Colorado Legislative Council Staff

Initiative # 27

INITIAL FISCAL IMPACT STATEMENT

Date: April 18, 2017 **Fiscal Analyst:** Greg Sobetski (303-866-4105)

LCS TITLE: TRANSPORTATION FUNDING

Fiscal Impact Summary*	FY 2017-2018	FY 2018-2019
State Revenue	**at least $282.4 million**	**at least $568.7 million**
General Fund	282.4 million	568.7 million
State Highway Fund	potential increase	potential increase
State Diversions		
General Fund	(286.2 million)	(576.7 million)
Highway Users Tax Fund	243.3 million	490.2 million
Multimodal Transportation Options Fund	42.9 million	86.5 million
State Transfers		
General Fund	110.6 million	116.9 million
Highway Users Tax Fund	(110.6 million)	(116.9 million)
State Expenditures	**at least $206,881**	**at least $50,966**
General Fund	at least 196,781	at least 30,766
State Highway Fund	at least 10,100	at least 20,200
FTE Position Change	1.1 FTE	0.5 FTE
Future Year Impacts: Ongoing state revenue and expenditure increase; ongoing General Fund diversions; and state transfers through FY 2019-20.		

**Totals may not sum due to rounding; TRANs proceeds and debt service not included.*

Note: This *initial* fiscal impact estimate has been prepared for the Title Board. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the Blue Book Voter Guide if new information becomes available.

Summary of Measure

This measure authorizes the issuance of $3.5 billion in new transportation revenue anticipation notes (TRANs). Proceeds from the sale of TRANs are required to be spent to fund transportation projects selected by the Transportation Commission. For a period of 20 years, the measure increases the state sales and use tax rates and allocates a portion of the new tax revenue to fund TRANs debt service. The remaining tax revenue is distributed to local governments for transportation uses and to a new Multimodal Transportation Options Fund.

Transportation revenue anticipation notes. The measure authorizes the executive director of the Colorado Department of Transportation (CDOT) to issue TRANs. The sale value of the TRANs must not exceed $3.5 billion, and the repayment cost must not exceed $5.0 billion. The term of the debt service is limited to 20 years.

Proceeds from the sale of TRANs are credited to the State Highway Fund (SHF) and used exclusively to pay for transportation projects, including multimodal capital projects, selected by the Transportation Commission. Debt service on TRANs is paid first from the General Fund, up to $150.0 million annually, and then from new sales and use tax revenue allocated to the SHF.

Sales and use tax increase. The measure increases the state sales and use tax rates by 0.5 percentage points, from 2.9 percent to 3.4 percent, between January 1, 2018, and December 31, 2037. Revenue is diverted from the General Fund to the Highway Users Tax Fund (HUTF) and a newly created Multimodal Transportation Options Fund as follows:

- 15 percent to the Multimodal Transportation Options Fund to be used for multimodal transportation projects, including pedestrian and active transportation projects; and

- 85 percent to the HUTF, from which:
  - 41.2 percent is allocated to the SHF for TRANs repayment and transportation projects; and
  - 58.8 percent is allocated to counties and municipalities for transportation projects.

State Highway Fund share. From new sales and use tax revenue, the measure allocates 35.02 percent, or 41.2 percent of 85 percent, to the SHF. This amount is required to be used for TRANs repayment. Any amount remaining after debt service costs are paid is required to be expended for transportation projects selected by the Transportation Commission.

Local government share. The measure allocates 49.98 percent, or 58.8 percent of 85 percent, to local governments. Half of this revenue is disbursed to counties following the current statutory distribution formula for county HUTF allocations. The other half is disbursed to municipalities following their current statutory distribution formula. Funds may be used by local governments for transportation projects in the same way that current HUTF distributions are utilized.

Multimodal projects share. The measure diverts 15 percent of new sales and use tax revenue to a newly created Multimodal Transportation Options Fund. This fund comprises two accounts:

- the Transportation Options Account, which is administered by the newly created Multimodal Transportation Options Committee; and
- the Pedestrian and Active Transportation Account, which is administered by the Transportation Commission.

No more than 75 percent of the funding in the Multimodal Transportation Options Fund may be paid to the Transportation Options Account, and no less than 25 percent of the funding may be paid to the Pedestrian and Active Transportation Account. Within these parameters, the precise allocations are determined by the Transportation Commission.

