Final Draft

Proposition 101
Income, Vehicle, and Telecommunication Taxes and Fees

Proposition 101 proposes amending the Colorado statutes to:

- ♦ reduce the state income tax rate from 4.63 percent to 4.5 percent in 2011, and to 3.5 percent gradually over time;
- ♦ reduce or eliminate taxes and fees on vehicle purchases, registrations, leases, and rentals over the next four years;
- ♦ eliminate all state and local taxes and fees on telecommunication services, except 911 fees; and
- ♦ require voter approval to create or increase fees on vehicles and telecommunication services.

Summary and Analysis

Proposition 101 reduces or eliminates various taxes and fees on income, vehicles, and telecommunication services. Table 1 shows the annual impact of Proposition 101 on three different households, and Table 2 shows the impact on government budgets.

Some of the reductions in Proposition 101 are phased in over time. The impact will be smaller in the first year and will grow in size over the next 15 to 20 years. Estimates of the impact in the first year, as well as the impact once the reductions are fully implemented, are based on today's dollars. The fully implemented impacts provide the best estimates of the measure's final effects. Although the actual dollar amounts will differ in the future as inflation and growth increase the size of the economy, the comparable budget impacts on taxpayers and governments are expected to remain consistent over time.

In the first year, the tax and fee reductions are expected to be $1.4 billion — $744 million in state reductions and $629 million in local government reductions. Once fully implemented, the impact is expected to be $2.9 billion in today's dollars — $1.9 billion in state reductions and $1.0 billion in local government reductions.

Impact on households and businesses. Table 1 shows the estimated change in tax and fee bills for three different households as a result of Proposition 101, in both the first full year the measure is in effect and when the measure is fully implemented, in today's dollars. Businesses will also experience reductions in taxes and fees. Households and businesses will be impacted differently depending on annual income, vehicles owned, vehicles purchased, and the amount paid for phone and cable service. Households and businesses will experience additional reductions during years in which vehicles are rented, leased, or purchased.

Final Draft

Table 1. Annual Change in Representative Households' Tax and Fee Bills Due to Proposition 101, First-Year Impact and When Fully Implemented /a

(In Today's Dollars)

	Income Taxes	Vehicle Fees & Taxes	Telecom Fees & Taxes	Total
Household A	*Household Description:* Annual Income: $35,000; owns a 10-year-old car that had an original retail price of $13,000; $60 monthly phone bill.			
First Year	-$20	-$72	-$43	-$135
Fully Implemented	-$185	-$73	-$43	-$301
Household B	*Household Description:* Annual Income: $55,000; owns a 5-year-old car that had an original retail price of $17,000 and a 5-year-old car that had an original retail price of $23,500; $130 monthly combined phone bills.			
First Year	-$40	-$180	-$93	-$313
Fully Implemented	-$320	-$295	-$93	-$708
Household C	*Household Description:* Annual Income: $110,000; owns a 2-year-old car that had an original retail price of $37,500 and a 3-year-old car that had an original retail price of $26,000; $180 monthly combined phone bills.			
First Year	-$90	-$327	-$128	-$545
Fully Implemented	-$780	-$883	-$128	-$1,791

** Totals may not sum due to rounding.*

/a This analysis assumes a 7.0 percent combined state and local sales tax rate. Telecommunication tax and fee reductions are fully implemented in 2011. Some vehicle tax and fee reductions are fully implemented in 2011 and some are phased in between 2011 and 2014. It will take an estimated 15 to 20 years for the income tax rate reductions to be fully implemented.

Impact on government budgets. Table 2 shows the estimated impact of Proposition 101 on tax and fee collections used for local government budgets, the state's general operating budget, and transportation budgets in the first year and once it is fully implemented. All of these impacts are shown in today's dollars. More information on the impact on each type of budget follows. As a result of the decrease in tax and fee collections, state and local governments will have to decrease spending and services, increase fees to pay for services, or some combination of both.

Table 2. Annual Change in Government Tax and Fee Collections Due to Proposition 101, First-Year Impact and When Fully Implemented

(In Today's Dollars)

Government Collections	Collections under Current Law	Collections under Prop 101	Change*
Vehicle Specific Ownership Taxes and Sales Taxes Collected by **Local Governments**	$3.9 billion	$3.4 billion First Year	-$530 million First Year
		$3.0 billion Fully Implemented	-$900 million Fully Implemented
Sales Taxes, Income Taxes, and Telecommunication Fees Collected by the **State Government**	$7.2 billion	$6.7 billion First Year	-$450 million First Year
		$5.5 billion Fully Implemented	-$1.6 billion Fully Implemented
Vehicle Registration Fees and State Rental Fees Collected for **State and Local Transportation Budgets**	$440 million	$50 million Fully Implemented During First Year	-$390 million Fully Implemented During First Year

** Totals may not sum due to rounding.*

Impact on local government budgets. Local governments will collect less money from vehicle specific ownership taxes and sales taxes. Local governments affected by the measure include school districts, cities, counties, and special districts. Some examples of special districts include recreation, fire, water, sewer, and public transportation districts. The money collected in taxes and fees pays for different services depending on the local government. Most of the money is used for education, public safety, roads, trash service, and parks and recreation. State law requires that school districts be reimbursed by the state for most of their loss in tax collections.

Impact on the state government operating budget. The state government will collect less money from sales taxes, income taxes, and telecommunication fees. The state spends 96 percent of its general operating budget on: preschool through higher education; health care; prisons; the courts; and programs that help low-income, elderly, and disabled people. Proposition 101 will reduce the amount of money available to pay for the state's general operating budget by an estimated 6 percent in the first year and by an estimated 23 percent once fully implemented.

Current law requires the state to reimburse school districts for most of their loss of vehicle specific ownership taxes. This obligation increases the total impact on the state general operating budget during the first year from the $450 million shown in Table 2 to $497 million, and when fully implemented, from $1.6 billion to $1.8 billion.

Impact on state and local government transportation budgets. Proposition 101 reduces funding dedicated to transportation budgets. The state constitution requires that vehicle-related fees collected by the state be spent on road safety, construction, and maintenance. This money is shared between the state, cities, and counties. The state's transportation budget will decrease by an estimated 28 percent from these fee reductions. The impact on city and county government transportation budgets will vary by government. Because cuts affecting transportation budgets are immediate, the full impact shown in Table 2 will occur in 2011.

State Income Tax

Households and businesses pay taxes on their income to both the state and federal governments. The state's income tax rate is a flat 4.63 percent and is the same for all income levels and for both households and businesses. The state income tax is the largest source of money the state receives to pay for its main programs.

Proposition 101 gradually lowers the state income tax rate from 4.63 percent to 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This will reduce income tax collections to the state by an estimated $145 million, or 3 percent. The tax bill for a household with an annual income of $55,000 will be reduced by $40 in 2011. In the future, the rate is reduced by 0.1 percentage point each year in which state income tax collections grow by more than 6 percent. For example, if tax collections increase fast enough, the income tax rate will decrease from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate decreases to 3.5 percent.

When the tax rate is fully reduced, income tax collections to the state will be an estimated 26 percent less, or $1.3 billion in today's dollars lower than what they would have been without Proposition 101. The tax bill for a household with an annual income of $55,000 will be reduced by $320 when the cut is fully phased in. Because income tax collections historically have not grown by more than 6 percent every year, it will likely take 15 to 20 years for the tax rate to decline to 3.5 percent.

Vehicle Fees and Taxes

Proposition 101 reduces several types of vehicle fees and taxes as shown in Table 3. The amounts in the table show the impact when the reductions are fully implemented — sales tax reductions on vehicle purchases and specific ownership tax reductions are phased in over a four-year period, while all other vehicle fee and tax changes occur in 2011. The total amount of the reduction in vehicle fees and taxes, when fully implemented, is estimated at $1.3 billion in today's dollars.

Table 3. Vehicle Fees and Taxes Under Current Law and Proposition 101, When Fully Implemented
(In Today's Dollars)

	Average Payment		State & Local Govt. Change in Yearly Collections
	Current	*Prop. 101*	
Vehicle Owners			
Sales Tax /a *Four-year Phase in (2011 to 2014)*	$2,100 one-time payment	$1,400 one-time payment	-$335 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$300 million total for state and local
Specific Ownership Tax *Four-year Phase in (2011 to 2014)*	$87 paid once per year	$2 (new cars) or $1 (used cars) paid once per year	-$345 million total for all school districts /c and local governments
Vehicle Lessees			
Sales Tax /a *Fully Implemented in 2011*	$1,080 total ($30 paid monthly during lease term)	$0	-$65 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$75 million total for state and local
Specific Ownership Tax *Fully Implemented in 2011*	$87 paid once per year	$0 paid once per year	-$86 million total for all school districts /c and local governments
Vehicle Renters			
Sales Tax /a *Fully Implemented in 2011*	$2.45 per rental day	$0	-$80 million total for state and local
State Car Rental Fee *Fully Implemented in 2011*	$2 per rental day	$0	-$19 million total for state and local

/a This analysis assumes a 7.0 percent sales tax rate. For vehicle owners and lessees, it assumes a $30,000 car is purchased or leased for 36 months. For vehicle renters, the analysis assumes a vehicle is rented for $35 a day.
/b Currently, the average registration and license fees are lower than the average payment shown in the table, but are estimated to increase to the amounts shown over the next year. The collections numbers represent registration and license fee impacts assuming what the fees will be when they are increased.
/c Current law requires the state to reimburse school districts for most of their loss of specific ownership taxes.

Vehicle owners. Upon purchase, vehicle buyers are required to pay sales tax. In addition, each year vehicle owners must register their vehicle(s) with the state and pay registration fees and a specific ownership tax. Proposition 101 reduces all three taxes and fees.

Final Draft

Vehicle sales tax. Sales taxes are paid on the purchase of a new or used vehicle. The tax is applied to the price of the vehicle, including any manufacturer's rebate. The total tax rate is a 2.9 percent state rate plus any applicable local government sales tax rates. Because different local governments have different tax rates, the sales tax a buyer pays differs depending on where the buyer lives. The average combined sales tax rate is close to 7 percent.

Proposition 101 reduces the sales taxes due on vehicle purchases by exempting the first $10,000 of the vehicle's price and any manufacturer's rebate from the sales tax. The $10,000 exemption is phased in over a four-year period beginning in 2011. When fully implemented, vehicles worth $10,000 or less will not have a sales tax bill. Vehicles with greater values will receive a $10,000 exemption. For example, a vehicle purchased for $18,000 will be taxed only on $8,000 of the value. This sales tax cut will reduce local government tax collections by an estimated $195 million, or 6 percent, and state government tax collections by an estimated $140 million, or 7 percent.

Vehicle registration and licensing fees. Vehicle owners pay registration fees each year. Most fees vary according to vehicle weight, age, and value. While most of the money pays for roads and bridges, some pays for services like emergency medical services, vehicle emissions reduction programs, the Colorado State Patrol, and snow plowing.

Beginning in 2011, Proposition 101 combines all registration, licensing, and titling fees into a single $10 annual fee, with the exception of vehicle inspection and new license plate fees. As shown in Table 3, the average registration and licensing fee for vehicle owners would fall from $81 to $10 and the amount collected by state and local governments would decrease by about $300 million, or 88 percent.

Vehicle specific ownership tax. Vehicle owners also pay a specific ownership tax each year when registering a vehicle. The specific ownership tax is a property tax on a vehicle. The tax ranges from 0.45 percent to 2.10 percent of the vehicle's taxable value, based on the vehicle's original recommended retail price. As a vehicle ages, the tax rate is reduced. The minimum specific ownership tax is either $3 or $5 per vehicle, depending on the type of vehicle. Counties collect specific ownership taxes and distribute them to schools, cities, counties, and special districts within their boundaries.

Proposition 101 phases in a cut to specific ownership taxes over four years, beginning in 2011. It also requires permission from voters to create or increase future registration and licensing fees. Table 3 shows the change in vehicle owners' bills and state and local government collections.

Vehicle lessees. Like vehicle owners, persons who lease vehicles must pay sales taxes, registration fees, and specific ownership taxes each year. Proposition 101 reduces or ends all three taxes and fees for vehicle leases.

Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This will reduce state and local sales tax collections by an estimated $65 million per year, or 1 percent. It will also eliminate all specific ownership taxes collected by local governments on leased vehicles.

Vehicle registration and licensing fees. Leased vehicles are also required to be registered with the state and lessees must pay annual registration fees. Beginning in 2011, Proposition 101 eliminates all registration fees and imposes a single $10 fee per vehicle, resulting in a reduction of $71 for vehicle lessees. The measure reduces state and local collections by approximately $75 million per year.

Vehicle renters. The state charges a fee of $2 per day for car rentals. The money is shared by the state, cities, and counties to build, repair, and maintain roads and bridges. Sales tax is also applied, with revenue going to the state and local governments. Proposition 101 eliminates the fee and all sales taxes beginning in 2011. As a result, state and local transportation budgets will have an estimated $19 million less per year in fee collections and $80 million less in sales tax collections.

Other vehicle fees. The state also charges use and permitting fees for large and overweight vehicles that use Colorado roads. A passenger mile tax is also charged for passenger bus or shuttle businesses. Proposition 101 eliminates these fees beginning in 2011, resulting in $56 million less in state funds, reducing charges to trucking and carrier companies by a like amount.

Telecommunication Fees and Taxes

Proposition 101 eliminates state and local sales tax and other fees on customer bills for any kind of telecommunications service, except for existing 911 fees. The measure lists the following as telecommunication services, even though some of them are not currently taxed: phone, pager, cable, television, radio, Internet, computer, and satellite services. Currently, the state and some local governments charge sales tax on a portion of the cost of phone and pager services, and some local governments charge sales tax on cable services. State fees that are eliminated include fees that help telephone companies provide access to phone service in rural areas of the state, to the blind, deaf, or speech impaired, and to low-income people. How the elimination of these telephone fees will affect these services is unclear and would likely be determined by the state legislature. However, telephone services for the deaf or speech impaired are required by federal law. Thus, its likely that another funding source will have to be found to continue to provide these services. Local governments may have other fees, such as television franchise fees, that may be eliminated.

Proposition 101 freezes 911 fees at their 2009 level. These fees differ from county to county and ranged from 43 cents to $1.25 per month in 2009. The 911 fees are charged by local governments to help pay for 911 emergency services.

The reduction in a household or business's telecommunications bill depends on how much it spends on taxable phone and cable. Tax and fee collections by local governments would be reduced by at least $194 million each year. Tax and fee collections to the state government would be reduced by an estimated $183 million each year.

