

Initiative #153
Authorize Sales Tax and Bonds for Transportation Projects

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

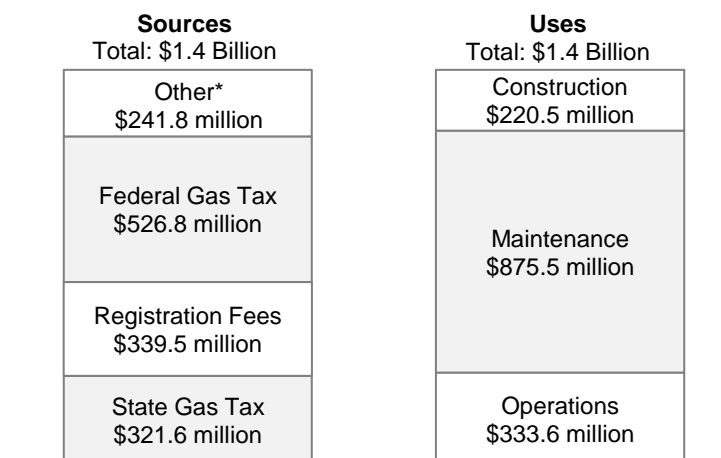
- 2 ♦ increase the state’s sales and use tax rate from 2.9 percent to 3.52 percent for
- 3 20 years;
- 4 ♦ distribute the new tax revenue for transportation as follows: 45 percent to the
- 5 state; 40 percent to local governments; and 15 percent for multimodal
- 6 transportation projects; and
- 7 ♦ permit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

14 ***Current state highway funding.*** Maintenance and construction of state highways
15 are funded through the Colorado Department of Transportation (CDOT). CDOT receives
16 most of its revenue from federal and state gasoline and diesel fuel taxes and from state
17 vehicle registration fees, as shown in Figure 1. For state budget year 2017-18, CDOT
18 spent approximately \$1.2 billion, or roughly 85 percent of its revenue, on state highway
19 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.

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.

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 ? 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
Comparison of Average Annual Estimated State Sales Taxes Due
under Current Law and Proposition ?

	Current Law	Under Proposition ?	
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.

Use of new tax revenue for transportation. The additional tax revenue collected under Proposition ? 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.

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

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

13 **Past bond sale and repayment for transportation projects.** In 1999, voters
14 approved the sale of \$1.5 billion worth of bonds for transportation projects. The state
15 was required to use the borrowed money to pay for up to 24 transportation projects
16 across the state. Repayment costs for the 1999 bonds totaled \$2.3 billion. The debt
17 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>

18 Arguments For

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

Arguments Against

- 1) Proposition ? 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 ? 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.