

Cog Agreement Community Meeting Responses from the Individual Response Form and Answers

What questions or facts/information do you need to know about the potential Cog Agreement?

1. What is the threshold for the Cog stopping or amending the agreement in the case that more repairs are needed?

It is not expected that the agreement will be terminated or amended in the case more repairs are needed. The agreement does state that if the COG does not operate for more than 2 consecutive years the agreement will terminate.

2. Can they shut down for one year/6 months/etc. and still have to pay? Or can they hold us for ransom at any point?

The initial payments from the COG will be due in 2018, 2019, and 2020 and are not dependent on their operations as it is assumed that they will not be operating during their reconstruction. The parking and transportation payments are also not contingent upon their operations, but if they cease to operate, may not be needed. The other tax payments are based upon their operations and would only be paid while they are operating.

3. Malcolm, if you were a citizen living in Manitou and you had financial knowledge which I don't would you vote for this for 50 years?

MALCOLM'S RESPONSE: Yes, I would vote for the new agreement if I could, and here's why: I was surprised the Cog asked for a 50-year agreement, and I had serious reservations about that term combined with the potential for high ticket prices and higher ridership to undermine the value of the City's tax revenue over time. Furthermore, the initial agreement had all potential "High" scenario benefits go to the Cog. However, the new provisions agreed to by the Cog on October 2 resolve my concerns. Those new provisions set a minimum 3.8% tax (a 24% discount off the normal 5.0% tax rate) in years 26-50, and tax at the normal 5.0% rate ticket sales exceeding 375,000 in any year. My detailed financial analysis of this new proposal shows it would give the Cog an overall 12% to 15% discount (depending on whether you assume a "High", "Medium or "Low" economic scenario) on the excise taxes it would owe to the City over the term of the agreement. In dollar terms, it amounts to the City granting \$3.8 million in tax incentives and keeping \$26.5 million in tax revenue (these projections reflect the "High" scenario and discounting the stream of payments at 3.0% over 50 years to calculate the Net Present Value (NPV); in non-discounted dollars, the figures would be \$9.2 million and \$68.0 million respectively). I appreciate that some people believe the Cog does not need any incentives and that the Cog may rebuild the railroad even if the City doesn't provide incentives. However, a 12% to 15% discount, and granting \$3.8 million in incentives to secure \$26.5 million in tax

revenue, seems like a very reasonable approach to secure the City's financial and quality of life interests, which include keeping the Cog as a collaborative partner working to minimize traffic congestion, help promote Manitou Springs businesses, and other issues, instead of a reluctant entity indifferent to the City's interests. As an outsider who has come to love Manitou Springs over the past six months, I can honestly say I would have walked away from the original agreement, betting—as an outsider with no long-term interests, except my reputation, at stake—that the Cog would continue to negotiate. However, for the reasons I have outlined above, I strongly support this new agreement and would vote for it if I could.

4. Yes, we need the Cog, they need us also, so hire an attorney that deals with million-dollar deals?

This appears to be more of a comment rather than a question. There were three attorneys involved with the negotiating team. One has been involved with tax incentive agreements, another with negotiating million-dollar long term settlements, and the third a professional mediator.

5. Can we bring the trolley back?

From time to time there have been discussions about bringing back the trolley. There are no immediate plans to do so, but certainly something that could be considered, perhaps during the mobility study.

6. What is the status of the Incline Management Plan? The majority of services provided by Manitou Springs is related to the Incline including County supported Search and Rescue.

The Incline Management Plan is still in place. For a number of years, the Incline Management Committee had been charged with executing that plan. Since we have been without a permanent Planning Director, this committee has not been meeting on a regular basis. There are plans being developed to bring together the right people to help review all aspects of Incline operations and impacts.

7. Is there any way (if business is good) to encourage locals and area Coloradoans etc. to use the Cog during the “reasonable weather” months rather than tourist seasons? And perhaps reduction in fees, etc.?

