Opinion Letter

Reasonableness & Fairness

of Incentive Agreement between

City of Manitou Springs

and

Cog Railway

September 28, 2018

Data → Reasoning → Conclusions

- Empirical Research
- Computer Modeling
- Rigorous Analysis

For Strategic & Tactical Decision-Making

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Introduction, Background & Disclosures

Summit Economics provides the following opinion regarding the incentives and long-term agreements being negotiated between the City of Manitou Springs and the Cog Railway. The opinion is based upon analysis outlined herein. It is offered from an objective perspective at the request of the City of Manitou Springs. Due to the short turnaround, no extensive research was conducted. Summit Economics did conduct some data compilation and limited research to provide the analysis needed to draw our conclusions. Our compensation is not dependent upon the analysis nor conclusions. Over the last couple of decades, the principal authors of this opinion letter, Tom Binnings and Paul Rochette, have worked with entities affiliated with both Manitou Springs and the Broadmoor Hotel which is connected to the ownership of the Cog Railway.

The Age of Public/Private Investments and the Role of Incentives

The beginning of the 21st Century has been marked by new investment paradigms at all levels of government known as public/private partnerships (P3s). These involve four major scenarios:

1. The public sector lacks access to sufficient revenues or debt to finance infrastructure and works out an arrangement with private investors to own/lease or somehow invest and benefit for the public benefit.
2. The private sector is seeking to invest and remain competitive in its relevant markets and seeks public incentives to assist with new investment and/or workforce training to gain productivity.
3. Public and private assets working together are at the end of their useful life and neither the public nor private assets on their own can generate sufficient returns on investment to justify the investment without the synergy created by both public and private investment complementing one another.
4. The demand for jobs and tax base for the public good has become a significant motivator for the public sector to compete amongst themselves (community vs community or state vs state) to entice private investment and companies to stay or move into, depending upon the situation. Increasingly, the private sector takes advantage of this competitive situation and encourages the bidding process to increase profitability.

The Cog's proposed reinvestment in the railway's assets, some elements of which may be over a century old, comprises aspects of all the above scenarios except #4, since the railway is uniquely located and is a relational brand extension of the Broadmoor Hotel.

In any case, private investment and public purpose are melding through collaborative efforts to meet objectives. This requires P3s with varying degrees of formalization, management, accountability, and risk sharing depending upon the project being addressed.

In short, incentives are needed when private investment will not otherwise occur, and significant social purpose or benefit will go unrealized. When incentives are offered there should be some analysis to consider the benefits received relative to the costs incurred within the public realm.[1] This helps focus the questions surrounding the Cog's investment and the current negotiation over incentives with Manitou Springs.

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[1] Summit Economics also believes that reasonable metrics should be established and maintained for measuring the benefits and costs over time. While becoming more common, such measurement is minimal in the world of public incentives.

Are Incentives Needed?

The Cog intends to invest $80 to $90 million to redevelop the railway. We have not reviewed construction and investment budgets, nor do we have access to operating costs, but given the age of the railway, the current litigious and insurance business environment, and growing concerns over natural environmental conditions, it is a reasonable assumption that substantial investment is required. It is highly unlikely the Cog would have ceased operations were this not the case.

Given historical ticket prices averaging $28, $85 million in investment, an 8% return[2] on investment, and a 20-year investment recapture period, the project is not feasible at 350,000 passengers per year because only $9.8 million would be generated before annual operating expenses to cover the required $8.7 million in market-based investment return. Even if the investment return is discounted due to the railway being a brand extension for the overall Broadmoor outdoor Rockies value proposition, it is unlikely to meet the needed investment hurdle rate. To achieve the realm of feasibility requires higher ticket prices, more passengers and/or a longer term for investment recapture. Some analysis on the numbers find:

- The project appears feasible at ticket average prices of $34, a 30-year investment recapture period, and 350,000, passengers per year. While ticket prices on newer assets tend to increase 10% to 25%, and the Cog does not have direct competition, there are substitute opportunities for regional tourists and their host families. The Pikes Peak Toll road is the closest substitute priced at $5 to $15 per person plus the private costs associated with driving oneself to the top of Pikes Peak in terms of wear, tear, and fear. In addition, to local attractions like Cave of the Winds, there are free attractions like Garden of the Gods.
- A 30-year investment period is at the outer end of private sector investment time horizons and most private deals for long-term fixed investments run 20 to 25 years due to the relatively small impact realized by extending investment returns beyond 25 years. The proposals from the Cog call for a 50-year term. Fifty years is an abnormally long "payback" period, but such terms are associated with toll road, utility, and housing contracts.
- 400,000 passengers per year appears to be the maximum capacity although we challenge the Cog and Manitou to consider the cost of capacity additions through promotion in shoulder and holiday seasons. The 400,000 constraint compares to 301,000 passengers in the last year of operations and estimates of 350,000. While It appears the 301,000 ridership was lower than historical due to the poor condition of the rails, and while the Pikes Peak Region is currently experiencing tourism growth roughly twice the national average at around 10% annually, the new and repaired assets and regional growth does not definitively translate into rapid passenger growth for the Cog.
- The bottom line based on our estimates: The Cog is seeking approximately a present value of $4 million in incentives on a $90 million investment generating approximately $295,000 in incremental revenues at 400,000 riders annually over 25 years. The starting average ticket price should be about $32. While it's hard to imagine $4 million making or breaking a $90 million investment over multiple decades, concerns over pricing and the ability to earn sufficient returns for debt and equity investors with a 25-year payback are reasonable.

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[2] An 8% rate of return was concluded based upon comparable types of private investment including toll roads, utilities, and commercial real estate.

Overall, one can conclude some form of incentive is justified to entice private investment into the Cog, and given the recent termination of operations, the interruption may persist without the investment.

Does the Cog Meet Sufficient Social Purpose for Manitou Springs?

Given that incentives appear appropriate to encourage private investment in the Cog, the next question is whether sufficient social purpose is met to justify Manitou Springs offering incentives. What is the potential benefit for the community?

Fiscal Impacts

Reviewing key long-term indicators for Manitou Springs is worthwhile. We have included the following table for that purpose. The City revenue and tax numbers are through 2013 to eliminate the marijuana effect on the City, which started in 2014. Fundamentals to consider include:

1. Manitou Springs is in the mature stage of its community life cycles. (See the low population growth and road miles decline.) As a result, its long-term fiscal outlook is more vulnerable to its own demographics, including household incomes, and its historical community economic structure.
2. The fastest-growing taxes over the 15-year period were Property Taxes and Other Taxes. The largest tax as a percentage of total City revenues is Sales and Use Tax (including taxes on new and renovated homes and buildings and business equipment). This supports two well-known story lines for Manitou Springs – a reliance on tourism and growing gentrification driving up real estate prices (at least prior to retail marijuana whose impacts on the community we have not studied).
3. Manitou Springs has an aging infrastructure with escalating costs of replacement, and it currently appears to be more prone to flooding, especially in its commercial area. During the study period shown in the table, streets, public works, and capital expenditures were the fastest-growing expenditure classes. Growth rates in these expenditures were substantially higher than growth rates for taxes -- 6.3% for streets and public works and 9.2% for capital expenditures -- and may be driving similar growth rates for debt service.
4. The City's increased reliance on intergovernmental transfers from federal and state governments (included in Total Non-Tax Revenue) is a rather common phenomenon among

Manitou Springs Key Revenue and Other Indicators 1993 to 2013**

	15 Yr Average Annual Growth Rate [1]	2008-13 Average $ in 000s Others #s Actual	Percent of Total Revenue (2008-2013)
Total Revenue	5.23%	$ 6,486	100.0%
Total Non-Tax Revenue	8.10%	$ 2,458	37.9%
Total Taxes	3.94%	$ 4,028	62.1%
Property Taxes	5.71%	$ 899	13.9%
Specific Ownership Tax	3.33%	$ 869	13.4%
Sales & Use Tax [2]	3.86%	$ 2,364	36.4%
Franchise Fee Tax	-2.11%	$ 130	2.0%
Other Taxes	4.25%	$ 548	8.4%
Lodging Taxes [3]	3.63%	$ 144	2.2%
Population	0.04%	5,289	
Retail Sales	2.20%	$ 68,037	
Road Miles	-0.30%	27.6	

** Rates calculated based upon beginning (1993-08) and ending (2008-2013) five year averages. [1] Growth rate is compounded annually [2] Tax rate increased from 3.5% to 3.9% [3] Lodging tax began in 1997

Colorado Department of Local Affiars, Summit Economics mature municipalities and exposes the community to greater risk over the next 30 years due to federal budget deficits.