Senate Bill 09-228 transfers. The measure repeals the outstanding Senate Bill 09-228 transfers of General Fund revenue to the HUTF. Transfers to the HUTF are repealed for FY 2017-18 through FY 2019-20. Transfers to the Capital Construction Fund are unaffected.

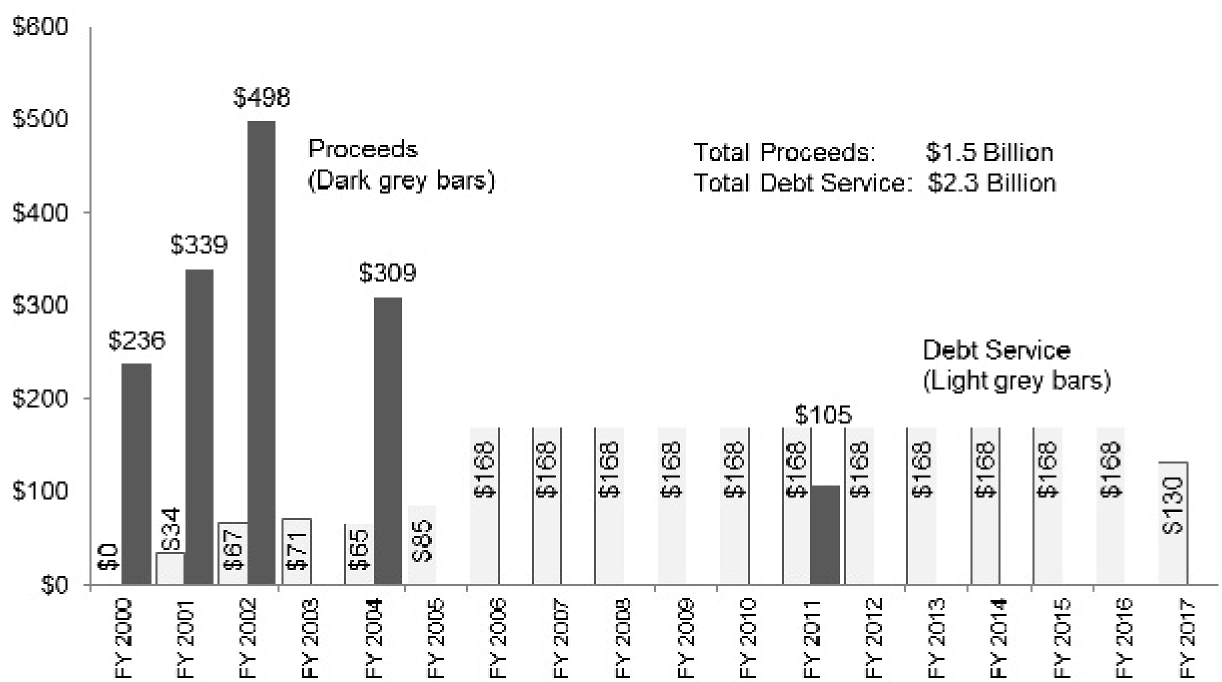
Multimodal Transportation Options Committee. The measure creates the Multimodal Transportation Options Committee in CDOT. This committee is responsible for allocating funds from the Transportation Options Account of the Multimodal Transportation Options Fund. Grants for projects receiving funds from the Transportation Options Account must be matched at 50 percent, except that counties and municipalities that receive less than $15 million in annual sales tax revenue may provide a 20 percent match. The committee comprises 11 members, including the executive director of CDOT or a designee and 10 gubernatorial appointees representing various state and local transportation planning entities and different geographic regions of the state. Appointees serve four-year terms without compensation but receive travel and expense reimbursements.

TRANs Citizen Oversight Committee. The measure creates the Transportation Revenue Anticipation Notes Citizen Oversight Committee to oversee expenditures from TRANs proceeds and any additional sales and use tax revenue allocated to the SHF and used by CDOT. The committee is comprised of 15 members including the executive director for CDOT or a designee, 8 members appointed by legislative leadership, and 6 members appointed by the Governor. The members of the committee represent various stakeholders in transportation policy and different geographic regions of the state. Members serve without compensation or reimbursement.

