Proposition 110
Authorize Sales Tax and Bonds for Transportation Projects

<u>ANALYSIS</u>

Proposition 110 proposes amending the <u>Colorado statutes</u> to:

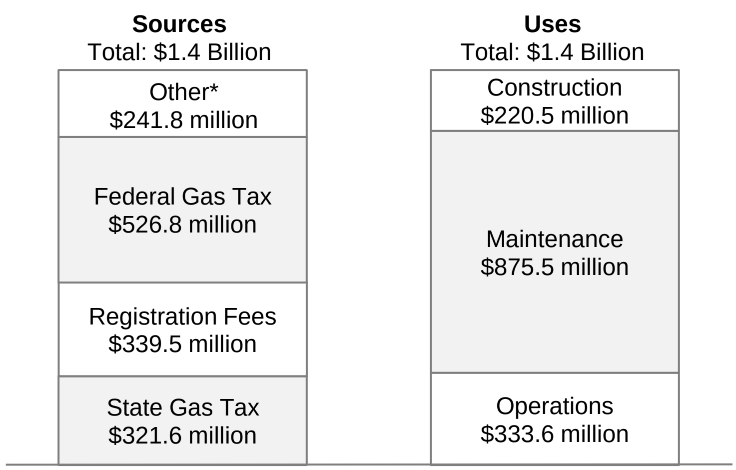
- increase the state's sales and use tax rate from 2.9 percent to 3.52 percent for 20 years;
- distribute the new tax revenue for transportation as follows: 45 percent to the state; 40 percent to local governments; and 15 percent for multimodal transportation projects; and
- permit the state to borrow up to $6.0 billion for transportation projects and limit the total repayment amount, including principal and interest, to $9.4 billion over 20 years.

Summary and Analysis

This analysis outlines state highway funding and the state sales and use tax under current law. In addition, it describes the sales and use tax increase and the bond sale and repayment authorized by the 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 including federal grants, tolls, and other state and local funds.*

Sales and use tax. The state sales tax is paid on the purchase price of most items. Some items are exempt, such as food bought at grocery stores, prescription drugs, household utilities, and gasoline. The tax applies to some services, including telephone service, food and drink service at restaurants and bars, and short-term lodging. The state use tax is paid when sales tax was due but not collected. In addition to the state's 2.9 percent rate, most cities and counties also have sales and use taxes. Combined state and local sales tax rates in Colorado range from 2.9 percent to 11.2 percent, depending on where a purchase is made.

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Amount of the tax increase. Beginning January 1, 2019, the measure increases the state sales tax rate from 2.9 percent to 3.52 percent for 20 years. The measure is estimated to raise about $767 million in the first year that it applies. Table 1 provides examples of estimated state sales taxes paid currently and under Proposition 110 based on family income. Under the measure, the average amount of sales tax paid by a Colorado family with an average income of $74,374 is estimated to increase by $131.

Table 1. Estimated Average Annual State Sales Taxes Due Under Current Law and Proposition 110*

	Current Law	Under Proposition 110	
Family Income	State Sales Tax Paid (2.9%)	Tax Increase (0.62%)	Total State Sales Tax Paid (3.52%)
$6,495	$197	$42	$239
$13,143	$235	$50	$285
$24,015	$359	$77	$436
$42,272	$459	$98	$557
$74,374	$611	$131	$742
$83,473	$730	$156	$886
$190,232	$1,171	$250	$1,421

Source: Colorado Department of Revenue, 2016 Tax Profile & Expenditure Report.
**Estimates are for Colorado households and exclude other taxpayers, such as tourists and businesses.*

Use of new tax revenue for transportation. The additional tax revenue collected under Proposition 110 is dedicated to the following uses:

- 45 percent to CDOT for state transportation projects, including debt repayment;
- 40 percent to local governments for transportation projects; and
- 15 percent for multimodal transportation projects.

The state's share of the additional tax revenue will be spent by CDOT on state transportation projects that address safety, maintenance, and congestion and to repay borrowing under this measure for transportation projects. The Transportation Commission, an 11-member body appointed by the Governor to prioritize statewide transportation needs, will determine the use of these funds.

