Proposition 109
Authorize Bonds for Highway Projects

ANALYSIS

Proposition 109 proposes amending the Colorado statutes to:

- require the state to borrow up to $3.5 billion in 2019 to fund up to 66 specific highway projects;

- direct the state to identify a source of funds to repay the borrowed amount without raising taxes or fees; and

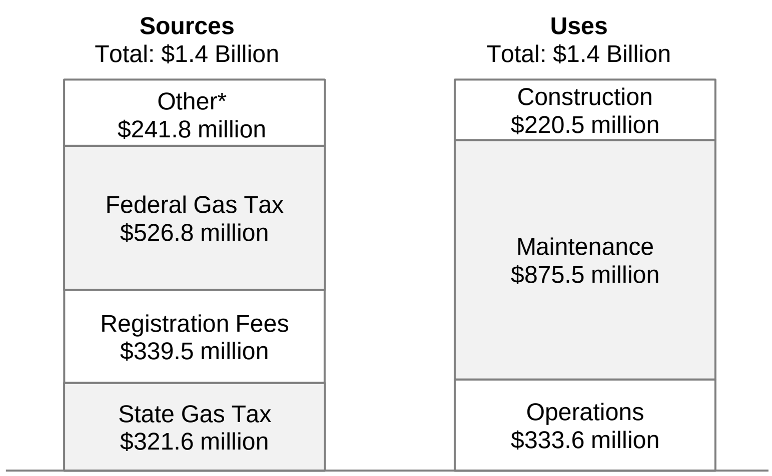
- limit the total repayment amount, including principal and interest, to $5.2 billion over 20 years.

Summary and Analysis

This analysis outlines current state highway funding and describes the bond sale and repayment authorized by the measure for a specific list of statewide road and bridge projects. The analysis also describes transportation funding commitments that are conditional on the outcome of this measure.

Current state highway funding. Maintenance and construction of state highways are funded through the Colorado Department of Transportation (CDOT). CDOT receives most of its revenue from federal and state gasoline and diesel fuel taxes and from state vehicle registration fees, as shown in Figure 1. For state budget year 2017-18, CDOT spent approximately $1.2 billion, or roughly 85 percent of its revenue, on state highway maintenance and operations and $220.5 million, or 15 percent, on construction.

Figure 1. State Transportation Funding Sources and Uses
Budget Year 2017-18



Source: Colorado Department of Transportation.
**Other funding sources include federal grants, tolls, and other state and local funds.*

Bond sale and repayment. Proposition 109 directs CDOT to borrow up to $3.5 billion by selling transportation revenue bonds. The total repayment amount, including principal and interest, is limited to $5.2 billion. The bonds must be repaid in 20 years, and the state must reserve the right to repay the bonds ahead of schedule without penalty. Assuming the repayment schedule is for the full $5.2 billion over 20 years, the average annual repayment cost will be $260 million. Actual repayment amounts will vary depending on the terms of the revenue bonds.

Past bond sale and repayment for transportation projects. In 1999, voters approved the sale of $1.5 billion worth of bonds for transportation projects. The state was required to use the borrowed money to pay for up to 24 transportation projects across the state. Repayment costs for the 1999 bonds totaled $2.3 billion. The debt was fully repaid through various state and federal sources in December 2016.

Transportation funding commitments conditional on the outcome of Proposition 109. In the last two years, the state legislature passed two laws to increase funding for future transportation projects. In 2017, the state committed $1.5 billion for transportation projects through the sale and lease-back of state buildings. In 2018, the state devoted another $1.0 billion over a 20-year period for transportation projects from existing state revenues. Under current law, the $3.5 billion in proposed borrowing will replace these commitments, resulting in a net increase of $1.0 billion for transportation.