New voter approval requirements. Proposition 101 redefines all telecommunication fees and most vehicle fees as taxes. Because the state constitution requires a vote to increase taxes but not to increase fees, governments will need to ask voters for permission to create new or increase existing vehicle or telecommunication charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls, vehicle impound fees, vehicle identification and emission inspection fees, and new license plate fees from this requirement.

How does Proposition 101 interact with two other measures on the ballot? Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see page x) contain provisions that affect state and local government finances by decreasing taxes paid by households and businesses and restricting government borrowing. How these measures work together may require clarification from the state legislature or the courts.

Proposition 101 reduces state and local government taxes and fees. Amendment 60 reduces local property taxes, while requiring state expenditures for K-12 education to increase by an amount that offsets the property tax loss for school districts. Amendment 61 requires state and local governments to decrease tax rates when debt is repaid, which is assumed in this analysis to apply to the existing debt of state and local governments, and it prohibits any borrowing by state government.

Since portions of these measures are phased in over time, the actual impacts to taxpayers and governments will be less in the initial years of implementation and grow over time. Assuming that all three measures are approved by voters, the first-year impact will be to reduce state taxes and fees by $744 million and increase state spending for K-12 education by $385 million. Once fully implemented, the measures are estimated to reduce state taxes and fees by $2.1 billion and increase state spending for K-12 education by $1.6 billion in today's dollars. This would commit almost all of the state's general operating budget to paying for the constitutional and statutory requirements of K-12 education, leaving little for other government services. In addition, the prohibition on borrowing will increase budget pressures for the state if it chooses to pay for capital projects from its general operating budget. This would further reduce the amount of money available for other government services.

Tax and fee collections for local governments are expected to fall by at least $966 million in the first year of implementation and by $4.7 billion when the measures are fully implemented. However, the net impact on local government budgets would be at least $581 million in the first year and $3.1 billion when fully implemented after the state reimburses school districts.

Total taxes and fees paid by households and businesses are estimated to decrease by $1.7 billion in the first year and $6.8 billion per year in today's dollars when the measures are fully implemented. The measures reduce the taxes and fees owed by an average household making $55,000 per year that owns a $295,000 house by an estimated $400 in the first year and $1,660 per year when fully implemented.

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Arguments For

1) Allowing citizens and businesses to keep more of their own money helps the economy. A family with a yearly income of $55,000 could have their taxes and fees cut by $313 in the first year of Proposition 101 and $708 per year when it is fully implemented. Businesses will also benefit from the cut in taxes and fees, allowing them to invest in their companies and create new jobs. In addition, people who buy or lease cars will save even more from lower sales taxes. Reducing taxes and fees helps businesses and lower- and middle-income families who are struggling in this difficult economy. Consumer spending and business investment tend to increase when the tax burden is lower.

2) Proposition 101 will require state and local governments to eliminate unnecessary spending. Governments will look more closely at how they spend money, ensuring that taxpayer dollars are used in the best and most efficient way. State and local governments already spend about $40 billion a year, which amounts to an average of $20,000 per household in the state. The amount of spending by governments in the state has increased by about 14 percent since 1990, even after accounting for inflation and population growth. Even with Proposition 101's reductions in tax and fee collections, revenue to governments will continue to grow, although at a slower rate. Governments can prioritize and fund the most important services with less money by making better choices about how they spend taxpayer money.

3) Proposition 101 gives people a voice in decisions about fees on phones and vehicles. Rather than asking voters for more money for transportation projects, the state recently increased vehicle registration fees by about $220 million, an average of approximately $44 per car. The state did this even though registration fees exceed what it costs the government to process vehicle registrations. Proposition 101 will require governments to seek voter approval for more money rather than adding more fees. Further, some telecommunication fees raise the cost of basic services for everyone but help only a small part of the state's population. Proposition 101 simplifies and eliminates these fees — lowering all vehicle registration fees to a flat $10 per year and ending state and local taxes and fees, except 911 fees, on phone and cable bills.

Arguments Against

1) Colorado's economic success depends on services that governments provide, such as education and a safe transportation system. Proposition 101 will force cuts to these services that people rely on for a high quality of life and that businesses need to succeed. Services that have already been reduced because of the economic downturn, such as schools, colleges, prisons, firefighters and police, and water and sewer systems, will be cut further. These cuts could further weaken the already slow economy, reduce jobs, and, over time, hurt the quality of the state's workforce. Rural economies may also be affected because fees that help provide phone and Internet service for rural areas will be eliminated. The state's operating budget is estimated to be cut by $1.6 billion, or about 23 percent, when the measure is fully implemented, an amount greater than what the state currently spends on prisons, courts, and the Colorado State Patrol combined. Further, local governments will have about $1 billion less. State government spending as a percentage of the economy is already third

lowest among all states and combined state and local government spending is eighth lowest.

2) Proposition 101 will hurt the ability of the state and local communities to maintain already inadequate roads and bridges and provide public transportation. Studies show that Colorado needs more than twice as much money each year than it currently spends just to maintain existing roads and bridges. Proposition 101 would cut state transportation funding by an estimated 28 percent. In 2009 alone, the state and local governments maintained more than 193,000 lane miles of roadway and 8,000 bridges. The state also snow-plowed and sanded 5.6 million miles of highway, repaired 77,000 street signs, and monitored 278 avalanche paths. Public health and safety may also be affected due to fewer resources for emergency medical services, vehicle emission programs, and road maintenance.

3) Cuts to government services may result in hardship for families who have to pay for services that governments will no longer be able to afford. For example, tuition will likely increase, putting college out of reach for many households. Higher-income people, who are better able to absorb these cost increases, will benefit the most from the reduced taxes and fees in Proposition 101. Low- and middle-income people will be less able to absorb the costs. Proposition 101 also eliminates fees that pay for services to help those with lower incomes and people who are deaf, speech impaired, or blind communicate within society.

Estimate of Fiscal Impact

State revenue. Proposition 101 contains several provisions that decrease revenue to the state government. Because some of the reductions are phased in over time, the reduction in revenue will be lower at first. The first year reduction is estimated to be $744 million, which includes $295 million less in vehicle fees that are constitutionally-required to be used for transportation-related spending. When fully implemented, state tax and fee collections would decrease by an estimated $1.9 billion in today's dollars.

State spending. The state will have less money available for spending on its operating programs and transportation budget. Though the reductions to the transportation budget will be immediate, the reductions to operating programs will occur over time as the cuts to the income and sales tax are phased in. The state will have $450 million, or 6 percent, less in the first year to spend on operating programs. Further, the state will have about $295 million, or 28 percent, less to spend on transportation. When fully implemented, the state would have $1.6 billion, or 23 percent, less in today's dollars to spend on operating programs. The impact on the state's operating programs depend on the future budgeting decisions of the state legislature.

Proposition 101 will also create some additional costs for the state. Current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts. This will cause the state to spend an additional $48 million in the first year and $121 million annually when the measure is fully implemented.

Also, Proposition 101 increases state administrative costs by about $185,000 in budget year 2010-11 and $34,000 in the following few years to implement the reductions in taxes, fees, and charges, and to audit compliance with the measure's provisions. The state's administrative costs will decrease in subsequent years as the tax and fee reductions are fully implemented. It is estimated that the measure will require the addition of 0.5 new staff in budget year 2010-11 and 0.25 new staff in the following few years to administer the auditing of governments' tax and fee reductions.

Local revenue and spending. Because reductions in the local sales tax on vehicles are phased in over four years, revenue decreases in the first few years will be lower than when the measure is fully implemented. Local government revenue is estimated to be reduced by $629 million in the first year, with $99 million of this amount for transportation projects. When fully implemented, local government revenue would decrease by an estimated $1.0 billion in today's dollars. However, since current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts, the net impact on local government budgets would be $580 million in the first year and $880 million when fully implemented.

The extent to which each local government program will be affected will vary depending on what services the government provides and its budget decisions. Local governments may also have increased administrative costs to comply with the auditing requirements of Proposition 101.

Impact on taxpayers. Proposition 101 will reduce households' and businesses' tax and fee bills by different amounts depending on their income, the number and type of vehicles they have, the costs of their phone and cable bills, and whether they purchase, rent, or lease vehicles in a given year. In the first year, before all the tax and fee reductions are fully implemented, an average household with an annual income of $55,000 would experience a reduction in their tax and fee bill of about $313. When fully implemented, the total tax and fee bill for this household would be reduced by about $708 annually in today's dollars. There would be additional reductions if the household purchases, rents, or leases a vehicle. Businesses will also experience reductions in taxes and fees.

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- reduce the state income tax rate from 4.63 percent to 4.5 percent in 2011, and to 3.5 percent gradually over time;
- reduce or eliminate taxes and fees on vehicle purchases, registrations, leases, and rentals over the next four years;
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In the first year, the tax and fee reductions are expected to be $1.4 billion — $744 million in state reductions and $629 million in local government reductions. Once fully implemented, the impact is expected to be $2.9 billion in today's dollars — $1.9 billion in state reductions and $1.0 billion in local government reductions.

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Impact on government budgets. Table 2 shows the estimated impact of Proposition 101 on tax and fee collections used for local government budgets, the state's general operating budget, and transportation budgets in the first year and once it is fully implemented. All of these impacts are shown in today's dollars. More information on the impact on each type of budget follows. As a result of the decrease in tax and fee collections, state and local governments will have to decrease spending and services, increase fees to pay for services, or some combination of both.

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Sales Taxes, Income Taxes, and Telecommunication Fees Collected by the **State Government**	$7.2 billion	$6.7 billion First Year	-$450 million First Year
		$5.5 billion Fully Implemented	-$1.6 billion Fully Implemented
Vehicle Registration Fees and State Rental Fees Collected for **State and Local Transportation Budgets**	$440 million	$50 million Fully Implemented During First Year	-$390 million Fully Implemented During First Year

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Impact on local government budgets. Local governments will collect less money from vehicle specific ownership taxes and sales taxes. Local governments affected by the measure include school districts, cities, counties, and special districts. Some examples of special districts include recreation, fire, water, sewer, and public transportation districts. The money collected in taxes and fees pays for different services depending on the local government. Most of the money is used for education, public safety, roads, trash service, and parks and recreation. State law requires that school districts be reimbursed by the state for most of their loss in tax collections.

Impact on the state government operating budget. The state government will collect less money from sales taxes, income taxes, and telecommunication fees. The state spends 96 percent of its general operating budget on: preschool through higher education; health care; prisons; the courts; and programs that help low-income, elderly, and disabled people. Proposition 101 will reduce the amount of money available to pay for the state's general operating budget by an estimated 6 percent in the first year and by an estimated 23 percent once fully implemented.

Current law requires the state to reimburse school districts for most of their loss of vehicle specific ownership taxes. This obligation increases the total impact on the state general operating budget during the first year from the $450 million shown in Table 2 to $497 million, and when fully implemented, from $1.6 billion to $1.8 billion.

Impact on state and local government transportation budgets. Proposition 101 reduces funding dedicated to transportation budgets. The state constitution requires that vehicle-related fees collected by the state be spent on road safety, construction, and maintenance. This money is shared between the state, cities, and counties. The state's transportation budget will decrease by an estimated 28 percent from these fee reductions. The impact on city and county government transportation budgets will vary by government. Because cuts affecting transportation budgets are immediate, the full impact shown in Table 2 will occur in 2011.

State Income Tax

Households and businesses pay taxes on their income to both the state and federal governments. The state's income tax rate is a flat 4.63 percent and is the same for all income levels and for both households and businesses. The state income tax is the largest source of money the state receives to pay for its main programs.

Proposition 101 gradually lowers the state income tax rate from 4.63 percent to 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This will reduce income tax collections to the state by an estimated $145 million, or 3 percent. The tax bill for a household with an annual income of $55,000 will be reduced by $40 in 2011. In the future, the rate is reduced by 0.1 percentage point each year in which state income tax collections grow by more than 6 percent. For example, if tax collections increase fast enough, the income tax rate will decrease from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate decreases to 3.5 percent.

When the tax rate is fully reduced, income tax collections to the state will be an estimated 26 percent less, or $1.3 billion in today's dollars lower than what they would have been without Proposition 101. The tax bill for a household with an annual income of $55,000 will be reduced by $320 when the cut is fully phased in. Because income tax collections historically have not grown by more than 6 percent every year, it will likely take 15 to 20 years for the tax rate to decline to 3.5 percent.

Vehicle Fees and Taxes

Proposition 101 reduces several types of vehicle fees and taxes as shown in Table 3. The amounts in the table show the impact when the reductions are fully implemented — sales tax reductions on vehicle purchases and specific ownership tax reductions are phased in over a four-year period, while all other vehicle fee and tax changes occur in 2011. The total amount of the reduction in vehicle fees and taxes, when fully implemented, is estimated at $1.3 billion in today's dollars.

Table 3. Vehicle Fees and Taxes Under Current Law and Proposition 101, When Fully Implemented
(In Today's Dollars)

	Average Payment		State & Local Govt. *Change in Yearly Collections*
	Current	*Prop. 101*	
Vehicle Owners			
Sales Tax /a *Four-year Phase in (2011 to 2014)*	$2,100 one-time payment	$1,400 one-time payment	-$335 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$300 million total for state and local
Specific Ownership Tax *Four-year Phase in (2011 to 2014)*	$87 paid once per year	$2 (new cars) or $1 (used cars) paid once per year	-$345 million total for all school districts /c and local governments
Vehicle Lessees			
Sales Tax /a *Fully Implemented in 2011*	$1,080 total ($30 paid monthly during lease term)	$0	-$65 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$75 million total for state and local
Specific Ownership Tax *Fully Implemented in 2011*	$87 paid once per year	$0 paid once per year	-$86 million total for all school districts /c and local governments
Vehicle Renters			
Sales Tax /a *Fully Implemented in 2011*	$2.45 per rental day	$0	-$80 million total for state and local
State Car Rental Fee *Fully Implemented in 2011*	$2 per rental day	$0	-$19 million total for state and local

/a This analysis assumes a 7.0 percent sales tax rate. For vehicle owners and lessees, it assumes a $30,000 car is purchased or leased for 36 months. For vehicle renters, the analysis assumes a vehicle is rented for $35 a day.
/b Currently, the average registration and license fees are lower than the average payment shown in the table, but are estimated to increase to the amounts shown over the next year. The collections numbers represent registration and license fee impacts assuming what the fees will be when they are increased.
/c Current law requires the state to reimburse school districts for most of their loss of specific ownership taxes.

Vehicle owners. Upon purchase, vehicle buyers are required to pay sales tax. In addition, each year vehicle owners must register their vehicle(s) with the state and pay registration fees and a specific ownership tax. Proposition 101 reduces all three taxes and fees.