The local share of the additional revenue will be distributed to every city and county for transportation projects based on an existing formula in state law.

The additional tax revenue identified for multimodal transportation projects will mostly be spent by local governments. Multimodal transportation provides additional transportation options and includes bike paths, sidewalks, and public transit, such as buses, rail, and rides for the elderly and disabled.

Bond sale and repayment. Proposition 110 permits CDOT to borrow up to $6.0 billion by selling transportation revenue bonds. The total repayment amount, including principal and interest, is limited to $9.4 billion over 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 $9.4 billion over 20 years, the average annual repayment cost will be $470 million. Actual repayment amounts will vary depending on the terms of the revenue bonds. The measure creates a citizen oversight commission to annually report on the use of the bond proceeds.

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.

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) Colorado's highways are deteriorating, and the cost of improvements continues to increase. The state needs to invest immediately in its infrastructure and cannot afford to expand and modernize its transportation system without a new revenue source. Colorado needs a modern transportation system that includes road, bus, bike, pedestrian, and rail options to address its growing population. This measure creates a flexible statewide transportation solution, and it lets local communities identify their own transportation projects and prioritize their most urgent needs.

2) Proposition 110 creates a sustainable source of funding for Colorado's transportation needs. Colorado's highway costs outpace collections from the gas tax. This measure offers a way for the state to increase transportation funding and repay bonds. This new, dedicated revenue for transportation will allow the state to continue to meet its obligations to fund education, health programs, and public safety while also investing heavily in Colorado's roads.

Arguments Against

1) Proposition 110 raises taxes for a fundamental government service that should be fully funded through the state budget. Any shortfall in transportation funding is a result of prioritizing state spending in other areas of government. The state can fund roads with the money it collects in taxes, rather than resorting to expensive borrowing. Additionally, this measure dedicates too much revenue to multimodal transportation, money that should be used exclusively for road repair and improvement. The majority of the workforce use their personal vehicles to commute daily and depend on quality road and highway maintenance.

2) Sales taxes, which are already high, provide a poor method of funding transportation. The total sales tax rate exceeds 10 percent in some areas of Colorado. Raising the state sales tax disproportionately affects low-income individuals because they must spend a larger share of their budget buying taxable necessities.

Estimate of Fiscal Impact

Proposition 110 makes changes to transportation finance over 20 years. Its effects on state and local government revenue and expenditures are summarized below.

State revenue. This measure increases sales and use tax revenue by $366.0 million (half-year impact) in state budget year 2018-19, and by $766.7 million in state budget year 2019-20. The sales and use tax revenue increase continues for 20 years. In addition, the measure authorizes CDOT to sell bonds, increasing revenue by up to $6.0 billion over three years.

State expenditures. This measure will increase expenditures equal to the amount of revenue described above for construction and maintenance of transportation projects, and debt service. The measure commits up to $9.4 billion to the repayment of debt.

Local government revenue and expenditures. The measure increases state distributions to local governments for transportation projects by $146.4 million (half-year impact) in state budget year 2018-19, and by $306.7 million in state budget year 2019-20. These increases continue for 20 years.

State Spending, Tax Increases, and Bonded Debt

Article X, Section 20, of the Colorado constitution requires that the following fiscal information be provided when a tax increase and 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;

- for the first full year of the proposed tax increase, estimates of the maximum dollar amount of the tax increase and of state fiscal year spending without the increase;

- 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.

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"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 2 shows state fiscal year spending for the current year and each of the past four years.

Table 2. 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.

Table 3 shows the revenue expected from the sales tax increase for FY 2019-20, the first full fiscal year for which the tax increase would be in place, and an estimate of state fiscal year spending without the tax increase.

Table 3. Estimated State Fiscal Year Spending and the Proposed Sales Tax Increase

	FY 2019-20 Estimate
Fiscal Year Spending Without the Sales Tax Increase	$17.2 billion
Revenue from the Sales Tax Increase	$766.7 million

The principal amount of the proposed bonded debt is limited to $6.0 billion. The maximum state repayment cost is $9.4 billion. Annual principal and interest payments are not limited by the measure in any given year, but are expected to average up to $470 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.