to pay for transit and other transportation needs. Many local governments have used sales taxes to subsidize transit programs, and there is a precedent for using state sales tax proceeds for transportation.

Estimated revenue calculation: The state sales tax rate is 2.9 percent. An increase of 0.1 percentage points would generate about $93.6 million in additional revenue in FY 2009-10 ($89.2 million in 2008 dollars).

- **Severance Tax Increase**

Specifics: Increase severance tax rates on oil and gas income and dedicate the money for transportation. The current tax rate ranges from 2 percent to 5 percent.

Rationale: An increase in severance tax rates would help offset the impact of expanded oil and gas exploration on the state highway system. A recent study shows the tax burden of the energy industry in Colorado is low compared to neighboring states with significant natural resources.

Estimated revenue calculation: An average rate increase of 1.7 percentage points would generate an estimated $93 million per year.

Funding Level Recommendations

The Panel recommends a package of funding mechanisms that would generate additional annual revenue for transportation at any of four levels: $500 million, $1 billion, $1.5 billion or $2 billion. The Panel's preferred alternative – the one most reflective of its vision for a comprehensive transportation system – would raise an extra $1.5 billion a year.

This level of funding would make it possible for the state to address needs across all program areas. One-third of the new revenue – approximately $500 million – would be focused on safely preserving roads, bridges, shoulders and other existing components of infrastructure. The other $1 billion would go to projects designed to relieve traffic congestion, better connect regions of Colorado, improve local roads and add more transit options.

Choosing an alternative level of funding – more or less than $1.5 billion – would mean fulfilling these needs more or less quickly or some not at all.

What $1.5 Billion Buys

Investment Category	Funding Level	Service Level Outcome
Surface Treatment	$222 million	Raise from C to B
Bridges	$156 million	Maintain at B
Maintenance Levels of Service	$82 million	Raise from C to B
Shoulders	$78 million	Raise from F to D
Mobility	$562 million total includes:	
• Strategic Projects	$56 million	Accelerate funding obligation by about five years
• Multi-Modal Mobility	$337 million	Limit decline of Mobility to D+ rather than to F
• Strategic Transit	$169 million	Raise from D to C-
Transit - Urban	$36 million	Raise from C to B
Transit - Rural	$36 million	Raise from C to B
Environmental	$25 million	Establish at B
Bicycle & Pedestrian	$10 million	Establish at B
Local Transportation	$293 million	Varies by local jurisdiction

Investment Categories

- **Surface Treatment**

CDOT annually rates each state roadway surface as Good, Fair or Poor. Good and Fair roads have more than five years of remaining service life, while Poor roads are expected to last five years or less. The Transportation Commission's current goal is to maintain 60 percent (level C) of lane miles in Good or Fair condition, but at present funding levels fewer than 40 percent will be in Good or Fair condition by 2016.

- **Bridges**

Colorado's bridge infrastructure is aging rapidly. Spending $156 million a year to maintain state bridges at a B level means that 95 percent of the total deck square footage of bridges (rather than all bridge structures) would be in Good or Fair condition.

- **Maintenance Levels of Service**

CDOT performs about 70 maintenance activities, such as fixing potholes, cleaning rest areas and plowing snow on highways. Each is graded on certain criteria. For snow and ice removal, for example, raising the level of service from a C to a B would mean maintaining high – rather than good – levels of mobility as much as possible by plowing and applying deicers.

- **Shoulders**

Increasing the width and surface condition of road shoulders makes a road safer for motorists and bicyclists. Colorado has 2,526 miles of state road shoulders that are narrower than four feet, and the current F grade means there is no program underway to widen them. Spending an additional $78 million a year to increase the overall grade to a D would mean widening 25 percent of miles with shoulders narrower than four feet.

- **Mobility: Strategic Projects**

Twenty-eight high-cost and high-priority projects were selected in 1996 by the Colorado Transportation Commission to address demands for better mobility, safety and system quality in critical corridors of the state. These projects received funding through voter-approved Transportation Revenue Anticipation Notes (TRANs) in addition to general fund revenues. Unfortunately, the TRANs bonds did not fully fund the total cost of the projects due to extraordinary inflationary costs. The Panel recommends accelerating funding to these projects.