Vehicle sales tax. Sales taxes are paid on the purchase of a new or used vehicle. The tax is applied to the price of the vehicle, including any manufacturer's rebate. The total tax rate is a 2.9 percent state rate plus any applicable local government sales tax

JM FAY

rates. Because different local governments have different tax rates, the sales tax a buyer pays differs depending on where the buyer lives. The average combined sales tax rate is close to 7 percent.

Proposition 101 reduces the sales taxes due on vehicle purchases by exempting the first $10,000 of the vehicle's price and any manufacturer's rebate from the sales tax. The $10,000 exemption is phased in over a four-year period beginning in 2011. When fully implemented, vehicles worth $10,000 or less will not have a sales tax bill. Vehicles with greater values will receive a $10,000 exemption. For example, a vehicle purchased for $18,000 will be taxed only on $8,000 of the value. This sales tax cut will reduce local government tax collections by an estimated $195 million, or 6 percent, and state government tax collections by an estimated $140 million, or 7 percent.

Vehicle registration and licensing fees. Vehicle owners pay registration fees each year. Most fees vary according to vehicle weight, age, and value. While most of the money pays for roads and bridges, some pays for services like emergency medical services, vehicle emissions reduction programs, the Colorado State Patrol, and snow plowing.

Beginning in 2011, Proposition 101 combines all registration, licensing, and titling fees into a single $10 annual fee, with the exception of vehicle inspection and new license plate fees. As shown in Table 3, the average registration and licensing fee for vehicle owners would fall from $81 to $10 and the amount collected by state and local governments would decrease by about $300 million, or 88 percent.

Among the fees eliminated by Proposition 101 are a $2 emergency medical services fee and a 60 cent peace officer training fee. These fees are charged annually with each vehicle's registration fee. Depending on the decisions of the state legislature and local governments, services currently provided using these fees may be eliminated or greatly reduced. The money raised by the emergency medical services fee pays the certification cost for EMT volunteers statewide and is used to fund grants to local governments to pay for emergency equipment, such as ambulances. The peace officer training fee is used to train law enforcement officials in rural Colorado.

Vehicle specific ownership tax. Vehicle owners also pay a specific ownership tax each year when registering a vehicle. The specific ownership tax is a property tax on a vehicle. The tax ranges from 0.45 percent to 2.10 percent of the vehicle's taxable value, based on the vehicle's original recommended retail price. As a vehicle ages, the tax rate is reduced. The minimum specific ownership tax is either $3 or $5 per vehicle, depending on the type of vehicle. Counties collect specific ownership taxes and distribute them to schools, cities, counties, and special districts within their boundaries.

Proposition 101 phases in a cut to specific ownership taxes over four years, beginning in 2011. It also requires permission from voters to create or increase future registration and licensing fees. Table 3 shows the change in vehicle owners' bills and state and local government collections.

Vehicle lessees. Like vehicle owners, persons who lease vehicles must pay sales taxes, registration fees, and specific ownership taxes each year. Proposition 101 reduces or ends all three taxes and fees for vehicle leases.

Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This will reduce state and local sales tax collections by an estimated $65 million per year, or 1 percent. It will also eliminate all specific ownership taxes collected by local governments on leased vehicles.

Vehicle registration and licensing fees. Leased vehicles are also required to be registered with the state and lessees must pay annual registration fees. Beginning in 2011, Proposition 101 eliminates all registration fees and imposes a single $10 fee per vehicle, resulting in a reduction of $71 for vehicle lessees. The measure reduces state and local collections by approximately $75 million per year.

Vehicle renters. The state charges a fee of $2 per day for car rentals. The money is shared by the state, cities, and counties to build, repair, and maintain roads and bridges. Sales tax is also applied, with revenue going to the state and local governments. Proposition 101 eliminates the fee and all sales taxes beginning in 2011. As a result, state and local transportation budgets will have an estimated $19 million less per year in fee collections and $80 million less in sales tax collections.

Other vehicle fees. The state also charges use and permitting fees for large and overweight vehicles that use Colorado roads. A passenger mile tax is also charged for passenger bus or shuttle businesses. Proposition 101 eliminates these fees beginning in 2011, resulting in $56 million less in state funds, reducing charges to trucking and carrier companies by a like amount.

Telecommunication Fees and Taxes

Proposition 101 eliminates state and local sales tax and other fees on customer bills for any kind of telecommunications service, except for existing 911 fees. The measure lists the following as telecommunication services, even though some of them are not currently taxed: phone, pager, cable, television, radio, Internet, computer, and satellite services. Currently, the state and some local governments charge sales tax on a portion of the cost of phone and pager services, and some local governments charge sales tax on cable services. State fees that are eliminated include fees that help telephone companies provide access to phone service in rural areas of the state, to the blind, deaf, or speech impaired, and to low-income people. How the elimination of these telephone fees will affect these services is unclear and would likely be determined by the state legislature. However, telephone services for the deaf or speech impaired, KNOWN AS RELAY COLORADO, are required by THE FEDERAL AMERICANS WITH DISABILITIES ACT ~~federal law~~. THE FEE THAT PAYS FOR THESE SERVICES IS EQUAL TO A FLAT 12 CENTS EACH MONTH PER LAND LINE AND RAISES $2 MILLION PER YEAR. ~~Thus, its likely that another~~ ANOTHER funding source will have to be found to continue to provide these services. Local governments may have other fees, such as television franchise fees, that may be eliminated.

Proposition 101 freezes 911 fees at their 2009 level. These fees differ from county to county and ranged from 43 cents to $1.25 per month in 2009. The 911 fees are charged by local governments to help pay for 911 emergency services.

The reduction in a household or business's telecommunications bill depends on how much it spends on taxable phone and cable. Tax and fee collections by local governments would be reduced by at least $194 million each year. Tax and fee collections to the state government would be reduced by an estimated $183 million each year.

New voter approval requirements. Proposition 101 redefines all telecommunication fees and most vehicle fees as taxes. Because the state constitution requires a vote to increase taxes but not to increase fees, governments will need to ask voters for permission to create new or increase existing vehicle or telecommunication charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls, vehicle impound fees, vehicle identification and emission inspection fees, and new license plate fees from this requirement.

How does Proposition 101 interact with two other measures on the ballot? Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see page x) contain provisions that affect state and local government finances by decreasing taxes paid by households and businesses and restricting government borrowing. How these measures work together may require clarification from the state legislature or the courts.

Proposition 101 reduces state and local government taxes and fees. Amendment 60 reduces local property taxes, while requiring state expenditures for K-12 education to increase by an amount that offsets the property tax loss for school districts. Amendment 61 requires state and local governments to decrease tax rates when debt is repaid, which is assumed in this analysis to apply to the existing debt of state and local governments, and it prohibits any borrowing by state government.

Since portions of these measures are phased in over time, the actual impacts to taxpayers and governments will be less in the initial years of implementation and grow over time. Assuming that all three measures are approved by voters, the first-year impact will be to reduce state taxes and fees by $744 million and increase state spending for K-12 education by $385 million. Once fully implemented, the measures are estimated to reduce state taxes and fees by $2.1 billion and increase state spending for K-12 education by $1.6 billion in today's dollars. This would commit almost all of the state's general operating budget to paying for the constitutional and statutory requirements of K-12 education, leaving little for other government services. In addition, the prohibition on borrowing will increase budget pressures for the state if it chooses to pay for capital projects from its general operating budget. This would further reduce the amount of money available for other government services.

Tax and fee collections for local governments are expected to fall by at least $966 million in the first year of implementation and by $4.7 billion when the measures are fully implemented. However, the net impact on local government budgets would be at least $581 million in the first year and $3.1 billion when fully implemented after the state reimburses school districts.

Total taxes and fees paid by households and businesses are estimated to decrease by $1.7 billion in the first year and $6.8 billion per year in today's dollars when the measures are fully implemented. The measures reduce the taxes and fees owed by an average household making $55,000 per year that owns a $295,000 house by an estimated $400 in the first year and $1,660 per year when fully implemented.

Arguments For

1) Allowing citizens and businesses to keep more of their own money helps the economy. A family with a yearly income of $55,000 could have their taxes and fees cut by $313 in the first year of Proposition 101 and $708 per year when it is fully implemented. Businesses will also benefit from the cut in taxes and fees, allowing them to invest in their companies and create new jobs. In addition, people who buy or lease cars will save even more from lower sales taxes. Reducing taxes and fees helps businesses and lower- and middle-income families who are struggling in this difficult economy. Consumer spending and business investment tend to increase when the tax burden is lower.

2) Proposition 101 will require state and local governments to eliminate unnecessary spending. Governments will look more closely at how they spend money, ensuring that taxpayer dollars are used in the best and most efficient way. State and local governments already spend about $40 billion a year, which amounts to an average of $20,000 per household in the state. The amount of spending by governments in the state has increased by about 14 percent since 1990, even after accounting for inflation and population growth. Even with Proposition 101's reductions in tax and fee collections, revenue to governments will continue to grow, although at a slower rate. Governments can prioritize and fund the most important services with less money by making better choices about how they spend taxpayer money.

3) Proposition 101 gives people a voice in decisions about fees on phones and vehicles. Rather than asking voters for more money for transportation projects, the state recently increased vehicle registration fees by about $220 million, an average of approximately $44 per car. The state did this even though registration fees exceed what it costs the government to process vehicle registrations. Proposition 101 will require governments to seek voter approval for more money rather than adding more fees. Further, some telecommunication fees raise the cost of basic services for everyone but help only a small part of the state's population. Proposition 101 simplifies and eliminates these fees — lowering all vehicle registration fees to a flat $10 per year and ending state and local taxes and fees, except 911 fees, on phone and cable bills.

Arguments Against

1) Colorado's economic success depends on services that governments provide, such as education and a safe transportation system. Proposition 101 will force cuts to these services that people rely on for a high quality of life and that businesses need to succeed. Services that have already been reduced because of the economic downturn, such as schools, colleges, prisons, firefighters and police, and water and sewer systems, will be cut further. These cuts could further weaken the already slow economy, reduce jobs, and, over time, hurt the quality of the state's workforce. Rural

economies may also be affected because fees that help provide phone and Internet service for rural areas will be eliminated. The state's operating budget is estimated to be cut by $1.6 billion, or about 23 percent, when the measure is fully implemented, an amount greater than what the state currently spends on prisons, courts, and the Colorado State Patrol combined. Further, local governments will have about $1 billion less. State government spending as a percentage of the economy is already third lowest among all states and combined state and local government spending is eighth lowest.

2) Proposition 101 will hurt the ability of the state and local communities to maintain already inadequate roads and bridges and provide public transportation. Studies show that Colorado needs more than twice as much money each year than it currently spends just to maintain existing roads and bridges. Proposition 101 would cut state transportation funding by an estimated 28 percent. In 2009 alone, the state and local governments maintained more than 193,000 lane miles of roadway and 8,000 bridges. The state also snow-plowed and sanded 5.6 million miles of highway, repaired 77,000 street signs, and monitored 278 avalanche paths. Public health and safety may also be affected due to fewer resources for emergency medical services, vehicle emission programs, and road maintenance.

3) Cuts to government services may result in hardship for families who have to pay for services that governments will no longer be able to afford. For example, tuition will likely increase, putting college out of reach for many households. Higher-income people, who are better able to absorb these cost increases, will benefit the most from the reduced taxes and fees in Proposition 101. Low- and middle-income people will be less able to absorb the costs. Proposition 101 also eliminates fees that pay for services to help those with lower incomes and people who are deaf, speech impaired, or blind communicate within society.

Estimate of Fiscal Impact

State revenue. Proposition 101 contains several provisions that decrease revenue to the state government. Because some of the reductions are phased in over time, the reduction in revenue will be lower at first. The first year reduction is estimated to be $744 million, which includes $295 million less in vehicle fees that are constitutionally-required to be used for transportation-related spending. When fully implemented, state tax and fee collections would decrease by an estimated $1.9 billion in today's dollars.

State spending. The state will have less money available for spending on its operating programs and transportation budget. Though the reductions to the transportation budget will be immediate, the reductions to operating programs will occur over time as the cuts to the income and sales tax are phased in. The state will have $450 million, or 6 percent, less in the first year to spend on operating programs. Further, the state will have about $295 million, or 28 percent, less to spend on transportation. When fully implemented, the state would have $1.6 billion, or 23 percent, less in today's dollars to spend on operating programs. The impact on the state's operating programs depend on the future budgeting decisions of the state legislature.

Proposition 101 will also create some additional costs for the state. Current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts. This will cause the state to spend an additional $48 million in the first year and $121 million annually when the measure is fully implemented.

Also, Proposition 101 increases state administrative costs by about $185,000 in budget year 2010-11 and $34,000 in the following few years to implement the reductions in taxes, fees, and charges, and to audit compliance with the measure's provisions. The state's administrative costs will decrease in subsequent years as the tax and fee reductions are fully implemented. It is estimated that the measure will require the addition of 0.5 new staff in budget year 2010-11 and 0.25 new staff in the following few years to administer the auditing of governments' tax and fee reductions.

Local revenue and spending. Because reductions in the local sales tax on vehicles are phased in over four years, revenue decreases in the first few years will be lower than when the measure is fully implemented. Local government revenue is estimated to be reduced by $629 million in the first year, with $99 million of this amount for transportation projects. When fully implemented, local government revenue would decrease by an estimated $1.0 billion in today's dollars. However, since current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts, the net impact on local government budgets would be $580 million in the first year and $880 million when fully implemented.

The extent to which each local government program will be affected will vary depending on what services the government provides and its budget decisions. Local governments may also have increased administrative costs to comply with the auditing requirements of Proposition 101.

Impact on taxpayers. Proposition 101 will reduce households' and businesses' tax and fee bills by different amounts depending on their income, the number and type of vehicles they have, the costs of their phone and cable bills, and whether they purchase, rent, or lease vehicles in a given year. In the first year, before all the tax and fee reductions are fully implemented, an average household with an annual income of $55,000 would experience a reduction in their tax and fee bill of about $313. When fully implemented, the total tax and fee bill for this household would be reduced by about $708 annually in today's dollars. There would be additional reductions if the household purchases, rents, or leases a vehicle. Businesses will also experience reductions in taxes and fees.

JM FAY COMMENTS ON LAST DRAFT OF PROPOSITION 101

Hello:

1. We realise this may be too late but as someone who needs to use the Relay and the fact its an ADA mandate; we are wondering why we only got a 1 sentence mention in this when someone is going to need to come up with the monies to fund it and the people of CO need to realise this.

We would also appreciate you adding mute to those of us who use the relay.

Thank you.

JM Fay

****

We need to make a correction to the email we sent you earlier.

1. You have in the against arguments; paragraph 3

Cuts to government services may result in hardship for families who have to pay for services that governments will no longer be able to afford. For example, tuition will likely increase, putting college out of reach for many households. Higher-income people, who are better able to absorb these cost increases, will benefit the most from the reduced taxes and fees in Proposition 101. Low- and middle-income people will be less able to absorb the costs. Those with lower incomes and people who are deaf or blind will also lose a source of money that helps them communicate within society.

