1st Draft

Referendum D - State Borrowing

The measure:

- permits the state to borrow up to $2.1 billion with a maximum repayment cost of $3.2 billion, including interest;
- requires the money to be used for transportation projects, construction and maintenance projects for public education, and local fire and police pension obligations;
- takes effect only if voters also approve Referendum C; and
- increases the revenue that Referendum C allows the state to keep beginning in budget year 2010-11 by up to $100 million per year.

Background

The Colorado Constitution requires voter approval for the state to borrow money if more than one year is needed to pay back the debt. This measure allows the state to borrow up to $2.1 billion, as shown below, and to repay it over a number of years.

Maximum Amount	Use
$1.7 billion	**Transportation** - To repair and replace roads and bridges, and accelerate the construction of projects designated by the Colorado Transportation Commission from projects recommended by local governments. See Appendix A for a listing of the proposed projects.
$175 million	**Fire and Police Pensions** - To satisfy the state's remaining obligation to assist local pension plans for police officers and firefighters hired prior to April 8, 1978. Under current law, this obligation will cost the state at least $208 million over the next seven years.
$147 million	**K-12 Public Schools** - To repair, maintain, and replace public school buildings. Projects will be approved by the State Board of Education based on criteria set in law.
$50 million	**Public College and University Buildings** - To repair, maintain, and replace public university, state college, and community college facilities. Projects will be approved by the state legislature based on recommendations prioritized by each school.
$2.1 billion	**Total** - Maximum amount of borrowing permitted.

Repayment. The total repayment cost, including principal and interest, may not exceed $3.225 billion. The actual amount the state can borrow for transportation projects and the other uses will depend on the interest rate the state must pay and other costs associated with borrowing. For example the lower the interest rate, the more the state can borrow under the caps, and vice versa. The measure also limits the annual payments to $55 million the first year, $95 million the second year, and $125 million each year thereafter, with no more than $25 million being used to pay the debt on nontransportation items. State law does not limit the number of times the state can borrow money to reach the cap or when the state borrows the money, but any particular debt must be repaid within 25 years.

The debt must be repaid from state revenue. One source of money for debt repayment is provided by Referendum C, which allows the state to keep revenue that will otherwise be returned to taxpayers. If the state collects enough money, it will be able to keep an additional $100 million beginning in budget year 2010-11.

Previous state borrowing for transportation projects. In 1999, voters gave approval for the state to borrow up to $1.7 billion to be used for up to 24 transportation projects. The measure contained a maximum repayment cost of $2.3 billion in principal and interest. Federal and state transportation funds were earmarked as the source to repay the debt. The Department of Transportation was able to borrow $1.47 billion under the $2.3 billion repayment limit at an average interest rate of 4.26 percent. This money will be repaid over time through 2017.

Arguments For

1) This measure gives voters more say over the use of their tax dollars by guaranteeing that a portion will go towards shoring up the state's highways and schools. The Transportation Commission has approved a list of 55 high-priority projects that benefit citizens in all parts of the state. The money will also be used for the most critical repair and maintenance projects in school buildings across the state.

2) Now is the time to invest in the important public works projects that were delayed because of the recession. For example, the Colorado Department of Transportation reports that 39 percent of the state's roads are in poor condition, and that nearly 13 percent of bridges statewide (474 bridges) need to be repaired or replaced. A backlog of maintenance and construction projects at the state's public schools, colleges, and universities needs to be addressed to keep them safe and functioning properly. The measure provides the money to ensure a minimum level of safety in public schools immediately.

3) Borrowing money for schools and roads makes sense. It may cost less than waiting because interest rates on debt are low and construction costs continue to rise. In addition, fixing things now is often less expensive than replacing them in the future. The costs will

be spread over time, just as the benefits are spread over time. Also, prior obligations to firefighters and police officers could be met at a reduced cost.

4) Everyone benefits from safe and reliable roads and schools. Colorado's long-term economic growth and stability are linked to efficient and well-maintained roads and schools. Spending $1.7 billion on transportation construction projects will provide a boost to local economies statewide. Employers consistently say that good road and school systems are important factors when they decide where to open or relocate a business. People and products are moved more efficiently over roads that are in good condition. Citizens rely on the government to invest public money in these systems.

Arguments Against

1) The state should live within its means. With over $15 billion in revenues expected next year, state government should be able to pay for the items it really needs without borrowing more money. The measure provides enough money to start some big projects, but not enough money to finish them, and future funding is not guaranteed. The state already owes nearly $2 billion on money it borrowed during the past five years for transportation projects. This measure continues the cycle of debt into the future.

2) The measure is not specific enough about how the money will be used or how long the state will be in debt. Before supporting a potential $3 billion financing plan, voters should know exactly what will be done with the money and when. Nothing prevents the list of transportation projects from being changed after the election. The only specific allocation of money is to shore up local government pension funds, which only benefit a small number of people. It is unknown how long the state will be paying off the debt because there is no deadline for borrowing the money or refinancing the debt.

3) Borrowing money shifts the burden of payment to future generations. In some cases, the payback costs will last longer than the benefit and could cost more than building the projects over time. The measure lacks an adequate reserve to account for any future economic downturn and commits the state to making debt payments before paying for anything else in the budget. This could leave less money for other programs. In addition, using long-term debt for local government employee pensions may cost the state more because it stretches the state's obligation from seven years to 25 years.

4) Instead of doing what it has always done, the state should reinvent how it invests in transportation. The state can hardly afford to maintain the roads it has, let alone new ones. With congestion and high gasoline prices, people are increasingly demanding alternative modes of transportation. Solutions such as mass transit, reversible highway lanes, toll lanes, and high occupancy vehicle lanes may address future needs better than spending

more money on roads. State and local governments could encourage the location of homes, businesses, and shopping areas to reduce commuting time and air pollution.

Estimate of Fiscal Impact

The measure authorizes the state to issue up to $2.1 billion in multiple-fiscal year debt with maximum total annual principal and interest payments of $55 million in budget year 2005-06, $95 million in budget year 2006-07, and $125 million in each year thereafter beginning in 2007-08. The total repayment cost cannot exceed $3.225 billion. Each note may be issued for a term of no more than 25 years. Up to $25 million per year will be used to pay notes issued for nontransportation purposes.

The measure increases the amount that the state is allowed to retain by up to $100 million per year beginning in budget year 2010-11. This will reduce the amount available to taxpayers for future TABOR refunds. The state is permitted to borrow up to $250,000 in advance for expenses associated with issuing the debt, including legal and financial advice to prepare the bond offerings. These expenses will be repaid from the moneys received from the issuance of the notes.

Note: Complete Data for Appendix A will be provided as part of the second draft

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Appendix A
The Colorado Transportation Commission's
Selected Transportation Projects

County	**Project Location**	**Description**	**Total Estimated Project Cost**
Douglas	I-25 South	Widening Meadows Parkway to 5th Street	$22.5 million
Douglas	I-25 South	Widening and Interchange Improvements, 5th Street to South Plum Creek	$17.1 million