5. The City's growing fiscal reliance (since 2014) on retail marijuana would greatly decrease should Colorado Springs legalize retail marijuana. This makes other locally generated sources of City revenue more critical.
6. Since 2013, excluding marijuana tax receipts, total non-property tax receipts for the City have grown at an average annual compounded rate of 5.2%. This is consistent with Colorado Springs. The fastest growing areas are associated with Amusement/Bars and Motels/B&Bs. Shops and Gifts were growing at rates one would expect given the region's tourism economy until 2017 when tax collections from that sector declined by 9.8% -- possibly due to cutbacks in operations at the Cog and/or store closures.

Commercial Economic Impacts

Manitou Springs' economic base relies on its residents working primarily in the Pikes Peak region and bringing their paychecks home as well as tourists spending their money in Manitou and retirees settling in the community. The only indicator available expressing these economic drivers is retail sales. During the study period included in the above table, retail sales grew at an average annual compounded rate of 2.2% (roughly the average inflation rate during the period). This compares to retail sales growth of 4.7% in Colorado Springs.

We have no recent data on Manitou Springs tourism. Data from 20 years ago showed downtown Manitou Springs had a 23% share of the regional tourism market. If that remains the case in recent years, we estimate 3.97 million tourists visited Manitou Springs in 2013. (Note: A tourist is defined as someone living more than 50 miles away visiting for at least part of a day). Based upon a detailed analysis of tourism and retail sales in the 1990s, it appears 40% of Manitou's retail sales are from tourists, 30% from non-Manitou Pikes Peak region residents, and 30% from Manitou residents. This general breakout (70% non-local retail dollars) is also the best estimate of City Staff.

Based upon tourism estimates and their share of retail sales in Manitou Springs, it appears $7.20 was spent per tourist on taxable retail in 2013. This equates to $1.1 million in sales tax collections from all tourists in addition to approximately $400,000 in amusement tax collections from the Cog in 2013. If the Cog were to shut down, we estimate a $2.9 million decrease in taxable retail sales in 2018 dollars. At roughly 10 employees per $1,000,000, over 29 jobs or proprietors would be lost in Manitou Springs. Not all these jobs are held by Manitou residents. The City would lose an estimated $115,000 in sales tax in addition to the entire amusement tax from the railway from fewer tourists. (Note the loss in tax revenues are similar to calculations made independently by City Staff. We both conclude a minimum loss of $100,000.)

Using a ratio of NNN rent (exclusive of all passthrough expenses) to revenues of 5%, the potential loss in rents from a $2.9 million reduction in sales would be $145,000. Applying a capitalization rate of 8%, the resulting loss in real estate value would be $1.8 million or 6.3% of the market valuation of all commercial properties along the Manitou Avenue west of Highway 24. This uses Assessor valuations and would result in only a $6,700 loss in annual property taxes by the City, but the Manitou School District could lose $27,000 annually.

The loss to sales and sales tax revenues is felt almost immediately and should already be occurring given the current interruption of Cog operations. The employment impact can take one to two years to be fully realized. The real estate impacts can take longer and should only occur if the shutdown is permanent.

The duration of lost business sales and resulting sales tax, property valuation and property tax from a permanent Cog shutdown is unknown as Manitou Springs demonstrates resiliency over the years. Given changes and growth in regional tourism, it is possible that the shutdown would create tourism and commercial capacity that could be filled over a decade. On the other hand, the impact of localized economic shocks on real estate can endure over time, and prolonged reductions in private and public investment in a community can trigger long-term commercial decline. One possible scenario would be a shift of economic activity from the historic district and the west end of Manitou Springs toward Colorado Springs in the Urban Renewal Area (URA) east of Highway 24 where greater investment is expected in the coming decade.

Community Impacts

In 1997 the Cog Railway was reported to have a 12% market share of regional visitors. That would equate to over 720,000 passengers, which is probably more than two times that actual number. Regardless, estimates today in the 350,000 range indicate the railway is constrained by equipment and access rather than by market demand. From the perspective of community impacts, this upper constraint is expected to increase to 400,000 passengers based upon negotiations with the Cog Railway.

Based upon neighborhood complaints, there are negative spillovers from the traffic and demand for parking on residential properties fronting Ruxton Avenue. These impacts are common for all arterial streets and most typically pre-date the purchase of residential properties. In the case of the Cog, some of today's residential properties may have been built over a century ago as small hotels/boarding homes because of the Cog and virtually all residents bought in the neighborhood knowing of the Cog. While some may find the negative spillovers problematic, one has to recognize it's a mixed bag for those living in the area because the location does provide great access to Barr Trail, the Incline, and a quaint natural and historical setting.