Background

Transportation revenue anticipation notes. In 1999, Colorado voters authorized CDOT to borrow up to $1.7 billion by selling TRANs with a maximum repayment cost of $2.3 billion. Debt service on TRANs was paid with money from the federal government and state matching funds. TRANs proceeds were exempt from the TABOR revenue limit and could be used only for a list of 28 prioritized statewide projects. The use of TRANs allowed CDOT to accelerate construction on these projects, including the widening of I-25 in Denver (T-REX). As shown in Figure 1, CDOT issued a total of $1.5 billion in installments from 2000 through 2011, with a total repayment cost of $2.3 billion. The final debt service payment occurred in December 2016.

Figure 1. 1999 TRANs Proceeds and Debt Service
(Dollars in Millions)



Source: Colorado Department of Transportation. Not adjusted for inflation.

State Revenue

The measure is expected to increase state revenue by **at least $282.4 million in FY 2017-18** and **at least $568.7 million in FY 2018-19**. These amounts do not include proceeds from the sale of TRANs, which are not estimated by year in this fiscal impact statement but will total up to $3.5 billion between FY 2017-18 and FY 2037-38. The revenue estimate for FY 2017-18 represents a half-year impact based on the January 1, 2018, effective date for the new sales and use tax rates. State revenue will increase through the end of 2037, when the sales and use taxes are scheduled to return to their present rates.

TRANs proceeds. Revenue to the SHF will increase by up to $3.5 billion over the 20 years between FY 2017-18 and FY 2037-38 following the issuance of TRANs. The timing of the revenue will depend on the timing and structure of the debt issuance, which the measure defers to the executive director of CDOT.

Sales and use taxes. The measure increases the state sales and use tax rates by 0.5 percentage points, from 2.9 percent to 3.4 percent, effective from January 1, 2018, to December 31, 2037. Based on the March 2017 LCS Economic and Revenue Forecast, state sales and use taxes other than those on aviation fuel are expected to generate $3,044.5 million and $300.3 million, respectively, in FY 2018-19 under the current 2.9 percent state tax rate. Raising the tax rate is expected to generate an additional $524.9 million in sales taxes and $51.8 million in use taxes per year, for a total of $576.7 million. These amounts are prorated for a half-year impact in FY 2017-18. This revenue impact estimate does not account for any changes in taxpayer behavior. To the extent that taxpayers reduce the amount of their purchases in response to the tax increase, the amount of revenue generated will be less than estimated.

Diversion to regional tourism projects. Under the Regional Tourism Act, the Colorado Economic Development Commission is authorized to approve regional tourism projects. A regional tourism project is financed using a percentage of the state sales tax revenue increment collected in the project zone above the revenue amount for the base year before the project was authorized. State sales tax revenue that is credited to the project is not accounted as state revenue in the General Fund.

The measure increases the state sales tax rate, increasing the amount of state sales tax revenue diverted for tourism projects. Additional diversions are expected to reduce the amount of new state sales tax revenue by $3.8 million in FY 2017-18 and $7.9 million in FY 2018-19.

State diversions. The measure requires that all revenue generated by the additional sales and use taxes be diverted to the HUTF and the Multimodal Transportation Options Fund rather than being deposited in the General Fund. Total diversions are estimated at $286.2 million in FY 2017-18 and $576.7 million in FY 2018-19. General Fund diversions to the HUTF and the Multimodal Transportation Options Fund are shown in Table 1.

Table 1. General Fund Diversions under Initiative 2017-2018 # 27		
	FY 2017-18	**FY 2018-19**
Diversions to the HUTF	$243.3 million	$490.2 million
Allocated to the SHF	*100.2 million*	*202.0 million*
Allocated to counties[1]	*71.5 million*	*144.1 million*
Allocated to municipalities[1]	*71.5 million*	*144.1 million*
Diversions to the Multimodal Transportation Options Fund	$42.9 million	$86.5 million
Transportation Options Account[2]	*32.2 million*	*64.9 million*
Pedestrian and Active Transportation Account[3]	*10.7 million*	*21.6 million*
TOTAL	**$286.2 million**	**$576.7 million**

1 *Allocations among counties and municipalities follow existing statutory distribution formulas.*

2 *These amounts assume 75 percent of the multimodal options allocation will be deposited in the transportation options account, the maximum amount allowed by the measure.*

3 *These amounts assume 25 percent of the multimodal options allocation will be deposited in the pedestrian and active transportation account, the minimum amount allowed by the measure.*

State transfers. The measure repeals General Fund transfers to the HUTF scheduled under SB09-228 for FY 2017-18 through FY 2019-20. Under current law, 2.0 percent of General Fund revenue is transferred to the HUTF each year through FY 2019-20 unless the state TABOR refund obligation exceeds 1.0 percent of General Fund revenue, in which case transfers are reduced by half. If the TABOR refund obligation exceeds 3.0 percent of General Fund revenue, transfers are not made.