Relay CO is an ADA mandate so we are not going to lose this!!! The state is going to need to come up with a way to pay this if this passes!!!

Thank you.

JM Fay

****

Hello:

It is our understanding that the $2 EMS fee and the .60 cent peace officer training fee will go away or be severely reduced. Since 15000 volunteers are certified with this EMS fee around our state for their fd and other entities and we need money for the trainers to be trained; we are wondering why you are not putting this into a separate line? This also goes to grants also around the state for the same entities. Not every district can afford even the basics and to certify one EMT is $300 that they would have to pay out of pocket and as well; there is still no money to train them. Grants mean the district doesnt have to pay out of pocket in full for things like an ambulance.

The same issue for the peace officers fee. That is used to train rural CO law enforcement.

Thank you.

JM Fay

Terry Howerter, RTD

Proposition 101
Income, Vehicle, and Telecommunication Taxes and Fees

Proposition 101 proposes amending the <u>Colorado statutes</u> to:

- reduce the state income tax rate from 4.63 percent to 4.5 percent in 2011, and to 3.5 percent gradually over time;
- reduce or eliminate taxes and fees on vehicle purchases, registrations, leases, and rentals over the next four years;
- eliminate all state and local taxes and fees on telecommunication services, except 911 fees; and
- require voter approval to create or increase fees on vehicles and telecommunication services.

Summary and Analysis

Proposition 101 reduces or eliminates various taxes and fees on income, vehicles, and telecommunication services. Table 1 shows the annual impact of Proposition 101 on three different households, and Table 2 shows the impact on government budgets.

Some of the reductions in Proposition 101 are phased in over time. The impact will be smaller in the first year and will grow in size over the next 15 to 20 years. Estimates of the impact in the first year, as well as the impact once the reductions are fully implemented, are based on today's dollars. The fully implemented impacts provide the best estimates of the measure's final effects. Although the actual dollar amounts will differ in the future as inflation and growth increase the size of the economy, the comparable budget impacts on taxpayers and governments are expected to remain consistent over time.

In the first year, the tax and fee reductions are expected to be $1.4 billion — $744 million in state reductions and $629 million in local government reductions. Once fully implemented, the impact is expected to be $2.9 billion in today's dollars — $1.9 billion in state reductions and $1.0 billion in local government reductions.

Impact on households and businesses. Table 1 shows the estimated change in tax and fee bills for three different households as a result of Proposition 101, in both the first full year the measure is in effect and when the measure is fully implemented, in today's dollars. Businesses will also experience reductions in taxes and fees. Households and businesses will be impacted differently depending on annual income, vehicles owned, vehicles purchased, and the amount paid for phone and cable service. Households and businesses will experience additional reductions during years in which vehicles are rented, leased, or purchased.

Terry Howerter, RTD

Table 1. Annual Change in Representative Households' Tax and Fee Bills Due to Proposition 101, First-Year Impact and When Fully Implemented /a
(In Today's Dollars)

	Income Taxes	Vehicle Fees & Taxes	Telecom Fees & Taxes	Total
Household A	*Household Description:* Annual Income: $35,000; owns a 10-year-old car that had an original retail price of $13,000; $60 monthly phone bill.			
First Year	-$20	-$72	-$43	-$135
Fully Implemented	-$185	-$73	-$43	-$301
Household B	*Household Description:* Annual Income: $55,000; owns a 5-year-old car that had an original retail price of $17,000 and a 5-year-old car that had an original retail price of $23,500; $130 monthly combined phone bills.			
First Year	-$40	-$180	-$93	-$313
Fully Implemented	-$320	-$295	-$93	-$708
Household C	*Household Description:* Annual Income: $110,000; owns a 2-year-old car that had an original retail price of $37,500 and a 3-year-old car that had an original retail price of $26,000; $180 monthly combined phone bills.			
First Year	-$90	-$327	-$128	-$545
Fully Implemented	-$780	-$883	-$128	-$1,791

** Totals may not sum due to rounding.*
/a This analysis assumes a 7.0 percent combined state and local sales tax rate. Telecommunication tax and fee reductions are fully implemented in 2011. Some vehicle tax and fee reductions are fully implemented in 2011 and some are phased in between 2011 and 2014. It will take an estimated 15 to 20 years for the income tax rate reductions to be fully implemented.

Impact on government budgets. Table 2 shows the estimated impact of Proposition 101 on tax and fee collections used for local government budgets, the state's general operating budget, and transportation budgets in the first year and once it is fully implemented. All of these impacts are shown in today's dollars. More information on the impact on each type of budget follows. As a result of the decrease in tax and fee collections, state and local governments will have to decrease spending and services, increase fees to pay for services, or some combination of both.

Terry Howerter, RTD

Table 2. Annual Change in Government Tax and Fee Collections Due to Proposition 101, First-Year Impact and When Fully Implemented
(In Today's Dollars)

Government Collections	Collections under Current Law	Collections under Prop 101	Change*
Vehicle Specific Ownership Taxes and Sales Taxes Collected by **Local Governments**	$3.9 billion	$3.4 billion First Year	~~-$530~~ -497 million First Year
		$3.0 billion Fully Implemented	~~-$900~~ -867 million Fully Implemented
Sales Taxes, Income Taxes, and Telecommunication Fees Collected by the **State Government**	$7.2 billion	$6.7 billion First Year	-$450 million First Year
		$5.5 billion Fully Implemented	-$1.6 billion Fully Implemented
Vehicle Registration Fees and State Rental Fees Collected for **State and Local Transportation Budgets**	$440 million	$50 million Fully Implemented During First Year	-$390 million Fully Implemented During First Year
Regional Transportation District Sales Taxes	$51 million	$18.5 million Fully Implemented in the First Year	-$33 million Fully Implemented in the First Year

** Totals may not sum due to rounding.*

Impact on local government budgets. Local governments will collect less money from vehicle specific ownership taxes and sales taxes. Local governments affected by the measure include school districts, cities, counties, and special districts. Some examples of special districts include recreation, fire, water, sewer, and public transportation districts such as the Regional Transportation District (RTD). The money collected in taxes and fees pays for different services depending on the local government. Most of the money is used for education, public safety, roads, trash service, and parks and recreation. State law requires that school districts be reimbursed by the state for most of their loss in tax collections.

Impact on the state government operating budget. The state government will collect less money from sales taxes, income taxes, and telecommunication fees. The state spends 96 percent of its general operating budget on: preschool through higher education; health care; prisons; the courts; and programs that help low-income, elderly, and disabled people. Proposition 101 will reduce the amount of money available to pay for the state's general operating budget by an estimated 6 percent in the first year and by an estimated 23 percent once fully implemented.

Current law requires the state to reimburse school districts for most of their loss of vehicle specific ownership taxes. This obligation increases the total impact on the state general operating budget during the first year from the $450 million shown in Table 2 to $497 million, and when fully implemented, from $1.6 billion to $1.8 billion.

Impact on state and local government transportation budgets. Proposition 101 reduces funding dedicated to transportation budgets. The state constitution requires that vehicle-related fees collected by the state be spent on road safety, construction, and maintenance. This money is shared between the state, cities, and counties. The state's transportation budget will decrease by an estimated 28 percent from these fee reductions. The impact on city and county government transportation budgets will vary by government. Because cuts affecting transportation budgets are immediate, the full impact shown in Table 2 will occur in 2011.

Impact on the Regional Transportation District (RTD) budget. RTD will collect less money from sales taxes. RTD spends its sales tax revenues to service debt, subsidize service cost, maintain infrastructure and build the FasTracks System. Proposition 101 will result in the potential of a reduction in service, deferral of capital projects, loss of jobs, or a combination thereof. Certain transit dependent patrons will have limited options for getting to work and medical appointments. Proposition 101 will reduce the amount of money available for the RTD operating budget by an estimated 6% once fully implemented.

State Income Tax

Households and businesses pay taxes on their income to both the state and federal governments. The state's income tax rate is a flat 4.63 percent and is the same for all income levels and for both households and businesses. The state income tax is the largest source of money the state receives to pay for its main programs.

Proposition 101 gradually lowers the state income tax rate from 4.63 percent to 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This will reduce income tax collections to the state by an estimated $145 million, or 3 percent. The tax bill for a household with an annual income of $55,000 will be reduced by $40 in 2011. In the future, the rate is reduced by 0.1 percentage point each year in which state income tax collections grow by more than 6 percent. For example, if tax collections increase fast enough, the income tax rate will decrease from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate decreases to 3.5 percent.

When the tax rate is fully reduced, income tax collections to the state will be an estimated 26 percent less, or $1.3 billion in today's dollars lower than what they would have been without Proposition 101. The tax bill for a household with an annual income of $55,000 will be reduced by $320 when the cut is fully phased in. Because income tax collections historically have not grown by more than 6 percent every year, it will likely take 15 to 20 years for the tax rate to decline to 3.5 percent.

Vehicle Fees and Taxes

Proposition 101 reduces several types of vehicle fees and taxes as shown in Table 3. The amounts in the table show the impact when the reductions are fully implemented — sales tax reductions on vehicle purchases and specific ownership tax

Terry Howerter, RTD

reductions are phased in over a four-year period, while all other vehicle fee and tax changes occur in 2011. The total amount of the reduction in vehicle fees and taxes, when fully implemented, is estimated at $1.3 billion in today's dollars.

Table 3. Vehicle Fees and Taxes Under Current Law and Proposition 101, When Fully Implemented
(In Today's Dollars)

	Average Payment		State & Local Govt.
	Current	***Prop. 101***	***Change in Yearly Collections***
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Sales Tax /a *Four-year Phase in (2011 to 2014)*	$2,100 one-time payment	$1,400 one-time payment	-$335 million total for state and local
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Sales Tax /a *Fully Implemented in 2011*	$1,080 total ($30 paid monthly during lease term)	$0	-$65 million total for state and local
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Sales Tax /a *Fully Implemented in 2011*	$2.45 per rental day	$0	-$80 million total for state and local
State Car Rental Fee *Fully Implemented in 2011*	$2 per rental day	$0	-$19 million total for state and local

/a This analysis assumes a 7.0 percent sales tax rate. For vehicle owners and lessees, it assumes a $30,000 car is purchased or leased for 36 months. For vehicle renters, the analysis assumes a vehicle is rented for $35 a day.
/b Currently, the average registration and license fees are lower than the average payment shown in the table, but are estimated to increase to the amounts shown over the next year. The collections numbers represent registration and license fee impacts assuming what the fees will be when they are increased.
/c Current law requires the state to reimburse school districts for most of their loss of specific ownership taxes.

Vehicle owners. Upon purchase, vehicle buyers are required to pay sales tax. In addition, each year vehicle owners must register their vehicle(s) with the state and pay registration fees and a specific ownership tax. Proposition 101 reduces all three taxes and fees.

Vehicle sales tax. Sales taxes are paid on the purchase of a new or used vehicle. The tax is applied to the price of the vehicle, including any manufacturer's rebate. The total tax rate is a 2.9 percent state rate plus any applicable local government sales tax rates. Because different local governments have different tax rates, the sales tax a buyer pays differs depending on where the buyer lives. The average combined sales tax rate is close to 7 percent.

Proposition 101 reduces the sales taxes due on vehicle purchases by exempting the first $10,000 of the vehicle's price and any manufacturer's rebate from the sales tax. The $10,000 exemption is phased in over a four-year period beginning in 2011. When fully implemented, vehicles worth $10,000 or less will not have a sales tax bill. Vehicles with greater values will receive a $10,000 exemption. For example, a vehicle purchased for $18,000 will be taxed only on $8,000 of the value. This sales tax cut will reduce local government tax collections by an estimated $165 million, or 5 percent, RTD by $33 million, or 8.4 percent, and state government tax collections by an estimated $140 million, or 7 percent.

Vehicle registration and licensing fees. Vehicle owners pay registration fees each year. Most fees vary according to vehicle weight, age, and value. While most of the money pays for roads and bridges, some pays for services like emergency medical services, vehicle emissions reduction programs, the Colorado State Patrol, and snow plowing.

Beginning in 2011, Proposition 101 combines all registration, licensing, and titling fees into a single $10 annual fee, with the exception of vehicle inspection and new license plate fees. As shown in Table 3, the average registration and licensing fee for vehicle owners would fall from $81 to $10 and the amount collected by state and local governments would decrease by about $300 million, or 88 percent.

Vehicle specific ownership tax. Vehicle owners also pay a specific ownership tax each year when registering a vehicle. The specific ownership tax is a property tax on a vehicle. The tax ranges from 0.45 percent to 2.10 percent of the vehicle's taxable value, based on the vehicle's original recommended retail price. As a vehicle ages, the tax rate is reduced. The minimum specific ownership tax is either $3 or $5 per vehicle, depending on the type of vehicle. Counties collect specific ownership taxes and distribute them to schools, cities, counties, and special districts within their boundaries.

Proposition 101 phases in a cut to specific ownership taxes over four years, beginning in 2011. It also requires permission from voters to create or increase future registration and licensing fees. Table 3 shows the change in vehicle owners' bills and state and local government collections.

Vehicle lessees. Like vehicle owners, persons who lease vehicles must pay sales taxes, registration fees, and specific ownership taxes each year. Proposition 101 reduces or ends all three taxes and fees for vehicle leases.

Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This will reduce state and local sales tax collections by an estimated ~~$65~~ $64 million per year, or 1 percent. It will also eliminate all specific ownership taxes collected by local governments on leased vehicles.

Vehicle registration and licensing fees. Leased vehicles are also required to be registered with the state and lessees must pay annual registration fees. Beginning in 2011, Proposition 101 eliminates all registration fees and imposes a single $10 fee per vehicle, resulting in a reduction of $71 for vehicle lessees. The measure reduces state and local collections by approximately $75 million per year.

Vehicle renters. The state charges a fee of $2 per day for car rentals. The money is shared by the state, cities, and counties to build, repair, and maintain roads and bridges. Sales tax is also applied, with revenue going to the state and local governments. Proposition 101 eliminates the fee and all sales taxes beginning in 2011. As a result, state and local transportation budgets will have an estimated $19 million less per year in fee collections and $80 million less in sales tax collections.

Other vehicle fees. The state also charges use and permitting fees for large and overweight vehicles that use Colorado roads. A passenger mile tax is also charged for passenger bus or shuttle businesses. Proposition 101 eliminates these fees beginning in 2011, resulting in $56 million less in state funds, reducing charges to trucking and carrier companies by a like amount.