Overall Social or Public Benefit Assessment

Most of the benefit comes from the Cog's amusement tax which appeared to be growing steadily until the Cog shut down in October 2017. While we have not studied the cost of municipal services related to supporting the Cog, managing traffic to insure good passenger flow to the Cog, maintaining emergency medical capacity, running a transportation system and reinvesting in utility and street capacity are all critical. Ultimately, the direct dollar benefit of revenues to the City should at least cover the direct incremental cost of providing support services to the Cog and mitigating negative impacts on Ruxton Avenue. Such a scenario would provide a breakeven scenario financially. Given a breakeven, the question remains as to the Cog's contribution to the local economy, it's value to the historical and outdoor recreation image of Manitou Springs, and its value to long-term fiscal sustainability and community development. The most obvious needed benefit centers on some significant contribution to help facilitate parking and transportation systems and/or other investments to mitigate capacity constraints that have challenged downtown Manitou Springs for quite some time.

Do Proposed Agreements Seem Fair?

There does appear to be a rational basis for the City of Manitou Springs to offer some sort of incentive if, in exchange, the Cog Railway will cover costs and offer the City a return on investment. Given this conclusion, the next consideration is whether or not the proposed agreements seem fair and reasonable. In the world of financial agreements, fairness is determined by what unrelated, knowledgeable parties would agree to. In this sense, the agreement is fair. In economics this would be taken a step further and argue the sides reasonably share in the "surplus" after everyone's costs are reasonably covered.

Given reasonable fairness can be assumed to occur when viewed over many incentive deals, we can look to common practices. Waiving of use tax on equipment or asset purchases for development or redevelopment efforts is common. Also common in the world of incentives is the capping of tax receipts at previous levels or eliminating them entirely on new development (as opposed to redevelopment of existing assets) for a period of time. Ten to 25 years appears most common in our experience.

Negotiating Dimensions & Priorities

Given the current situation, the parties are negotiating over:

- Contribution to cashflow (increased revenues or reduced expenses) of each party given their respective investment and operating costs.
- Term (in years) of the agreement.
- Risk management for the parties.
- Partnering mechanisms to assure future issues are addressed.

The Cog seems to prefer a tax cap and rebate system so additional cash receipts can occur at lower average ticket prices. They want exemption from the use tax on their investments now and approximately 20 years in the future when the trains need to be replaced. They also want a long-term deal even though anything beyond 25 to 30 years is rather meaningless.

In our estimation the City needs a sufficient tax or fee payment to cover service costs and investment payback on impact mitigation and capacity enhancement. Inflation protection, especially on longer term deals, is also desirable. While a shorter term is preferable, a longer-term deal can be acceptable as long as the City realizes it will benefit minimally since there is no guarantee of performance by the Cog and that the need for incentive cashflow to the Cog will diminish greatly after a 25-year timeframe. To the degree parking and transportation solutions are needed to mitigate traffic impacts, then the deal should be structured to yield cash payments by the Cog sooner rather than later. We also encourage a structure that incentivizes both parties in the same direction (e.g., the Cog's traffic does not overwhelm the community, but supports the both the Cog's success and the general business community with tourist traffic).

Review of Original Proposed Agreement

The June proposal between the Cog and City had a 50-year term under which the Cog would pay the City $500,000 in 2018 and 2019 and contribute another $500,000 toward parking solutions. In return, the City would waive use tax on the initial project and rebates amusement tax if it exceeds the "Base Excise Tax" (Base Tax). The Base Tax would grow at a low 0.29% average annual compounded growth rate through year 10 (to $515,113) and 0.42% from year zero through 20 (to $543,949). From year 20 through 50, the "Base Excise Tax" would grow at an average annual compounded rate of 1.08% per year (from $543,949 to $750,000).[3]

The Base Tax starts at $500,000 and taxes collected are predicated upon the 5% amusement tax rate used historically. We believe it is highly probable the base will be achieved the first year of renewed operations as there is likely to be a start-up bump in ridership to the and/or an increase in pricing of at least 15% to $32. An increase in average pricing and significant increases in ridership should result in initial rebates exceeding well over $100,000 per year. Overall it appears the Cog expects $295,000 per year on average over the next 25 years. Forgiving use tax and capping amusement tax receipts at $500,000 per year and growing the $500,000 cap very little for 20 years is reasonable within the context of tax increment financing where the private sector gets the increase in taxes to help cover investments they made.