Transfers are estimated at $110.6 million for FY 2017-18 and $116.9 million for FY 2018-19 under current law, and have not been estimated for FY 2019-20. These amounts represent halved transfers based on the March 2017 LCS forecast. Under the measure, transfers are repealed after FY 2016-17 and the amount obligated for transfers is assumed to revert to the General Fund.

State Expenditures

The measure is expected to increase state expenditures by **at least $206,881 and 1.1 FTE in FY 2017-18** and **at least $50,966 and 0.5 FTE in FY 2018-19**. General Fund expenditures will increase by at least $196,781 and 1.1 FTE in FY 2017-18 and at least $30,766 and 0.5 FTE in FY 2018-19. SHF expenditures will increase by at least $10,100 in FY 2017-18 and at least $20,200 in FY 2018-19. The expenditures estimated are for Multimodal Transportation Options Committee meetings and for the implementation of tax policy changes in the Department of Revenue. These amounts do not include spending for TRANs debt service, which will be paid from the General Fund and the new tax revenue once TRANs are issued. Spending for transportation projects and maintenance, which will be paid from SHF revenue at the discretion of the Transportation Commission, are also not included. Expenditures for grants from the Multimodal Transportation Options Fund, which will be made at the discretion of the Transportation Commission and the Multimodal Transportation Options Committee, are also not included.

General Fund budget. Without accounting for debt service obligations, the amount available for the General Fund budget will increase by a net of $106.0 million in FY 2017-18 and $107.0 million in FY 2018-19. These amounts represent the net impacts of eliminating SB09-228 transfers to the HUTF and increasing the amount of General Fund revenue diverted to regional tourism projects. Once debt service payments begin, up to $150.0 million will be obligated from the General Fund annually for this purpose.

Department of Transportation. CDOT expenditures will increase by $10,100 in FY 2017-18 and $20,200 in FY 2018-19 and future years to reimburse members of the Multimodal Transportation Options Committee for travel and hotel expenses. These amounts are assumed to be paid from SHF revenue that would otherwise be allocated to the Division of Transit and Rail.

TRANs repayment. Total TRANs repayment costs may not exceed $5.0 billion, and debt must be serviced within 20 years. Based on repayment costs of $5.0 billion over 20 years, the average annual debt service costs will be $250 million. The General Fund portion of this obligation is capped at $150 million annually, and the remaining repayment will be paid from new sales and use tax revenue.

Department of Revenue. Department of Revenue (DOR) expenditures will increase by $196,781 and 1.1 FTE in FY 2017-18 and $30,766 and 0.5 FTE in FY 2018-19. Expenditures for the department are summarized in Table 2 and explained below.

Table 2. DOR Expenditures Under Initiative 2017-2018 # 27

Cost Components	**FY 2017-18**	**FY 2018-19**
Personal Services	$47,788	$21,722
FTE	1.1 FTE	0.5 FTE
Operating Expenses and Capital Outlay Costs	5,748	475
Postage and Mailing	111,414	
GenTax Computer Programming	14,600	
Indirect Costs	17,231	8,569
TOTAL	**$196,781**	**$30,766**

Personal services. Departmental workload will increase in the Taxpayer Service Division to address filing errors related to the new sales and use tax rate and to respond to increased call volume. Additional workload will require 1.1 FTE and $53,536 in personal services and operating costs in FY 2017-18, and 0.5 FTE and $22,197 in costs in FY 2018-19. New staff will be hired as temporary employees for nine months beginning in January 2018.

Postage and mailing. The department will send a one-time mailing notifying the 206,300 active filing accounts of the change in the tax rate. Expenditures for postage and mailing will total $111,414 in FY 2017-18.

Computer programming. The measure requires updates to the state's tax administration software. Changes are programed by a contractor at a rate of $200 per hour. The changes in this measure are expected to increase General Fund expenditures by $14,600, representing 73 hours of programming. All GenTax programming changes are tested by department staff.

Local Government Impact

The measure increases local government revenue and expenditures beginning in FY 2017-18.