Telecommunication Fees and Taxes

Proposition 101 eliminates state and local sales tax and other fees on customer bills for any kind of telecommunications service, except for existing 911 fees. The measure lists the following as telecommunication services, even though some of them are not currently taxed: phone, pager, cable, television, radio, Internet, computer, and satellite services. Currently, the state and some local governments charge sales tax on a portion of the cost of phone and pager services, and some local governments charge sales tax on cable services. State fees that are eliminated include fees that help telephone companies provide access to phone service in rural areas of the state, to the blind, deaf, or speech impaired, and to low-income people. How the elimination of these telephone fees will affect these services is unclear and would likely be determined by the state legislature. However, telephone services for the deaf or speech impaired are required by federal law. Thus, its likely that another funding source will have to be found to continue to provide these services. Local governments may have other fees, such as television franchise fees, that may be eliminated.

Proposition 101 freezes 911 fees at their 2009 level. These fees differ from county to county and ranged from 43 cents to $1.25 per month in 2009. The 911 fees are charged by local governments to help pay for 911 emergency services.

The reduction in a household or business's telecommunications bill depends on how much it spends on taxable phone and cable. Tax and fee collections by local governments would be reduced ~~by at least $194 million each year~~ BY AT LEAST

$215 MILLION EACH YEAR. Tax and fee collections to the state government would be reduced by an estimated $183 million each year.

New voter approval requirements. Proposition 101 redefines all telecommunication fees and most vehicle fees as taxes. Because the state constitution requires a vote to increase taxes but not to increase fees, governments will need to ask voters for permission to create new or increase existing vehicle or telecommunication charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls, vehicle impound fees, vehicle identification and emission inspection fees, and new license plate fees from this requirement.

How does Proposition 101 interact with two other measures on the ballot? Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see page x) contain provisions that affect state and local government finances by decreasing taxes paid by households and businesses and restricting government borrowing. How these measures work together may require clarification from the state legislature or the courts.

Proposition 101 reduces state and local government taxes and fees. Amendment 60 reduces local property taxes, while requiring state expenditures for K-12 education to increase by an amount that offsets the property tax loss for school districts. Amendment 61 requires state and local governments to decrease tax rates when debt is repaid, which is assumed in this analysis to apply to the existing debt of state and local governments, and it prohibits any borrowing by state government.

Since portions of these measures are phased in over time, the actual impacts to taxpayers and governments will be less in the initial years of implementation and grow over time. Assuming that all three measures are approved by voters, the first-year impact will be to reduce state taxes and fees by $744 million and increase state spending for K-12 education by $385 million. Once fully implemented, the measures are estimated to reduce state taxes and fees by $2.1 billion and increase state spending for K-12 education by $1.6 billion in today's dollars. This would commit almost all of the state's general operating budget to paying for the constitutional and statutory requirements of K-12 education, leaving little for other government services. In addition, the prohibition on borrowing will increase budget pressures for the state if it chooses to pay for capital projects from its general operating budget. This would further reduce the amount of money available for other government services.

Tax and fee collections for local governments are expected to fall by at least $966 million in the first year of implementation and by $4.7 billion when the measures are fully implemented. However, the net impact on local government budgets would be at least $581 million in the first year and $3.1 billion when fully implemented after the state reimburses school districts.

Total taxes and fees paid by households and businesses are estimated to decrease by $1.7 billion in the first year and $6.8 billion per year in today's dollars when the measures are fully implemented. The measures reduce the taxes and fees owed by an average household making $55,000 per year that owns a $295,000 house by an estimated $400 in the first year and $1,660 per year when fully implemented.

Terry Howerter, RTD

Arguments For

1) Allowing citizens and businesses to keep more of their own money helps the economy. A family with a yearly income of $55,000 could have their taxes and fees cut by $313 in the first year of Proposition 101 and $708 per year when it is fully implemented. Businesses will also benefit from the cut in taxes and fees, allowing them to invest in their companies and create new jobs. In addition, people who buy or lease cars will save even more from lower sales taxes. Reducing taxes and fees helps businesses and lower- and middle-income families who are struggling in this difficult economy. Consumer spending and business investment tend to increase when the tax burden is lower.

2) Proposition 101 will require state and local governments to eliminate unnecessary spending. Governments will look more closely at how they spend money, ensuring that taxpayer dollars are used in the best and most efficient way. State and local governments already spend about $40 billion a year, which amounts to an average of $20,000 per household in the state. The amount of spending by governments in the state has increased by about 14 percent since 1990, even after accounting for inflation and population growth. Even with Proposition 101's reductions in tax and fee collections, revenue to governments will continue to grow, although at a slower rate. Governments can prioritize and fund the most important services with less money by making better choices about how they spend taxpayer money.

3) Proposition 101 gives people a voice in decisions about fees on phones and vehicles. Rather than asking voters for more money for transportation projects, the state recently increased vehicle registration fees by about $220 million, an average of approximately $44 per car. The state did this even though registration fees exceed what it costs the government to process vehicle registrations. Proposition 101 will require governments to seek voter approval for more money rather than adding more fees. Further, some telecommunication fees raise the cost of basic services for everyone but help only a small part of the state's population. Proposition 101 simplifies and eliminates these fees — lowering all vehicle registration fees to a flat $10 per year and ending state and local taxes and fees, except 911 fees, on phone and cable bills.

Arguments Against

1) Colorado's economic success depends on services that governments provide, such as education and a safe transportation system. Proposition 101 will force cuts to these services that people rely on for a high quality of life and that businesses need to succeed. Services that have already been reduced because of the economic downturn, such as schools, colleges, prisons, firefighters and police, and water and sewer systems, will be cut further. These cuts could further weaken the already slow economy, reduce jobs, and, over time, hurt the quality of the state's workforce. Rural economies may also be affected because fees that help provide phone and Internet service for rural areas will be eliminated. The state's operating budget is estimated to be cut by $1.6 billion, or about 23 percent, when the measure is fully implemented, an amount greater than what the state currently spends on prisons, courts, and the Colorado State Patrol combined. Further, local governments will have about $1 billion less. State government spending as a percentage of the economy is already third lowest among all states and combined state and local government spending is eighth lowest.

Terry Howerter, RTD

2) Proposition 101 will hurt the ability of the state and local communities to maintain already inadequate roads and bridges and provide public transportation. Studies show that Colorado needs more than twice as much money each year than it currently spends just to maintain existing roads and bridges. Proposition 101 would cut state transportation funding by an estimated 28 percent. In 2009 alone, the state and local governments maintained more than 193,000 lane miles of roadway and 8,000 bridges. The state also snow-plowed and sanded 5.6 million miles of highway, repaired 77,000 street signs, and monitored 278 avalanche paths. Public health and safety may also be affected due to fewer resources for emergency medical services, vehicle emission programs, and road maintenance. Public transportation in the state and in the Denver metropolitan area will be negatively affected by the decrease in sales tax collections. For the Regional Transportation District, the potential annual loss of $33 million could result in an approximate 15-20 percent reduction in service, layoffs, or mandatory furloughs, substantial reduction in capital acquisitions (bus and rail), other capital project elimination or deferral, or a combination of the previous impacts.

3) Cuts to government services may result in hardship for families who have to pay for services that governments will no longer be able to afford. For example, tuition will likely increase, putting college out of reach for many households. Higher-income people, who are better able to absorb these cost increases, will benefit the most from the reduced taxes and fees in Proposition 101. Low- and middle-income people will be less able to absorb the costs. Proposition 101 also eliminates fees that pay for services to help those with lower incomes and people who are deaf, speech impaired, or blind communicate within society. Cuts to mass transit service, including paratransit services, will negatively impact transit dependent patrons who have no other means of transportation to jobs and medical appointments. In addition, less mass transit will force more people to drive, creating more congestion and pollution.

Estimate of Fiscal Impact

State revenue. Proposition 101 contains several provisions that decrease revenue to the state government. Because some of the reductions are phased in over time, the reduction in revenue will be lower at first. The first year reduction is estimated to be $744 million, which includes $295 million less in vehicle fees that are constitutionally-required to be used for transportation-related spending. When fully implemented, state tax and fee collections would decrease by an estimated $1.9 billion in today's dollars.

State spending. The state will have less money available for spending on its operating programs and transportation budget. Though the reductions to the transportation budget will be immediate, the reductions to operating programs will occur over time as the cuts to the income and sales tax are phased in. The state will have $450 million, or 6 percent, less in the first year to spend on operating programs. Further, the state will have about $295 million, or 28 percent, less to spend on transportation. When fully implemented, the state would have $1.6 billion, or 23 percent, less in today's dollars to spend on operating programs. The impact on the state's operating programs depend on the future budgeting decisions of the state legislature.

Proposition 101 will also create some additional costs for the state. Current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts. This will cause the state to spend an additional $48 million in the first year and $121 million annually when the measure is fully implemented.

Also, Proposition 101 increases state administrative costs by about $185,000 in budget year 2010-11 and $34,000 in the following few years to implement the reductions in taxes, fees, and charges, and to audit compliance with the measure's provisions. The state's administrative costs will decrease in subsequent years as the tax and fee reductions are fully implemented. It is estimated that the measure will require the addition of 0.5 new staff in budget year 2010-11 and 0.25 new staff in the following few years to administer the auditing of governments' tax and fee reductions.

Local revenue and spending. Because reductions in the local sales tax on vehicles are phased in over four years, revenue decreases in the first few years will be lower than when the measure is fully implemented. Local government revenue is estimated to be reduced by $629 million in the first year, with $99 million of this amount for transportation projects. When fully implemented, local government revenue would decrease by an estimated $1.0 billion in today's dollars. However, since current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts, the net impact on local government budgets would be $580 million in the first year and $880 million when fully implemented.

The extent to which each local government program will be affected will vary depending on what services the government provides and its budget decisions. Local governments may also have increased administrative costs to comply with the auditing requirements of Proposition 101.

Impact on taxpayers. Proposition 101 will reduce households' and businesses' tax and fee bills by different amounts depending on their income, the number and type of vehicles they have, the costs of their phone and cable bills, and whether they purchase, rent, or lease vehicles in a given year. In the first year, before all the tax and fee reductions are fully implemented, an average household with an annual income of $55,000 would experience a reduction in their tax and fee bill of about $313. When fully implemented, the total tax and fee bill for this household would be reduced by about $708 annually in today's dollars. There would be additional reductions if the household purchases, rents, or leases a vehicle. Businesses will also experience reductions in taxes and fees.

TERRY HOWERTER, RTD, COMMENTS ON LAST DRAFT OF PROPOSITION 101

I am truly disappointed in this process. RTD has submitted substantial information related to the impact of this proposition. This will have a substantial impact on our 1% sales tax and ability to provide transit service in the RTD District. After all of our communications, I do not see a reference to RTD transit in this document. I think RTD should be listed with the special districts.

I feel strongly that the voters know that this proposition will have a significant impact on RTD customers and we are not providing that information to the voters.

What do we need to do to be included?

Thanks

Terry L. Howerter
Chief Financial Officer
Regional Transportation District
1600 Blake Street, BLK-34
Denver, CO. 80202-1399

Office: 303-299-2311
Fax: 303-299-2338
Cell: 303-720-9920

Natalie, This draft ballot analysis for Proposition 101 has proven difficult to edit. That being said, here are our comments from RTD. I apologize for coming in with this at this time, but think it is of the upmost importance to our customers and the state of Colorado to realize the negative impact of this proposition. Please let me know if you need anything else.

Regional Transportation District Denver (RTD)

As you may be aware RTD provides transit service for approximately 2.8 million residents in the Denver region. We represent 56% of the total Colorado population and cover 2,347 square miles. In 2009 we provided transit services to 98.7 million customers. RTD collects a .4% sales and use tax in the District to support the design, build and operations of the 2004 voter approved FasTracks project and a .6% sales and use tax to operate and maintain the current operations. Please keep in mind the RTD FasTracks program is a local stimulus program. The $2.1 billion P-3 project currently estimates adding 5,400 jobs in the District. Approximately 50% of the cost of the P-3 project will be debt and sales tax funded.

Proposition 101 will have a substantial negative impact on our previously approved program.

We have the following proposed comments on the last draft of ballot analysis for Proposition 101:

Are we allowed to make another box in Table 2 for Regional Transportation District – Transit Services? If so we would like line 21 to include the following:

2. Government Budget	Collection Under Current Law	Collections Under Prop 101	Change
Regional Transportation District Sales taxes	$51 million	$18.5 million Fully implemented in the first year	-$33 million Fully implemented in the first year

Otherwise, wouldn't RTD's impact simply be a part of the total dollar amounts?

On page 4, line 5, Insert the following:
Impact on the Regional Transportation District (RTD) budget. RTD will collect less money from sales taxes. RTD spends its sales tax revenues to service debt, subsidize service cost, maintain infrastructure and build the FasTracks System. Proposition 101 will result in the potential of a reduction in service, deferral of capital projects, loss of jobs, or a combination thereof. Certain transit dependent patrons will have limited options for getting to work and medical appointments. Proposition 101 will reduce the amount of money available for the RTD operating budget by an estimated 6% once fully implemented.

Page 6: Line 14—change to read "$165 million, or 5 percent, RTD by $33 million, or 8.4 percent, and state government tax and fee"

Page 7: Line 3—change to read "by an estimated $64 million per year" to include RTD as local

Page 7: Line 38—change to read "by at least $215 million each year" to include RTD as local

Page 10: Line 10, Add a sentence on line 10...something like this..."Public transportation in the state and in the Denver metropolitan area will be negatively affected by the decrease in sales tax collections. For the Regional Transportation District, the potential annual loss of $33 million could result in an approximate 15-20 percent reduction in service, layoffs, or mandatory furloughs, substantial reduction in capital acquisitions (bus and rail), other capital project elimination or deferral, or a combination of the previous impacts.

Page 10: Line 18, add a sentence similar to..."Cuts to mass transit service, including paratransit services, will negatively impact transit dependent patrons who have no other means of transportation to jobs and medical appointments. In addition, less mass transit will force more people to drive, creating more congestion and pollution."

Terry

Terry L. Howerter
Chief Financial Officer
Regional Transportation District
1600 Blake Street, BLK-34
Denver, CO. 80202-1399

Office: 303-299-2311
Fax: 303-299-2338
Cell: 303-720-9920

Proposition 101
Income, Vehicle, and Telecommunication Taxes and Fees

Proposition 101 proposes amending the <u>Colorado statutes</u> to:

- reduce the state income tax rate from 4.63 percent to 4.5 percent in 2011, and to 3.5 percent gradually over time;
- reduce or eliminate taxes and fees on vehicle purchases, registrations, leases, and rentals over the next four years;
- eliminate all state and local taxes and fees on telecommunication services, except 911 fees; and
- require voter approval to create or increase fees on vehicles and telecommunication services.

