

**Initiative #153
Authorize Sales Tax and Bonds for Transportation Projects**

1 **Proposition ? proposes amending the Colorado statutes to:**

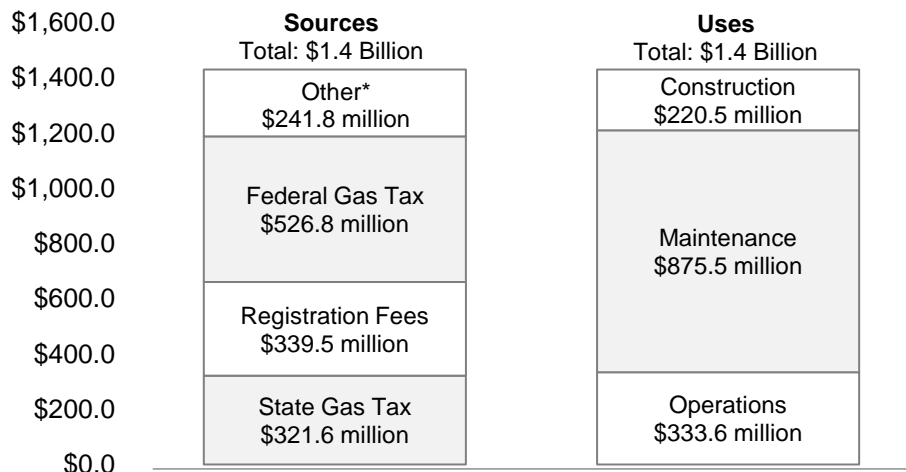
- 2 ◆ increase the state’s sales and use tax rate from 2.9 percent to 3.52 percent for
- 3 20 years;
- 4 ◆ distribute the new tax revenue for transportation as follows: 45 percent to the
- 5 state; 40 percent to local governments; and 15 percent for multimodal
- 6 transportation projects; and
- 7 ◆ permit the state to borrow up to \$6.0 billion in 2019 for transportation projects
- 8 and limit the total repayment amount, including principal and interest, to
- 9 \$9.4 billion over 20 years.

10 **Summary and Analysis**

11 This analysis outlines state highway funding and the state sales and use tax under
 12 current law. In addition, it describes the sales and use tax increase and bond sale and
 13 repayment authorized by the measure.

14 **Current state highway funding.** Maintenance and construction of state highways
 15 are funded in the Colorado Department of Transportation (CDOT). CDOT receives most
 16 of its revenue from federal and state gasoline and diesel fuel taxes and from vehicle
 17 registration fees, as shown in Figure 1. For state budget year 2017-18, CDOT spent
 18 approximately \$1.2 billion, or roughly 79 percent of its revenue, for state highway
 19 maintenance and operations and \$220.5 million, or 21 percent, on new construction.

20 **Figure 1**
 21 **State Transportation Funding Sources and Uses**
 22 *Budget Year 2017-18, Dollars in Millions*



Source: Colorado Department of Transportation.

*Other funding sources include federal grants, tolls, and other state and local funds.

1 **Sales and use tax.** The state sales tax is paid on the purchase price of most items.
 2 Some items are exempt, such as food bought at grocery stores, prescription drugs,
 3 household utilities, and gasoline. The tax applies to some services, most notably
 4 telephone service, food and drink service at restaurants and bars, and short-term
 5 lodging. The state use tax is paid when sales tax was due but not collected. In addition
 6 to the state’s 2.9 percent rate, most local governments also have sales and use taxes.
 7 Combined state and local sales tax rates in Colorado range from 2.9 percent to
 8 11.2 percent.

9 **Amount of the tax increase.** Beginning January 1, 2019, the measure increases
 10 the state sales tax rate from 2.9 percent to 3.52 percent for 20 years. The measure is
 11 estimated to raise about \$767 million in the first year that it applies. Table 1 provides
 12 examples of state sales taxes due currently and under Proposition ?. Under the
 13 measure, a Colorado family with an average income of \$74,374 will see the annual sales
 14 tax they pay increase by \$131.