Road and bridge projects. Borrowed money under Proposition 109 may only be used for road and bridge expansion, construction, maintenance, and repair on the 66 transportation projects located throughout the state identified in the measure on pages 59 through 63. The funding provided through the measure is not enough to pay for all the projects identified in the measure; the estimated cost of the projects is $5.6 billion. The final selection and order of construction will be determined by CDOT and the Transportation Commission, an 11-member body appointed by the Governor to prioritize statewide transportation needs.

For information on those issue committees that support or oppose the measures on the ballot at the November 6, 2018, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information: http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html

Arguments For

1) Proposition 109 accelerates the construction of essential highway projects without raising taxes or fees. Building and maintaining a highway system are core functions of government. The state has failed to invest sufficient funds to maintain and expand the highway system. The measure corrects this by directing the state to prioritize highway projects ahead of other programs.

2) The lack of highway capacity is the most significant contributor to traffic congestion in the state and causes delays, increases business costs, and reduces driver and passenger safety. The measure requires the state to invest more money in transportation, improving the state's economy and quality of life.

Arguments Against

1) Proposition 109 commits up to $5.2 billion to repay borrowing without creating a new source of revenue. This commitment diverts money from other programs, which may include education, health care, and routine transportation maintenance. Furthermore, the measure would pay for only a portion of the projects and fails to address the cost of ongoing maintenance of these projects.

2) In 2018, the state demonstrated its commitment to transportation funding by pledging $1.0 billion from existing revenue sources. If Proposition 109 passes, it replaces this commitment with borrowed money. Borrowing is expensive. Under this measure, approximately $1.7 billion in taxpayer money will be spent on interest payments.

Estimate of Fiscal Impact

Proposition 109 makes changes to transportation finance over 20 years. Its effects on state revenue and expenditures are summarized below.

State revenue. The measure requires the state to sell revenue bonds, which will increase state revenue by up to $3.5 billion. Under current law, bond revenue collected under Proposition 109 will replace $1.5 billion in state revenue from the sale and lease-back of state buildings. On net, Proposition 109 increases state revenue by up to $2.0 billion.

State expenditures. The measure authorizes $3.5 billion in state revenue from the sale of bonds to be spent on transportation projects. However, current state law directs other funding commitments to be cancelled if the measure passes, resulting in a net increase in spending on transportation of up to $1.0 billion.

The measure commits up to $5.2 billion to the repayment of debt. These financing costs will replace the $2.25 billion in financing costs related to the sale and lease-back of state buildings, resulting in a net increase in financing costs of up to $2.95 billion.

State Spending and Bonded Debt

Article X, Section 20, of the Colorado constitution requires that the following fiscal information be provided when a bonded debt question is on the ballot:

- estimates or actual amounts of state fiscal year spending for the current year and each of the past four years with the overall percentage and dollar change;
- the principal amount and maximum annual and total state repayment cost of proposed bonded debt; and
- the principal balance of current state bonded debt and the maximum annual and remaining total repayment cost.

"Fiscal year spending" is a legal term in the Colorado constitution. It equals the amount of revenue subject to the constitutional spending limit that the state or a district is permitted to keep and either spend or save for a single year. Table 1 shows state fiscal year spending for the current year and each of the past four years.

Table 1. State Fiscal Year Spending

	Actual FY 2014-15	Actual FY 2015-16	Actual FY 2016-17	Preliminary FY 2017-18	Estimated FY 2018-19
Fiscal Year Spending	$12.36 billion	$12.82 billion	$12.89 billion	$13.70 billion	$14.35 billion
Four-Year Dollar Change in State Spending: $1.99 billion					
Four-Year Percent Change in State Spending: 16.1 percent					

FY = fiscal year. The state's fiscal (or budget) year runs from July through June.

The principal amount of the proposed bonded debt is limited to $3.5 billion. The maximum state repayment cost is $5.2 billion. Annual principal and interest payments are not limited by the measure in any given year, but are expected to average up to $260 million per year over a maximum of 20 years.

As of June 30, 2018, there is no outstanding amount due on any state bonded debt.