Summary and Analysis

Proposition 101 reduces or eliminates various taxes and fees on income, vehicles, and telecommunication services. Table 1 shows the annual impact of Proposition 101 on three different households, and Table 2 shows the impact on government budgets.

Some of the reductions in Proposition 101 are phased in over time. The impact will be smaller in the first year and will grow in size over the next 15 to 20 years. Estimates of the impact in the first year, as well as the impact once the reductions are fully implemented, are based on today's dollars. The fully implemented impacts provide the best estimates of the measure's final effects. Although the actual dollar amounts will differ in the future as inflation and growth increase the size of the economy, the comparable budget impacts on taxpayers and governments are expected to remain consistent over time.

In the first year, the tax and fee reductions are expected to be $1.4 billion — $744 million in state reductions and $629 million in local government reductions. Once fully implemented, the impact is expected to be $2.9 billion in today's dollars — $1.9 billion in state reductions and $1.0 billion in local government reductions.

Impact on households and businesses. Table 1 shows the estimated change in tax and fee bills for three different households as a result of Proposition 101, in both the first full year the measure is in effect and when the measure is fully implemented, in today's dollars. Businesses will also experience reductions in taxes and fees. Households and businesses will be impacted differently depending on annual income, vehicles owned, vehicles purchased, and the amount paid for phone and cable service. Households and businesses will experience additional reductions during years in which vehicles are rented, leased, or purchased.

Table 1. Annual Change in Representative Households' Tax and Fee Bills Due to Proposition 101, First-Year Impact and When Fully Implemented /a
(In Today's Dollars)

	Income Taxes	Vehicle Fees & Taxes	Telecom Fees & Taxes	Total
Household A	*Household Description:* Annual Income: $35,000; owns a 10-year-old car that had an original retail price of $13,000; $60 monthly phone bill.			
First Year	-$20	-$72	-$43	-$135
Fully Implemented	-$185	-$73	-$43	-$301
Household B	*Household Description:* Annual Income: $55,000; owns a 5-year-old car that had an original retail price of $17,000 and a 5-year-old car that had an original retail price of $23,500; $130 monthly combined phone bills.			
First Year	-$40	-$180	-$93	-$313
Fully Implemented	-$320	-$295	-$93	-$708
Household C	*Household Description:* Annual Income: $110,000; owns a 2-year-old car that had an original retail price of $37,500 and a 3-year-old car that had an original retail price of $26,000; $180 monthly combined phone bills.			
First Year	-$90	-$327	-$128	-$545
Fully Implemented	-$780	-$883	-$128	-$1,791

** Totals may not sum due to rounding.*
/a This analysis assumes a 7.0 percent combined state and local sales tax rate. Telecommunication tax and fee reductions are fully implemented in 2011. Some vehicle tax and fee reductions are fully implemented in 2011 and some are phased in between 2011 and 2014. It will take an estimated 15 to 20 years for the income tax rate reductions to be fully implemented.

Impact on government budgets. Table 2 shows the estimated impact of Proposition 101 on tax and fee collections used for local government budgets, the state's general operating budget, and transportation budgets in the first year and once it is fully implemented. All of these impacts are shown in today's dollars. More information on the impact on each type of budget follows. As a result of the decrease in tax and fee collections, state and local governments will have to decrease spending and services, increase TAXES OR fees to pay for services, or some combination of both.

Table 2. Annual Change in Government Tax and Fee Collections Due to Proposition 101, First-Year Impact and When Fully Implemented
(In Today's Dollars)

Government Collections	Collections under Current Law	Collections under Prop 101	Change*
Vehicle Specific Ownership Taxes and Sales Taxes Collected by **Local Governments**	$3.9 billion	$3.4 billion First Year	-$530 million First Year
		$3.0 billion Fully Implemented	-$900 million Fully Implemented
Sales Taxes, Income Taxes, and Telecommunication Fees Collected by the **State Government**	$7.2 billion	$6.7 billion First Year	-$450 million First Year
		$5.5 billion Fully Implemented	-$1.6 billion Fully Implemented
Vehicle Registration Fees and State Rental Fees Collected for **State and Local Transportation Budgets**	$440 million	$50 million Fully Implemented During First Year	-$390 million Fully Implemented During First Year

** Totals may not sum due to rounding.*

Impact on local government budgets. Local governments will collect less money from vehicle specific ownership taxes and sales taxes. Local governments affected by the measure include school districts, cities, counties, and special districts. Some examples of special districts include recreation, fire, water, sewer, and public transportation districts. The money collected in taxes and fees pays for different services depending on the local government. Most of the money is used for education, public safety, roads, trash service, and parks and recreation. ~~State law requires that school districts be reimbursed by the state for most of their loss in tax collections.~~ CURRENT STATE STATUTES (WHICH MAY BE AMENDED OR REPEALED BY THE LEGISLATURE) REQUIRE THAT SCHOOL DISTRICTS BE REIMBURSED BY THE STATE FOR MOST OF THEIR LOSS IN TAX COLLECTIONS.

Impact on the state government operating budget. The state government will collect less money from sales taxes, income taxes, and telecommunication fees. The state spends 96 percent of its general operating budget on: preschool through higher education; health care; prisons; the courts; and programs that help low-income, elderly, and disabled people. Proposition 101 will reduce the amount of money available to pay for the state's general operating budget by an estimated 6 percent in the first year and by an estimated 23 percent once fully implemented.

Current ~~law~~ STATE STATUTES (WHICH MAY BE AMENDED OR REPEALED BY THE STATE LEGISLATURE) requires the state to reimburse school districts for most of their loss of vehicle specific ownership taxes. This obligation increases the total impact on the state general operating budget during the first year from the $450 million shown in Table 2 to $497 million, and when fully implemented, from $1.6 billion to $1.8 billion.

Impact on state and local government transportation budgets. Proposition 101 reduces funding dedicated to transportation budgets. The state constitution requires that vehicle-related fees collected by the state be spent on road safety, construction, and maintenance. This money is shared between the state, cities, and counties. The state's transportation budget will decrease by an estimated 28 percent from these fee reductions. The impact on city and county government transportation budgets will vary by government. Because cuts affecting transportation budgets are immediate, the full impact shown in Table 2 will occur in 2011.

State Income Tax

Households and businesses pay taxes on their income to both the state and federal governments. The state's income tax rate is a flat 4.63 percent and is the same for all income levels and for both households and businesses. The state income tax is the largest source of money the state receives to pay for its main programs.

Proposition 101 gradually lowers the state income tax rate from 4.63 percent to 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This will reduce income tax collections to the state by an estimated $145 million, or 3 percent. The tax bill for a household with an annual income of $55,000 will be reduced by $40 in 2011. In the future, the rate is reduced by 0.1 percentage point each year in which state income tax collections grow by more than 6 percent. For example, if tax collections increase fast enough, the income tax rate will decrease from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate decreases to 3.5 percent.

When the tax rate is fully reduced, income tax collections to the state will be an estimated 26 percent less, or $1.3 billion in today's dollars lower than what they would have been without Proposition 101. The tax bill for a household with an annual income of $55,000 will be reduced by $320 when the cut is fully phased in. Because income tax collections historically have not grown by more than 6 percent every year, it will likely take 15 to 20 years for the tax rate to decline to 3.5 percent.

Vehicle Fees and Taxes

Proposition 101 reduces several types of vehicle fees and taxes as shown in Table 3. The amounts in the table show the impact when the reductions are fully implemented — sales tax reductions on vehicle purchases and specific ownership tax reductions are phased in over a four-year period, while all other vehicle fee and tax changes occur in 2011. The total amount of the reduction in vehicle fees and taxes, when fully implemented, is estimated at $1.3 billion in today's dollars.

Table 3. Vehicle Fees and Taxes Under Current Law and Proposition 101, When Fully Implemented
(In Today's Dollars)

	Average Payment		State & Local Govt. *Change in Yearly Collections*
	Current	*Prop. 101*	
Vehicle Owners			
Sales Tax /a *Four-year Phase in (2011 to 2014)*	$2,100 one-time payment	$1,400 one-time payment	-$335 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$300 million total for state and local
Specific Ownership Tax *Four-year Phase in (2011 to 2014)*	$87 paid once per year	$2 (new cars) or $1 (used cars) paid once per year	-$345 million total for all school districts /c and local governments
Vehicle Lessees			
Sales Tax /a *Fully Implemented in 2011*	$1,080 total ($30 paid monthly during lease term)	$0	-$65 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$75 million total for state and local
Specific Ownership Tax *Fully Implemented in 2011*	$87 paid once per year	$0 paid once per year	-$86 million total for all school districts /c and local governments
Vehicle Renters			
Sales Tax /a *Fully Implemented in 2011*	$2.45 per rental day	$0	-$80 million total for state and local
State Car Rental Fee *Fully Implemented in 2011*	$2 per rental day	$0	-$19 million total for state and local

/a This analysis assumes a 7.0 percent sales tax rate. For vehicle owners and lessees, it assumes a $30,000 car is purchased or leased for 36 months. For vehicle renters, the analysis assumes a vehicle is rented for $35 a day.
/b Currently, the average registration and license fees are lower than the average payment shown in the table, but are estimated to increase to the amounts shown over the next year. The collections numbers represent registration and license fee impacts assuming what the fees will be when they are increased.
/c Current ~~law~~ STATE STATUTES (WHICH MAY BE AMENDED OR REPEALED BY THE STATE LEGISLATURE) *requires the state to reimburse school districts for most of their loss of specific ownership taxes.*

Vehicle owners. Upon purchase, vehicle buyers are required to pay sales tax. In addition, each year vehicle owners must register their vehicle(s) with the state and pay registration fees and a specific ownership tax. Proposition 101 reduces all three taxes and fees.

Vehicle sales tax. Sales taxes are paid on the purchase of a new or used vehicle. The tax is applied to the price of the vehicle, including any manufacturer's rebate. The

total tax rate is a 2.9 percent state rate plus any applicable local government sales tax rates. Because different local governments have different tax rates, the sales tax a buyer pays differs depending on where the buyer lives. The average combined sales tax rate is close to 7 percent.

Proposition 101 reduces the sales taxes due on vehicle purchases by exempting the first $10,000 of the vehicle's price and any manufacturer's rebate from the sales tax. The $10,000 exemption is phased in over a four-year period beginning in 2011. When fully implemented, vehicles worth $10,000 or less will not have a sales tax bill. Vehicles with greater values will receive a $10,000 exemption. For example, a vehicle purchased for $18,000 will be taxed only on $8,000 of the value. This sales tax cut will reduce local government tax collections by an estimated $195 million, or 6 percent, and state government tax collections by an estimated $140 million, or 7 percent.

Vehicle registration and licensing fees. Vehicle owners pay registration fees each year. Most fees vary according to vehicle weight, age, and value. While most of the money pays for roads and bridges, some pays for services like emergency medical services, vehicle emissions reduction programs, the Colorado State Patrol, and snow plowing.

Beginning in 2011, Proposition 101 combines all registration, licensing, and titling fees into a single $10 annual fee, with the exception of vehicle inspection and new license plate fees. As shown in Table 3, the average registration and licensing fee for vehicle owners would fall from $81 to $10 and the amount collected by state and local governments would decrease by about $300 million, or 88 percent.

Vehicle specific ownership tax. Vehicle owners also pay a specific ownership tax each year when registering a vehicle. The specific ownership tax is a property tax on a vehicle. The tax ranges from 0.45 percent to 2.10 percent of the vehicle's taxable value, based on the vehicle's original recommended retail price. As a vehicle ages, the tax rate is reduced. The minimum specific ownership tax is either $3 or $5 per vehicle, depending on the type of vehicle. Counties collect specific ownership taxes and distribute them to schools, cities, counties, and special districts within their boundaries.

Proposition 101 phases in a cut to specific ownership taxes over four years, beginning in 2011. It also requires permission from voters to create or increase future registration and licensing fees. Table 3 shows the change in vehicle owners' bills and state and local government collections.

Vehicle lessees. Like vehicle owners, persons who lease vehicles must pay sales taxes, registration fees, and specific ownership taxes each year. Proposition 101 reduces or ends all three taxes and fees for vehicle leases.

Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This will reduce state and local sales tax collections by an estimated $65 million per year, or 1 percent. It will also eliminate all specific ownership taxes collected by local governments on leased vehicles.

<u>Vehicle registration and licensing fees.</u> Leased vehicles are also required to be registered with the state and lessees must pay annual registration fees. Beginning in 2011, Proposition 101 eliminates all registration fees and imposes a single $10 fee per vehicle, resulting in a reduction of $71 for vehicle lessees. The measure reduces state and local collections by approximately $75 million per year.

Vehicle renters. The state charges a fee of $2 per day for car rentals. The money is shared by the state, cities, and counties to build, repair, and maintain roads and bridges. Sales tax is also applied, with revenue going to the state and local governments. Proposition 101 eliminates the fee and all sales taxes beginning in 2011. As a result, state and local transportation budgets will have an estimated $19 million less per year in fee collections and $80 million less in sales tax collections.

Other vehicle fees. The state also charges use and permitting fees for large and overweight vehicles that use Colorado roads. A passenger mile tax is also charged for passenger bus or shuttle businesses. Proposition 101 eliminates these fees beginning in 2011, resulting in $56 million less in state funds, reducing charges to trucking and carrier companies by a like amount.

Telecommunication Fees and Taxes

Proposition 101 eliminates state and local sales tax and other fees on customer bills for any kind of telecommunications service, except for existing 911 fees. The measure lists the following as telecommunication services, even though some of them are not currently taxed: phone, pager, cable, television, radio, Internet, computer, and satellite services. Currently, the state and some local governments charge sales tax on a portion of the cost of phone and pager services, and some local governments charge sales tax on cable services. State fees that are eliminated include fees that help telephone companies provide access to phone service in rural areas of the state, to the blind, deaf, or speech impaired, and to low-income people. How the elimination of these telephone fees will affect these services is unclear and would likely be determined by the state legislature. However, telephone services for the deaf or speech impaired are required by federal law. Thus, its likely that another funding source will have to be found to continue to provide these services. Local governments may have other fees, such as television franchise fees, that may be eliminated.

Proposition 101 freezes 911 fees at their 2009 level. These fees differ from county to county and ranged from 43 cents to $1.25 per month in 2009. The 911 fees are charged by local governments to help pay for 911 emergency services.

The reduction in a household or business's telecommunications bill depends on how much it spends on taxable phone and cable. Tax and fee collections by local governments would be reduced by at least $194 million each year. Tax and fee collections to the state government would be reduced by an estimated $183 million each year.