Not typical is the 50-year term, except when a private entity is being given a charter to operate a utility or toll road which are both "natural monopolies" where pricing and service levels are regulated. That creates a base for the amusement taxes far longer than what is typically found. It is more acceptable given the longer investment recapture period (30 years) discussed earlier, but still longer than expected. We are especially concerned about low growth rates in any Base Tax. This creates an inflation risk in the long-term. While we understand the Cog's unwillingness to index the Base Tax to inflation given their pricing could easily be less than inflation, a Base Tax should at least be indexed to average price or total railroad receipts after approximately 20 years. The 50-year term ought be tied to the specific concern the Cog is attempting to address rather than an overall contractual term and should have some conditions tied to the concern.

Also not typical in the original proposal is the Cog's compensation of $500,000 for the two years of construction to protect the City from a loss of taxes. In the agreement these are classified as "payments in lieu of use tax." This provides revenue leveling to the City during the construction period so that the only negative impacts are lost sales resulting from fewer tourist dollars in Manitou Springs during construction.

The agreement also contributes $500,000 toward permanent parking and transportation solutions for the City. The $500,000 in parking/transportation fees is essentially an impact fee whose reasonableness depends upon the anticipated incremental economic and social cost and benefit created by an increase in ridership, especially during peak seasons. The contract discusses the $500,000 as a partnership contribution by the Cog which the City will match – possibly in-kind with the contribution of Hiawatha Gardens. Paragraph 6 of the original proposed agreement outlines goals associated with the partnership (300 to 400 parking spaces to augment current parking) as well as shuttles with stops in the downtown historic district. It also calls for periodic community reviews of the impact and upholds standard planning reviews to ensure architectural integrity. This appears to be a strong element of the original proposal.

[3] While the proposed June agreement uses the term "excise tax" it seems more appropriate to refer to and structure the tax as an amusement tax charged as a percentage of ticket price. Excise taxes are often included in the price of a good or service rather than being charged as a separate line item. This nuanced difference can be significant as tourists perceive prices differently than taxes and are more accustomed to higher taxes in tourist-oriented areas.

Review of Subsequent Proposals/Discussions

The June agreement discussed tax caps and rebates from the City to Cog for taxes collected above the cap. The new proposals remove the cap but implicitly retain the rebate structure. Under all recent discussions and proposals, a 5% amusement tax would remain, but the rebate would be stated as a percentage of the 5% tax creating and "effective tax rate". For example, a 50% rebate on the 5% tax creates an effective 2.5% tax rate. While any deal must undergo legal review, it does appear this approach meets TABOR requirements as there is no change to the tax rate – only the effective rate.

According to City staff, the City is proposing a new agreement. The agreement is the same as above in providing at least $1 million to the City over two years during the construction period and another $500,000 toward parking solutions in return for waiving use tax on the initial investment. In addition, the City would waive use tax on train replacements in year 20 and would receive an effective 3.8% tax rate up to 400,000 riders and an effective 5% tax on ticket sales exceed 400,000 passengers in any year. This approach eliminates the long-term inflation risk and at the expected pricing ($32) and riders (400,000) would generate roughly the same as the $500,000 cap proposal. Even at 350,000 riders, the tax receipts would be similar to historical receipts for Manitou Springs.

Under this deal structure, the City is protected during the construction period, and it gets a contribution for parking solutions and taxes at escalating rates based upon ticket sales over time. Additionally, higher passenger traffic creating higher impacts on Ruxton area residents is compensated by a 5% tax which could be used to mitigate impacts, and City revenues are tied to greater Cog success. This conceptually creates the right tradeoff of incentives for the City; enabling City leadership to participate in the process of assessing impacts and compensation. However, it does not match incentives to increase tourist traffic for the Manitou Springs business community. To do that the incentive structure should be the opposite whereby ridership in excess of 400,000 would result in higher rebates (or a lower effective tax rate) to the Cog giving the railway the incentive to be more aggressive with promotion and/or pricing during the shoulder and holiday seasons.

Apparently, the Cog's most current request, is an effective 2.5% tax for 25 years and then increasing to 3.8% for the balance of a 50-year term. We are not sure this reduction would cover the cost of services in the early years of the deal, much less add benefit to the City and its residents and businesses – even assuming the other dimensions (two years of payments during shutdown and $500,000 towards parking) remain intact.