- **Mobility: Multimodal Mobility**

Multimodal mobility is the moving of people and goods by more than one form of transportation with the goal of relieving congestion, shortening travel times, improving safety and giving travelers more options. CDOT studied delays and congestion in 2006 and determined that a much bigger investment in alternative modes of transportation is needed just to maintain travel delays at their current levels.

- **Mobility: Strategic Transit**

Allocating an additional $169 million a year to improve the current D grade to a C- could, for example, allow for the construction of some rail transit along portions of Interstate 70 and Interstate 25.

- **Urban and Rural Transit**

Additional revenue would speed the progress of existing local transit programs. In urban areas, it could supplement or expand existing transit systems. In rural areas, it could help expand or introduce transit services for critical access needs.

- **Environmental and Bicycle/Pedestrian**

New programs would mitigate the environmental impact of transportation projects. Others would enhance bicycle and pedestrian routes, encouraging a reduction in car traffic.

- **Local Transportation**

Money flowing to local governments would be invested in roadways and transit that are part of Colorado's broader transportation network.

Transportation into the Future

The Panel envisions a transportation system for Colorado that is safe, efficiently meets the needs of the traveling public and is supported by a reliable, inflation-proof revenue stream. The transportation network of the future will sustain a robust economy, a cleaner environment and thriving communities.

The traditional approach to spending transportation dollars should be reexamined. Simply adding more lanes to existing roads will not get Colorado where it needs to be – the population is growing too fast for the system to keep pace with the increased demand. The cost of building, operating and maintaining infrastructure is growing, as well.

To make the Panel's vision a reality requires Coloradans to think differently about the way they live, work and play. There should be an emphasis on the management of demand, as well as building to keep pace with that demand. Programs should focus on reducing trips and trip lengths, minimizing emissions, providing choices in modes of transportation and embracing technological innovations in fuels, vehicles and transit systems. Travelers, in turn, should be persuaded to change their behavior.

Next Steps

The quiet crisis in transportation must not be ignored. This became increasingly apparent to the Panel with each regional meeting and presentation.

Most Panel members began this discussion with some recognition that a bigger investment in transportation is needed. All now stand unified in their position that action is not only necessary, it is critical to Colorado's future and economic success.

"Fix it First" – the commitment to maintaining existing roads and bridges – is viewed by the Panel as non-negotiable, an absolute must. However, simply maintaining the system is widely acknowledged as not enough. Driving the Panel's final recommendations is a realization of Colorado's ongoing population growth and the resulting demands placed on the transportation system, as well as a desire to avoid undesirable environmental impacts.

Transportation revenue is not keeping pace with inflation, and construction costs continue to rise. Colorado is not unique in this area, but we cannot approach our transportation problems as we have in the past. We were challenged to think broader and offer sustainable programs and funding that take us into the future.

The Panel offers these recommendations with a long-term outlook. We recognize it will take time to make an investment of this magnitude. But action can and must begin now to move this conversation in the right direction and realize incremental improvements. It is going to take a bipartisan commitment and a unified effort of businesses, industries, government leaders, environmental interests and communities all over Colorado.

NOTES

Acknowledgements:

The Colorado Transportation Finance and Implementation Panel and Governor Ritter's Office of Policy and Initiatives would like to thank numerous individuals and organizations for their support in expanding the discussion on Colorado's transportation vision and investment statewide.

As Panel members traveled throughout the state, our conversations were enhanced by the contributions of many citizens, local and state officials, as well as representatives of local businesses, chambers of commerce, transportation planning regions, the tourism industry, the trucking industry, the construction and materials industry, the environmental community, Native American tribes, the bicycling and pedestrian communities, affordable housing interests, the elderly and disabled communities, transportation corridor coalitions, and the transit and rail industries. We appreciated professional insights from other state transportation and organizational representatives wrestling with this similar challenge.

Acknowledgements also are due to Jim Charlier and Randy Udall for helping to broaden the Panel's discussions with sustainable presentations on green house gas emissions, vehicle miles traveled implications, as well as energy and peak oil statistics. Thanks, as well, to Jeffrey A. Roberts who assisted in writing and served as principal editor of the final document.

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