New voter approval requirements. Proposition 101 redefines all telecommunication fees and most vehicle fees as taxes. Because the state constitution requires a vote to increase taxes but not to increase fees, governments will need to ask voters for permission to create new or increase existing vehicle or telecommunication charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls, vehicle impound fees, vehicle identification and emission inspection fees, and new license plate fees from this requirement.

How does Proposition 101 interact with two other measures on the ballot? Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see page x) contain provisions that affect state and local government finances by decreasing taxes paid by households and businesses and restricting government borrowing. How these measures work together may require clarification from the state legislature or the courts.

Proposition 101 reduces state and local government taxes and fees. Amendment 60 reduces local property taxes, while requiring state expenditures for K-12 education to increase by an amount that offsets the property tax loss for school districts. Amendment 61 requires state and local governments to decrease tax rates when debt is repaid, which is assumed in this analysis to apply to the existing debt of state and local governments, and it prohibits any borrowing by state government.

Since portions of these measures are phased in over time, the actual impacts to taxpayers and governments will be less in the initial years of implementation and grow over time. Assuming that all three measures are approved by voters, the first-year impact will be to reduce state taxes and fees by $744 million and increase state spending for K-12 education by $385 million. Once fully implemented, the measures are estimated to reduce state taxes and fees by $2.1 billion and increase state spending for K-12 education by $1.6 billion in today's dollars. This would commit almost all of the state's general operating budget to paying for the constitutional and statutory requirements of K-12 education, leaving little for other government services. In addition, the prohibition on borrowing will increase budget pressures for the state if it chooses to pay for capital projects from its general operating budget. This would further reduce the amount of money available for other government services.

Tax and fee collections for local governments are expected to fall by at least $966 million in the first year of implementation and by $4.7 billion when the measures are fully implemented. However, the net impact on local government budgets would be at least $581 million in the first year and $3.1 billion when fully implemented after the state reimburses school districts.

Total taxes and fees paid by households and businesses are estimated to decrease by $1.7 billion in the first year and $6.8 billion per year in today's dollars when the measures are fully implemented. The measures reduce the taxes and fees owed by an average household making $55,000 per year that owns a $295,000 house by an estimated $400 in the first year and $1,660 per year when fully implemented.

Arguments For

1) Allowing citizens and businesses to keep more of their own money helps the economy. A family with a yearly income of $55,000 could have their taxes and fees cut by $313 in the first year of Proposition 101 and $708 per year when it is fully implemented. Businesses will also benefit from the cut in taxes and fees, allowing them to invest in their companies and create new jobs. In addition, people who buy or lease cars will save even more from lower sales taxes. Reducing taxes and fees helps

businesses and lower- and middle-income families who are struggling in this difficult economy. Consumer spending and business investment tend to increase when the tax burden is lower.

2) Proposition 101 will require state and local governments to eliminate unnecessary spending. Governments will look more closely at how they spend money, ensuring that taxpayer dollars are used in the best and most efficient way. State and local governments already spend about $40 billion a year, which amounts to an average of $20,000 per household in the state. The amount of spending by governments in the state has increased by about 14 percent since 1990, even after accounting for inflation and population growth. Even with Proposition 101's reductions in tax and fee collections, revenue to governments will continue to grow, although at a slower rate. Governments can prioritize and fund the most important services with less money by making better choices about how they spend taxpayer money.

3) Proposition 101 gives people a voice in decisions about fees on phones and vehicles. Rather than asking voters for more money for transportation projects, the state recently increased vehicle registration fees by about $220 million, an average of approximately $44 per car. The state did this even though registration fees exceed what it costs the government to process vehicle registrations. Proposition 101 will require governments to seek voter approval for more money rather than adding more fees. Further, some telecommunication fees raise the cost of basic services for everyone but help only a small part of the state's population. Proposition 101 simplifies and eliminates these fees — lowering all vehicle registration fees to a flat $10 per year and ending state and local taxes and fees, except 911 fees, on phone and cable bills.

Arguments Against

1) Colorado's economic success depends on services that governments provide, such as education and a safe transportation system. Proposition 101 will force cuts to these services that people rely on for a high quality of life and that businesses need to succeed. Services that have already been reduced because of the economic downturn, such as schools, colleges, prisons, firefighters and police, and water and sewer systems, will be cut further. These cuts could further weaken the already slow economy, reduce jobs, and, over time, hurt the quality of the state's workforce. Rural economies may also be affected because fees that help provide phone and Internet service for rural areas will be eliminated. The state's operating budget is estimated to be cut by $1.6 billion, or about 23 percent, when the measure is fully implemented, an amount greater than what the state currently spends on prisons, courts, and the Colorado State Patrol combined. Further, local governments will have about $1 billion less. State government spending as a percentage of the economy is already third lowest among all states and combined state and local government spending is eighth lowest.

2) Proposition 101 will hurt the ability of the state and local communities to maintain already inadequate roads and bridges and provide public transportation. Studies show that Colorado needs more than twice as much money each year than it currently spends just to maintain existing roads and bridges. Proposition 101 would cut state transportation funding by an estimated 28 percent. In 2009 alone, the state and local governments maintained more than 193,000 lane miles of roadway and 8,000 bridges.

The state also snow-plowed and sanded 5.6 million miles of highway, repaired 77,000 street signs, and monitored 278 avalanche paths. Public health and safety may also be affected due to fewer resources for emergency medical services, vehicle emission programs, and road maintenance.

3) Cuts to government services may result in hardship for families who have to pay for services that governments will no longer be able to afford. For example, tuition will likely increase, putting college out of reach for many households. Higher-income people, who are better able to absorb these cost increases, will benefit the most from the reduced taxes and fees in Proposition 101. Low- and middle-income people will be less able to absorb the costs. Proposition 101 also eliminates fees that pay for services to help those with lower incomes and people who are deaf, speech impaired, or blind communicate within society.

Estimate of Fiscal Impact

State revenue. Proposition 101 contains several provisions that decrease revenue to the state government. Because some of the reductions are phased in over time, the reduction in revenue will be lower at first. The first year reduction is estimated to be $744 million, which includes $295 million less in vehicle fees that are constitutionally-required to be used for transportation-related spending. When fully implemented, state tax and fee collections would decrease by an estimated $1.9 billion in today's dollars.

State spending. The state will have less money available for spending on its operating programs and transportation budget. Though the reductions to the transportation budget will be immediate, the reductions to operating programs will occur over time as the cuts to the income and sales tax are phased in. The state will have $450 million, or 6 percent, less in the first year to spend on operating programs. Further, the state will have about $295 million, or 28 percent, less to spend on transportation. When fully implemented, the state would have $1.6 billion, or 23 percent, less in today's dollars to spend on operating programs. The impact on the state's operating programs depend on the future budgeting decisions of the state legislature.

Proposition 101 will also create some additional costs for the state. Current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts. This will cause the state to spend an additional $48 million in the first year and $121 million annually when the measure is fully implemented.

Also, Proposition 101 increases state administrative costs by about $185,000 in budget year 2010-11 and $34,000 in the following few years to implement the reductions in taxes, fees, and charges, and to audit compliance with the measure's provisions. The state's administrative costs will decrease in subsequent years as the tax and fee reductions are fully implemented. It is estimated that the measure will require the addition of 0.5 new staff in budget year 2010-11 and 0.25 new staff in the following few years to administer the auditing of governments' tax and fee reductions.

Local revenue and spending. Because reductions in the local sales tax on vehicles are phased in over four years, revenue decreases in the first few years will be lower than when the measure is fully implemented. Local government revenue is estimated to be reduced by $629 million in the first year, with $99 million of this amount for transportation projects. When fully implemented, local government revenue would decrease by an estimated $1.0 billion in today's dollars. However, since current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts, the net impact on local government budgets would be $580 million in the first year and $880 million when fully implemented.

The extent to which each local government program will be affected will vary depending on what services the government provides and its budget decisions. Local governments may also have increased administrative costs to comply with the auditing requirements of Proposition 101.

Impact on taxpayers. Proposition 101 will reduce households' and businesses' tax and fee bills by different amounts depending on their income, the number and type of vehicles they have, the costs of their phone and cable bills, and whether they purchase, rent, or lease vehicles in a given year. In the first year, before all the tax and fee reductions are fully implemented, an average household with an annual income of $55,000 would experience a reduction in their tax and fee bill of about $313. When fully implemented, the total tax and fee bill for this household would be reduced by about $708 annually in today's dollars. There would be additional reductions if the household purchases, rents, or leases a vehicle. Businesses will also experience reductions in taxes and fees.

MICHAEL R. JOHNSON COMMENTS ON LAST DRAFT OF PROPOSITION 101

Kutak comments on third draft of 101 summary:

PAGE 2
Line 28 insert "taxes or" before fees. Increasing taxes is a likely result (subject of course to the required voter approval under TABOR)

PAGE 3
Lines 28 and 29 rewrite to say "Current state statutes (which may be amended or repealed by the legislature) require that school districts be reimbursed by the state for most of their loss in tax collections"

Lines 37 and 38 add the same concept here, ie, "under current state statutes (which may be amended or repealed by the legislature)"

PAGE 5

Line 35 add the same concept here, ie, "under current state statutes (which may be amended or repealed by the legislature)"

PAGE 8

Line 38 delete "save" and replace with "have their taxes and fees reduced by". It is not clear that reducing these taxes and fees would in fact result in a savings because it is likely government will increase other taxes and fees to make up the difference or citizens will have to purchase the services from private vendors. There may be no "savings" when all this is taken into account.

39 and 40 same issue regarding businesses "having more money". This may not be the case for the same reasons. All you can really say is that the taxes and fees subject to Proposition 101 will be reduced.

Rich Jones and Wade Buchanan, Bell Policy Center

Proposition 101
Income, Vehicle, and Telecommunication Taxes and Fees

Proposition 101 proposes amending the Colorado statutes to:

- reduce the state income tax rate from 4.63 percent to 4.5 percent in 2011, and to 3.5 percent gradually over time;
- reduce or eliminate taxes and fees on vehicle purchases, registrations, leases, and rentals over the next four years;
- eliminate all state and local taxes and fees on telecommunication services, except 911 fees; and
- require voter approval to create or increase fees on vehicles and telecommunication services.

Summary and Analysis

Proposition 101 reduces or eliminates various taxes and fees on income, vehicles, and telecommunication services. Table 1 shows the annual impact of Proposition 101 on three different households, and Table 2 shows the impact on government budgets.

Some of the reductions in Proposition 101 are phased in over time. The impact will be smaller in the first year and will grow in size over the next 15 to 20 years. Estimates of the impact in the first year, as well as the impact once the reductions are fully implemented, are based on today's dollars. The fully implemented impacts provide the best estimates of the measure's final effects. Although the actual dollar amounts will differ in the future as inflation and growth increase the size of the economy, the comparable budget impacts on taxpayers and governments are expected to remain consistent over time.

In the first year, the tax and fee reductions are expected to be $1.4 billion — $744 million in state reductions and $629 million in local government reductions. Once fully implemented, the impact is expected to be $2.9 billion in today's dollars — $1.9 billion in state reductions and $1.0 billion in local government reductions. With fewer revenues, policy makers will have to cut or eliminate services, charge additional fees to pay for them or some combination of both.

Impact on households and businesses. Table 1 shows the estimated change in tax and fee bills for three different households as a result of Proposition 101, in both the first full year the measure is in effect and when the measure is fully implemented, in today's dollars. Businesses will also experience reductions in taxes and fees. Households and businesses will be impacted differently depending on annual income, vehicles owned, vehicles purchased, and the amount paid for phone and cable service. Households and businesses will experience additional reductions during years in which vehicles are rented, leased, or purchased.

Table 1. Annual Change in Representative Households' Tax and Fee Bills Due to Proposition 101, First-Year Impact and When Fully Implemented /a

(In Today's Dollars)

	Income Taxes	Vehicle Fees & Taxes	Telecom Fees & Taxes	Total
Household A	*Household Description:* Annual Income: $35,000; owns a 10-year-old car that had an original retail price of $13,000; $60 monthly phone bill.			
First Year	-$20	-$72	-$43	-$135
Fully Implemented	-$185	-$73	-$43	-$301
Household B	*Household Description:* Annual Income: $55,000; owns a 5-year-old car that had an original retail price of $17,000 and a 5-year-old car that had an original retail price of $23,500; $130 monthly combined phone bills.			
First Year	-$40	-$180	-$93	-$313
Fully Implemented	-$320	-$295	-$93	-$708
Household C	*Household Description:* Annual Income: $110,000; owns a 2-year-old car that had an original retail price of $37,500 and a 3-year-old car that had an original retail price of $26,000; $180 monthly combined phone bills.			
First Year	-$90	-$327	-$128	-$545
Fully Implemented	-$780	-$883	-$128	-$1,791

** Totals may not sum due to rounding.*

/a This analysis assumes a 7.0 percent combined state and local sales tax rate. Telecommunication tax and fee reductions are fully implemented in 2011. Some vehicle tax and fee reductions are fully implemented in 2011 and some are phased in between 2011 and 2014. It will take an estimated 15 to 20 years for the income tax rate reductions to be fully implemented.

Impact on government budgets. Table 2 shows the estimated impact of Proposition 101 on tax and fee collections used for local government budgets, the state's general operating budget, and transportation budgets in the first year and once it is fully implemented. All of these impacts are shown in today's dollars. More information on the impact on each type of budget follows. As a result of the decrease in tax and fee collections, state and local governments will have to decrease spending and services, increase fees to pay for services, or some combination of both.

Table 2. Annual Change in Government Tax and Fee Collections Due to Proposition 101, First-Year Impact and When Fully Implemented
(In Today's Dollars)

Government Collections	Collections under Current Law	Collections under Prop 101	Change*
Vehicle Specific Ownership Taxes and Sales Taxes Collected by **Local Governments**	$3.9 billion	$3.4 billion First Year	-$530 million First Year
		$3.0 billion Fully Implemented	-$900 million Fully Implemented
Sales Taxes, Income Taxes, and Telecommunication Fees Collected by the **State Government**	$7.2 billion	$6.7 billion First Year	-$450 million First Year
		$5.5 billion Fully Implemented	-$1.6 billion Fully Implemented
Vehicle Registration Fees and State Rental Fees Collected for **State and Local Transportation Budgets**	$440 million	$50 million Fully Implemented During First Year	-$390 million Fully Implemented During First Year

** Totals may not sum due to rounding.*

Impact on local government budgets. Local governments will collect less money from vehicle specific ownership taxes and sales taxes. Local governments affected by the measure include school districts, cities, counties, and special districts. Some examples of special districts include recreation, fire, water, sewer, and public transportation districts. The money collected in taxes and fees pays for different services depending on the local government. Most of the money is used for education, public safety, roads, trash service, and parks and recreation. State law requires that school districts be reimbursed by the state for most of their loss in tax collections.