15 **Table 1**
 16 **Comparison of Average State Sales Taxes Due under Current Law**
 17 **and Proposition ?**

Family Income	Current State Sales Tax Paid (2.9%)	Annual Tax Increase Under Proposition ? (0.62%)	State Sales Tax Paid Under Proposition ? (3.52%)
\$6,495.00	\$197.00	\$42.00	\$239.00
\$13,143.00	\$235.00	\$50.00	\$285.00
\$24,015.00	\$359.00	\$77.00	\$436.00
\$42,272.00	\$459.00	\$98.00	\$557.00
\$83,473.00	\$730.00	\$156.00	\$886.00
\$190,232.00	\$1,171.00	\$250.00	\$1,421.00
Statewide average			
\$74,374.00	\$611.00	\$131.00	\$742.00

Source: Colorado Department of Revenue, 2016 Tax Profile & Expenditure Report.

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

- 20 • 45 percent to CDOT for state transportation projects, including debt repayment;
- 21 • 40 percent to local governments for transportation projects; and
- 22 • 15 percent for multimodal transportation projects.

23 The state’s share of the additional tax revenue will be spent by CDOT on state
 24 highway projects and to repay borrowing under this measure for transportation projects.
 25 The Transportation Commission, an 11-member body appointed by the Governor to
 26 make decisions on state transportation policy, will determine the use of these funds.

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

1 The additional tax revenue identified for multimodal transportation projects will mostly
2 be spent by local governments. Multimodal transportation is designed to reduce the use
3 of personal vehicles and includes bike paths, sidewalks, and mass transit, such as
4 buses and rail.

5 **Bond sale and repayment.** The state may borrow money with voter approval to
6 fund projects, such as road and bridge construction. Proposition ? permits CDOT to
7 borrow up to \$6.0 billion by selling transportation revenue bonds. The total repayment
8 amount, including interest, is limited to \$9.4 billion and 20 years, and the state must
9 reserve the right to repay the bonds ahead of schedule without penalty. Assuming the
10 repayment schedule is for the full \$9.4 billion over 20 years, the average annual
11 repayment cost will be \$470 million. Actual repayment amounts will vary depending on
12 the terms of the revenue bonds. The measure creates a citizen oversight commission to
13 annually report on the use of the bond proceeds.

14 **Past bond sale and repayment for transportation projects.** In 1999, voters
15 approved the sale of \$1.5 billion worth of bonds for transportation projects. The state
16 was required to use the borrowed money to pay for up to 24 transportation projects,
17 including the widening of I-25 in Denver. Repayment costs for the 1999 bonds totaled
18 \$2.3 billion. The debt was fully repaid through various state and federal sources in
19 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>

20 Arguments For

- 21 1) Colorado's highways are deteriorating, and the cost of improvements continues
22 to increase. The state needs to invest immediately in its infrastructure and
23 cannot afford to expand and modernize its transportation system without a new
24 revenue source. Colorado needs a modern transportation system that includes
25 road, bus, bike, and rail options to address its growing population. This measure
26 creates a flexible statewide transportation solution, and it lets local communities
27 identify their own transportation projects and prioritize their most urgent needs.
- 28 2) Proposition ? creates a sustainable source of funding for Colorado's
29 transportation needs. Colorado's highway costs outpace collections from the gas
30 tax. This measure offers a way for the state to increase transportation funding
31 and repay bonds with a limited tax increase. New and dedicated revenue for
32 transportation will allow the state to continue to meet its obligations to fund
33 education, health programs, and public safety while also investing heavily in
34 Colorado's roads.

1 **Arguments Against**

2 1) Proposition ? raises taxes for a fundamental government service that should
3 already be funded through the state budget. The state can and should fund
4 roads within existing tax revenue, rather than resorting to expensive borrowing.
5 Any shortfall in transportation funding is a result of prioritizing state spending in
6 other areas of government. The funding in this measure should be used
7 exclusively for road repair and improvements because the majority of Coloradans
8 use their personal vehicles to commute daily. Instead, it dedicates too much
9 revenue to underutilized multimodal transportation.

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

14 **Estimate of Fiscal Impact**

15 *(Please note: A summary of the fiscal impact will be included in this space in the*
16 *second draft of the analysis. A final fiscal impact statement will be prepared and placed*
17 *on the General Assembly's website when the final blue book is sent to voters.)*