Conclusions

As mentioned previously we expect a $32 average ticket price upon the Cog's restart. Assuming an average inflation rate (as targeted by the Federal Reserve) of 2% over the next 25 years, we derive an average price of $40 which yields $800,000 annually in taxes at 5% with 400,000 passengers per year. This provides sufficient funds on average over 25 years for the Cog to realize $295,000 and the City to realize approximately $500,000 which is the most ever generated for the City by the Cog. At a starting $32 average ticket price and 375,000 riders, the total tax generated would be $600,000. Based upon these calculations there is ample room for the parties to agree on a tax revenue sharing formula which may vary based upon respective preferences for the other negotiating dimensions. For example, if the Cog wants a longer term, then a lower rebate percentage is appropriate and/or a higher initial contribution to fund investments needed to mitigate impacts.

Visionary people and leaders have a creative penchant for seeing what might be or what ought to be. A good plan for achieving the vision is desirable. Great implementation is the most critical element. And when visions, plans, and implementation take advantage of existing market tendencies or increasing market momentum, successful vision attainment frequently results. In other words, having a well demonstrated market and positive market momentum is worth a lot along with good implementation. This is the opportunity facing both Manitou Springs and the Cog Railway.

We believe Manitou Springs' leadership, whether formal or informal, as well as many of its citizens, understand the long-term fiscal vulnerabilities and aging infrastructure the community faces. As a mature community within a community lifecycle context, it needs to refresh and reinvent itself on a regular basis to extend its health, lest it risk entering the decline stage of the lifecycle. The community has endeavored and persisted in this regard for decades.

Regardless of lifecycle decisions made by the community, a new less controllable threat to Manitou Springs has emerged in the last decade – changing hydrology brought on by the Waldo Canyon fire. The future impacts of climate change on local hydrology and fire danger are unknown, but it is best to plan for greater forest/urban interface challenges, which requires even greater planning and investment by the City of Manitou Springs.

The community's vote to permit the sales and taxation of retail marijuana starting in 2014 has helped create a capital base to revitalize public assets and to invest in its future. While we are sure there are some social costs in Manitou associated with the marijuana sales, it is beyond our current scope to explore that topic. We do point out the risk related to Manitou's de facto monopoly on retail marijuana sales in El Paso County. The current annual tax benefit should not be expected to persist forever, and thus wise public investment decisions and the pursuit of public/private partnerships is of paramount importance.

The most obvious future opportunities we define for Manitou Springs include:

- Developing residential density and commercial space in the Urban Renewal Area along Manitou Avenue.
- Promoting a degree of gentrification to continue attracting moderate to high income households and real estate reinvestment to keep its residential and commercial stock historic in image, yet modern in functionality. Communities with above average income households, especially if they include active working adults, will have higher than average taxable retail expenditures. In the coming era Manitou Springs will be in a better position to capture sales taxes from expenditures occurring online, thereby improving its tax base.
- Tourism, Manitou's most significant industry, is intricately connected to Pikes Peak Regional tourism, which is experiencing a resurgence with growth rates at least twice the national average. Even though there will be recessionary cycles, this resurgence is expected to continue for at least the next two decades as the new generation of Millennials redefine tourism along with most other aspects of consumerism. Local surveys show the Millennial generation is connected to the outdoors.

What is interesting with the question we seek to address is that the Broadmoor Hotel and Manitou Springs have a lot in common. The same set of opportunities available to Manitou Springs, when viewed generically, are also available to the Broadmoor; albeit in the context of a luxury five-star resort of international fame. In a very real sense the Broadmoor and Manitou Springs enjoy a similar history and benefit greatly by being located at the base of Pikes Peak. Much of the Broadmoor's tourism strategy is giving its clientele access to the national forest and mountains. It is reacting to the same market driver that brings so many people, of all walks of life, to and through Manitou Springs in search of outdoor recreation and a sense of adventure.

Regardless of the Cog Railway, we expect traffic to continue growing in Manitou Springs as the Incline popularity grows and the Ring the Peak Trail is completed and promoted. This and expected future residential and lodging growth in the URA as well as regional tourism will put increasing demands on transportation and parking solutions for Manitou Springs, in general, and the Ruxton and downtown areas, specifically.

We believe allowing the Cog to stop operating for an extended period is a grave mistake. Forgetting the short-term financial implications on the City, assets and infrastructure like the railway depreciate more rapidly when unused because they go unmaintained. We expect the reconstruction cost curve of a lengthy delay to be exponential in nature, meaning costs go up dramatically due to environmental and asset degradation from neglect. Often such assets, once closed temporarily, never reopen. Remember the Manitou Incline. In addition, the historical experience in the last half century indicates growing regulatory costs meaning delays can cost more in the future due to more stringent standards. Finally, we believe the Cog's owner is accepting a lower return on investment than would otherwise be required by a new third-party owner who cannot create the same synergy with a five-star resort.