Absolutely. We are looking at how the City / Chamber of Commerce and COG can work together to promote increased COG traffic during the off season. Perhaps we might arrange for folks to get a discount on COG tickets if they purchase a certain amount in Manitou. We are hoping to explore these options further.

8. Will/how will the City or Chamber of Commerce actually collect data on how Cog riders impact business sales?

This is something that we need to create. We are considering requesting that language be included in the agreement about co-marketing efforts including the use of survey's of COG riders.

9. What are current sales tax figures compared to the past two years?

Sales taxes increased 7.5% from 2016 to 2017. This year through August 2018, sales taxes have increased only 0.9% over 2017. Also, July and August sales taxes are lower than the same months last year by -0.9% and -3.9% respectively. That trend in what are normally the two highest sales tax generating months of the year is concerning.

10. What is the point where the City would walk away from the Cog?

If it appears that the costs of the agreement / COG are greater than the benefits, the City should not consider an agreement. Fortunately, the current agreement proposed by the COG is very favorable to the City in terms of potential excise tax collections.

11. When providing numbers (and figures) could you please also provide percentages of budget? For example, agreement A in "low" scenario predicts a tax revenue of \$14,285,895. What percentage of the City's tax revenue does this represent? As we project into the future, would that percentage change?

The answer to this question depends on the assumptions you make on the growth or lack of growth of tax revenue. We have modeled what the % of rebates and taxes are in relation to our projected tax revenue assuming a 2% increase in revenue. Based upon a projected tax revenue of \$8.9 million in year 7 (2024) the projected rebate of \$20,500 would be .23% of revenue. The estimated tax payment of \$507,500 would be 5.65 % of expected revenue. The % of rebates versus tax revenue increases from .23% to 2.38% in year 25. The taxes paid as a percent of revenue decreases from 5.65% to 4.52%. In years 25-26 the rebates as a percent of revenue varies from 1.45% in year 26 down to 1.29% in year 50. The taxes paid as a percent of revenue is 5.31% in year 26 down to 4.74% in year 50. The projections after about 25 are very speculative.

12. In view of the nominal sales tax losses evident in recent information, it appears the excise tax is even more critical to the Cog paying a fair share of their burden on infrastructure, including capital and operating expenses. Considering that the Cog visitors may benefit the larger region and even levels of government in Colorado Springs, El Paso County, the State of Colorado, and the federal government (including forest service through taxes), can something concrete be done with all of these other government entities?

We have already secured Colorado Springs' help with addressing parking and transportation needs. The City of Colorado Springs has agreed to pay half of the \$127,00 cost for the Ruxton Functionality Study and an additional \$50,000 for the Comprehensive Mobility Study. We have also asked them to consider paying for some or all of the shuttle and helping us with the cost of emergency response. We have met with representatives from El Paso County who have offered

to help us with various types of grants and enterprise zone applications. These conversations are on-going.

13. Is it possible an increase in sales tax plus mill levy and plus marijuana funds could cover the Cog shortfall if they do not reinvest? Or perhaps another business?

Any tax increase would have to be voted on by the electorate. Marijuana tax revenue collected by Manitou Springs will likely decline in the future as more jurisdictions in the Colorado Springs metro area approve recreational marijuana in their jurisdictions and Manitou Springs is no longer the only City where people can buy recreational marijuana legally.

14. Have we explored “economic agreements” or “urban renewal” on the blighted eastside or “gateway” to Manitou Springs with the Cog’s owner? What a great opportunity to enhance the visitor’s experience to the Pikes Peak Region!

Thus far the only discussion we have had about the urban renewal area have dealt with possible additional parking.

15. Do we have a plan to off-set sales tax loss on retail marijuana if COS ever votes for/in retail marijuana?

We are generally trying to use the retail marijuana money for capital improvements rather than on-going costs in order to protect ourselves from the possible decrease in retail marijuana sales tax.