Local government revenue. Local governments will receive disbursements from the state sales tax increase. The local government allocation equals 49.98 percent of new tax revenue. Counties and municipalities each receive half of this amount. Revenue is distributed to individual counties and municipalities according to the statutory HUTF distribution formulas used under current law. For FY 2018-19, the local government share of new sales and use tax revenue is estimated at $288.2 million, of which $144.1 million is paid to counties and $144.1 million is paid to municipalities as previously shown in Table 1.

Multimodal Transportation Options Fund. To receive money from the Transportation Options Account for multimodal transportation projects, counties and municipalities must provide a 50 percent match. Counties or municipalities that receive less than $15 million in annual sales tax revenue may provide a 20 percent match.

Regional tourism projects. Regional tourism projects receive a percentage of state sales and use tax revenue collected in the project zone above the amount for the base year before the project was authorized. Under the measure, three regional tourism projects are expected to receive increased diversions as follows:

- FY 2018-19 diversions to the project in Colorado Springs will increase by $4.9 million;
- FY 2018-19 diversions to the project in Pueblo will increase by $2.3 million; and
- FY 2018-19 diversions to the project in Denver will increase by $0.8 million.

Diversions will continue until projects are fully funded as authorized.

Local government expenditures. Local governments receiving allocations will have additional amounts to spend for transportation projects. The measure does not alter current law requirements for local government use of HUTF disbursements. Under current law, local governments must spend HUTF revenue for construction and maintenance of public highways, together with acquisition of rights-of-way and access rights, and for the construction and maintenance of transit-related projects.

Economic Impact

Sales and use taxes. The measure increases state sales and use taxes for 20 years beginning in 2018. Based on the March 2017 Legislative Council Staff Economic and Revenue Forecast, an increase of 0.5 percent in the sales and use tax rate will increase sales and use taxes paid by individuals and businesses by $524.9 million and $51.8 million, respectively, in FY 2018-19. These amounts will increase in future years as consumer spending increases.

The higher sales tax rate is expected to increase household sales tax obligations annually by an average of about $120, from about $700 to about $820. The amount of the tax increase borne by each household depends on the amount of taxable goods and services that the household purchases. This fiscal impact statement does not assume a reduction in consumer spending attributable to the increased taxes, although it is recognized that spending could be reduced for some goods and services. Households that do not reduce their spending may accommodate the tax increase through any combination of reduced investment or savings or additional debt.

Transportation infrastructure. TRANs proceeds will be spent for transportation construction projects on a schedule determined by the Transportation Commission. Projects are expected to be constructed via government contracts or public-private partnerships. The businesses involved in highway and transit construction are likely to derive immediate benefits when contracts are signed. Employment in the construction industry is also expected to increase. The number of jobs, their location within the state, and the amount of wages paid to employees will depend on future decisions made by the Transportation Commission and contractors.

Improved transportation infrastructure potentially attracts businesses, grows employment, and increases economic productivity.

Effective Date

The measure takes effect January 1, 2018.

State and Local Government Contacts

Counties	Information Technology
Legislative Council Staff Economics Section	Local Affairs
Municipalities	Revenue
Transportation	Treasury

Abstract of Initiative 2017-2018 # 27: Transportation Revenue

This initial fiscal estimate, prepared by the nonpartisan Director of Research of the Legislative Council as of April 2017, identifies the following impacts:

The abstract includes estimates of the fiscal impact of the initiative. If this initiative is to be placed on the ballot, Legislative Council Staff will prepare new estimates as part of a fiscal impact statement, which includes an abstract of that information. All fiscal impact statements are available at www.ColoradoBlueBook.com and the abstract will be included in the ballot information booklet that is prepared for the initiative.

State revenue. Beginning in 2018 and continuing through 2037, the measure increases state sales and use tax revenue by an estimated $568.7 million annually. This amount is expected to be supplemented by proceeds from the sale of transportation revenue anticipation notes totaling $3.5 billion over multiple years.

State expenditures. The proceeds from the sale of revenue anticipation notes, up to $3.5 billion, will be expended for transportation infrastructure projects identified by the Transportation Commission. Sales and use tax revenue will be expended for debt service obligations, estimated at $250.0 million annually, for transportation projects in counties and municipalities, and for multimodal transportation projects.

Economic impacts. The measure increases average household sales tax obligations by an estimated $120 annually, which could reduce consumer spending on goods and services. Improved transportation infrastructure potentially attracts businesses, grows employment, and increases economic productivity.