16. What percentage of our budget has the Cog Amusement Tax been for the last 6 years?

In the past six years, the Cog has paid excise taxes ranging from about \$347,000 in 2010 to about \$490,000 in 2016. This amounts to 9.7% to 6.6% of the City’s total revenue in those respective years. In addition, staff estimates that Cog visitors, through their in-town spending, contribute at least another \$100,000-\$150,000 to the City’s sales tax base.

17. If that same percentage is not reached in any year in the first 25 years how will that be made up?

We are assuming that the increase in general sales taxes and general spending due to COG patrons will make up the difference.

18. Has the Cog released or shown to the City their bids and proposals that they have received to redo the tracks etc.?

No, but they have gone over some of the bid costs with us verbally.

19. Local sales tax revenue between 2016-2017 shows flat revenue (excluding excise tax revenue). So how can we work effectively to invite more passengers to spend more dollars in other businesses downtown? They do not seem to be doing that in significant ways now. Can we promote the town on the trains?

We are going to work with the COG and Chamber to devise strategies to promote downtown businesses. They have indicated a willingness to do so. We are hoping to include language in the agreement to this effect.

20. 50 years ago \$100 was same as \$9.40. What if cost of police, roads, emergency services exceed profit of the Cog? Who pays the difference? What is the tax increase this will play on business owners and homeowners?

Based upon the current projections, we are expecting tax revenue to be sufficient to cover these services. In years 26-50, tax revenue will be based on ticket prices and the number of riders (in all years). As ticket prices go up, so will our tax revenue.

21. If we want to incentivize a business in town, how about an organic grocery? A hardware store? Something we would use.

These are great suggestions. It would be good to see how we might incentivize / encourage these types of businesses.

22. We are negotiating with a corporate entity, so what safeguards are in place for the chance of sale, to a less amicable party (a lot of this is based on having a friendly seat at the table and hoping for positive future negotiations).

The agreement is not assignable to another party and will terminate upon the sale of the COG to a third party.

Comments from Meeting Attendees:

- (A) We assume that the Cog contributes just under a million dollars a year. I myself would prefer to live without the Cog and strategize alternative sources for that lost revenue including paying higher taxes myself. Many citizens over many hours have identified health and environment as core values for our community. Yet for money we trade our health and environment by allowing growth and continued air pollution, therefore our core value is money. I am very disappointed that we would even consider a business in town that violates clean air. The Cog is/does nothing for me. Higher traffic and poor air quality.
- (B) Just because the Cog says it will cost 100 million why should Manitou believe them.
- (C) The continuing negotiations give me hope that a good agreement for the city is possible. I am very pleased with the Oct 2nd agreement as being better for the city. I have always been proud we have the Cog, for visitors, and in giving back to our community through elementary kids, employing teenagers, etc. However, Ruxton Ave has paid a high price in noise, traffic, and disruption to their daily life.
- (D) Thanks for keeping at it!
- (E) $944,054.67$ same as 10 million $0/0 = .0944$ (9.4%) 50 years ago. Why 50 years?
- (F) We should be willing to walk away if we do not get the Oct 2nd proposal.
- (G) My comment is that it's only in the past 4 to 5 years that we've had much money- we have been poor, unable to complete projects that have been needed. When we did get money, it seems that we've found ways to use it all, rather than being conservative in our spending. If property taxes continue to rise, Manitou will be more of a community for the wealthy and for tourists, not for the artist and "common folk" who have lived here 10-20 plus years. We used to be a community who looked forward to a quiet winter- it's never quiet now. It truly feels like our focus is on the businesses, not the residents or the community.
- (H) Thanks!
- (I) Great job! This meeting.
- (J) I support the Cog and Manitou and trust the agreements that have been agreed upon.
- (K) I think the Cog is VERY important to the City of MS and they are a private business and are working hard to work with this town. The Cog should not be made out to be the enemy by certain citizens.