Impact on the state government operating budget. The state government will collect less money from sales taxes, income taxes, and telecommunication fees. The state spends 96 percent of its general operating budget on: preschool through higher education; health care; prisons; the courts; and programs that help low-income, elderly, and disabled people. Proposition 101 will reduce the amount of money available to pay for the state's general operating budget by an estimated 6 percent in the first year and by an estimated 23 percent once fully implemented.

Current law requires the state to reimburse school districts for most of their loss of vehicle specific ownership taxes. This obligation increases the total impact on the state general operating budget during the first year from the $450 million shown in Table 2 to $497 million, and when fully implemented, from $1.6 billion to $1.8 billion.

Impact on state and local government transportation budgets. Proposition 101 reduces funding dedicated to transportation budgets. The state constitution requires that vehicle-related fees collected by the state be spent on road safety, construction, and maintenance. This money is shared between the state, cities, and counties. The state's transportation budget will decrease by an estimated 28 percent from these fee reductions. The impact on city and county government transportation budgets will vary by government. Because cuts affecting transportation budgets are immediate, the full impact shown in Table 2 will occur in 2011. THE REVENUE REDUCTIONS WILL LIMIT STATE AND LOCAL GOVERNMENTS' ABILITY TO MAINTAIN AND REPAIR ROADS. IN PARTICULAR, PROPOSITION 101 ELIMINATES FEES THAT WILL MAKE IT MORE DIFFICULT TO PAY FOR FIXING COLORADO'S STRUCTURALLY DEFICIENT BRIDGES.

*[**Comment**: There is a conflict between the level of analysis used to show the amount of tax reductions to voters and the level of analysis used to show the effects of these reductions on services voters use. This ends up presenting voters with a distorted picture of the proposals' effects.*

The amount of tax reductions are calculated and presented at the household, business and individual level. However, the effects of these reductions on services are calculated and presented on the city, county and state government level. As a result, voters can easily see what they might individually save in terms of tax reductions but are not shown how much they might lose in terms of services they use individually or services that go to their communities. Because voters have a hard time determining the effects of overall cuts in state and local government revenue on the services they use, this presents a biased picture of this proposal.

While we recognize the difficulty in determining what actions the legislature or local officials might take to adjust to the lower revenues, without presenting some examples of these effects on an individual, family or local community level, voters will have inadequate information to judge the trade-offs that come with the lower taxes.

One approach might be to show the effects these reductions would have on the services provided by an average county or maybe a range of counties such as a large urban county, medium sized suburban county and small rural county. A similar approach might be used to show the effects on families with children who attend a state college, individuals who attend community colleges, families who currently receive Medicaid, individuals who commute to work on state roads and families who rely on fire protection through a special district.

Unless you can present a comparable level of detail to show how the reductions in revenues affect specific services to individuals and communities, then you should not show how the tax reductions affect individual households, businesses and individuals.

Voters need comparable data to effectively judge whether the reduction in the taxes they pay is worth the reduction or elimination of government services they use. Otherwise the analysis presents a distorted and unbalanced picture of the proposition.]

Rich Jones and Wade Buchanan, Bell Policy Center

State Income Tax

Households and businesses pay taxes on their income to both the state and federal governments. The state's income tax rate is a flat 4.63 percent and is the same for all income levels and for both households and businesses. The state income tax is the largest source of money the state receives to pay for its main programs.

Proposition 101 gradually lowers the state income tax rate from 4.63 percent to 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This will reduce income tax collections to the state by an estimated $145 million, or 3 percent. The tax bill for a household with an annual income of $55,000 will be reduced by $40 in 2011. In the future, the rate is reduced by 0.1 percentage point each year in which state income tax collections grow by more than 6 percent. For example, if tax collections increase fast enough, the income tax rate will decrease from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate decreases to 3.5 percent.

When the tax rate is fully reduced, income tax collections to the state will be an estimated 26 percent less, or $1.3 billion in today's dollars lower than what they would have been without Proposition 101. The tax bill for a household with an annual income of $55,000 will be reduced by $320 when the cut is fully phased in. Because income tax collections historically have not grown by more than 6 percent every year, it will likely take 15 to 20 years for the tax rate to decline to 3.5 percent.

*[**Comment**: In the section describing Proposition 101's effects on the state income tax, there needs to be a corresponding description of its effect on the state services funded by these revenues. Again, voters need a clear presentation of what they give up in services for the reduction in income tax rates.]*

Vehicle Fees and Taxes

Proposition 101 reduces several types of vehicle fees and taxes as shown in Table 3. The amounts in the table show the impact when the reductions are fully implemented — sales tax reductions on vehicle purchases and specific ownership tax reductions are phased in over a four-year period, while all other vehicle fee and tax changes occur in 2011. The total amount of the reduction in vehicle fees and taxes, when fully implemented, is estimated at $1.3 billion in today's dollars.

Table 3. Vehicle Fees and Taxes Under Current Law and Proposition 101, When Fully Implemented
(In Today's Dollars)

	Average Payment		State & Local Govt. *Change in Yearly Collections*
	Current	*Prop. 101*	
Vehicle Owners			
Sales Tax /a *Four-year Phase in (2011 to 2014)*	$2,100 one-time payment	$1,400 one-time payment	-$335 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$300 million total for state and local
Specific Ownership Tax *Four-year Phase in (2011 to 2014)*	$87 paid once per year	$2 (new cars) or $1 (used cars) paid once per year	-$345 million total for all school districts /c and local governments
Vehicle Lessees			
Sales Tax /a *Fully Implemented in 2011*	$1,080 total ($30 paid monthly during lease term)	$0	-$65 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$75 million total for state and local
Specific Ownership Tax *Fully Implemented in 2011*	$87 paid once per year	$0 paid once per year	-$86 million total for all school districts /c and local governments
Vehicle Renters			
Sales Tax /a *Fully Implemented in 2011*	$2.45 per rental day	$0	-$80 million total for state and local
State Car Rental Fee *Fully Implemented in 2011*	$2 per rental day	$0	-$19 million total for state and local

/a This analysis assumes a 7.0 percent sales tax rate. For vehicle owners and lessees, it assumes a $30,000 car is purchased or leased for 36 months. For vehicle renters, the analysis assumes a vehicle is rented for $35 a day.
/b Currently, the average registration and license fees are lower than the average payment shown in the table, but are estimated to increase to the amounts shown over the next year. The collections numbers represent registration and license fee impacts assuming what the fees will be when they are increased.
/c Current law requires the state to reimburse school districts for most of their loss of specific ownership taxes.

Vehicle owners. Upon purchase, vehicle buyers are required to pay sales tax. In addition, each year vehicle owners must register their vehicle(s) with the state and pay registration fees and a specific ownership tax. Proposition 101 reduces all three taxes and fees.

<u>*Vehicle sales tax.*</u> Sales taxes are paid on the purchase of a new or used vehicle. The tax is applied to the price of the vehicle, including any manufacturer's rebate. The

total tax rate is a 2.9 percent state rate plus any applicable local government sales tax rates. Because different local governments have different tax rates, the sales tax a buyer pays differs depending on where the buyer lives. The average combined sales tax rate is close to 7 percent.

Proposition 101 reduces the sales taxes due on vehicle purchases by exempting the first $10,000 of the vehicle's price and any manufacturer's rebate from the sales tax. The $10,000 exemption is phased in over a four-year period beginning in 2011. When fully implemented, vehicles worth $10,000 or less will not have a sales tax bill. Vehicles with greater values will receive a $10,000 exemption. For example, a vehicle purchased for $18,000 will be taxed only on $8,000 of the value. This sales tax cut will reduce local government tax collections by an estimated $195 million, or 6 percent, and state government tax collections by an estimated $140 million, or 7 percent.

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Beginning in 2011, Proposition 101 combines all registration, licensing, and titling fees into a single $10 annual fee, with the exception of vehicle inspection and new license plate fees. As shown in Table 3, the average registration and licensing fee for vehicle owners would fall from $81 to $10 and the amount collected by state and local governments would decrease by about $300 million, or 88 percent.

Vehicle specific ownership tax. Vehicle owners also pay a specific ownership tax each year when registering a vehicle. The specific ownership tax is a property tax on a vehicle. The tax ranges from 0.45 percent to 2.10 percent of the vehicle's taxable value, based on the vehicle's original recommended retail price. As a vehicle ages, the tax rate is reduced. The minimum specific ownership tax is either $3 or $5 per vehicle, depending on the type of vehicle. Counties collect specific ownership taxes and distribute them to schools, cities, counties, and special districts within their boundaries.

Proposition 101 phases in a cut to specific ownership taxes over four years, beginning in 2011. It also requires permission from voters to create or increase future registration and licensing fees. Table 3 shows the change in vehicle owners' bills and state and local government collections.

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Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This will reduce state and local sales tax collections by an estimated $65 million per year, or 1 percent. It will also eliminate all specific ownership taxes collected by local governments on leased vehicles.

Vehicle registration and licensing fees. Leased vehicles are also required to be registered with the state and lessees must pay annual registration fees. Beginning in 2011, Proposition 101 eliminates all registration fees and imposes a single $10 fee per vehicle, resulting in a reduction of $71 for vehicle lessees. The measure reduces state and local collections by approximately $75 million per year.

Vehicle renters. The state charges a fee of $2 per day for car rentals. The money is shared by the state, cities, and counties to build, repair, and maintain roads and bridges. Sales tax is also applied, with revenue going to the state and local governments. Proposition 101 eliminates the fee and all sales taxes beginning in 2011. As a result, state and local transportation budgets will have an estimated $19 million less per year in fee collections and $80 million less in sales tax collections.

Other vehicle fees. The state also charges use and permitting fees for large and overweight vehicles that use Colorado roads. A passenger mile tax is also charged for passenger bus or shuttle businesses. Proposition 101 eliminates these fees beginning in 2011, resulting in $56 million less in state funds, reducing charges to trucking and carrier companies by a like amount.

Telecommunication Fees and Taxes

Proposition 101 eliminates state and local sales tax and other fees on customer bills for any kind of telecommunications service, except for existing 911 fees. The measure lists the following as telecommunication services, even though some of them are not currently taxed: phone, pager, cable, television, radio, Internet, computer, and satellite services. Currently, the state and some local governments charge sales tax on a portion of the cost of phone and pager services, and some local governments charge sales tax on cable services. State fees that are eliminated include fees that help telephone companies provide access to phone service in rural areas of the state, to the blind, deaf, or speech impaired, and to low-income people. How the elimination of these telephone fees will affect these services is unclear and would likely be determined by the state legislature. However, telephone services for the deaf or speech impaired are required by federal law. Thus, its likely that another funding source will have to be found to continue to provide these services. Local governments may have other fees, such as television franchise fees, that may be eliminated.

Proposition 101 freezes 911 fees at their 2009 level. These fees differ from county to county and ranged from 43 cents to $1.25 per month in 2009. The 911 fees are charged by local governments to help pay for 911 emergency services.

The reduction in a household or business's telecommunications bill depends on how much it spends on taxable phone and cable. Tax and fee collections by local governments would be reduced by at least $194 million each year. Tax and fee collections to the state government would be reduced by an estimated $183 million each year.

New voter approval requirements. Proposition 101 redefines all telecommunication fees and most vehicle fees as taxes. Because the state constitution requires a vote to increase taxes but not to increase fees, governments will need to ask voters for permission to create new or increase existing vehicle or telecommunication charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls, vehicle impound fees, vehicle identification and emission inspection fees, and new license plate fees from this requirement.

How does Proposition 101 interact with two other measures on the ballot? Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see page x) contain provisions that affect state and local government finances by decreasing taxes paid by households and businesses and restricting government borrowing. How these measures work together may require clarification from the state legislature or the courts.

Proposition 101 reduces state and local government taxes and fees. Amendment 60 reduces local property taxes, while requiring state expenditures for K-12 education to increase by an amount that offsets the property tax loss for school districts. Amendment 61 requires state and local governments to decrease tax rates when debt is repaid, which is assumed in this analysis to apply to the existing debt of state and local governments, and it prohibits any borrowing by state government.

Since portions of these measures are phased in over time, the actual impacts to taxpayers and governments will be less in the initial years of implementation and grow over time. Assuming that all three measures are approved by voters, the first-year impact will be to reduce state taxes and fees by $744 million and increase state spending for K-12 education by $385 million. Once fully implemented, the measures are estimated to reduce state taxes and fees by $2.1 billion and increase state spending for K-12 education by $1.6 billion in today's dollars. This would commit almost all of the state's general operating budget to paying for the constitutional and statutory requirements of K-12 education, leaving little for other government services. In addition, the prohibition on borrowing will increase budget pressures for the state if it chooses to pay for capital projects from its general operating budget. This would further reduce the amount of money available for other government services.

Tax and fee collections for local governments are expected to fall by at least $966 million in the first year of implementation and by $4.7 billion when the measures are fully implemented. However, the net impact on local government budgets would be at least $581 million in the first year and $3.1 billion when fully implemented after the state reimburses school districts.

Total taxes and fees paid by households and businesses are estimated to decrease by $1.7 billion in the first year and $6.8 billion per year in today's dollars when the measures are fully implemented. The measures reduce the taxes and fees owed by an average household making $55,000 per year that owns a $295,000 house by an estimated $400 in the first year and $1,660 per year when fully implemented.

One analysis by a private consulting firm showed that the reduced revenues to governments will result in the direct loss of between 67,000 and 73,000 primary jobs statewide. Because many of these revenues go to pay private sector doctors, hospitals, private road construction firms and other venders, nearly 60 percent of the projected jobs lost will be in the private sector statewide. This does not include indirect job losses stemming from reduced spending by those unemployed. This level of job loss approaches the over 110 thousand jobs Colorado has lost in this recession.

Rich Jones and Wade Buchanan, Bell Policy Center

*[**Comment**: Proposition 101 alone, and when combined with Amendments 60 and 61, will significantly reduce government expenditures that will hurt Colorado's economy and trigger job losses. The economic effects of these proposals are not adequately presented in the Bluebook analysis.*

An analysis conducted by Henry Sobanet at Colorado Strategies, shows that combined, the three proposals reduce revenues by $6.3 billion. This will result in the direct loss of between 67,000 and 73,000 primary jobs statewide. Because many of these revenues go to pay private sector doctors, hospitals, private road construction firms and other venders, nearly 60 percent of the projected jobs lost will be in the private sector statewide. This does not include indirect job losses stemming from reduced spending by those unemployed. This level of job loss approaches the over 110 thousand jobs Colorado has lost in this recession.

There is only a passing reference to job losses in the arguments against on page 9, line 34. The effects of this proposal on the state's economy and jobs needs to be discussed more prominently in the summary and analysis section where a number of Proposition 101 "impacts" are described. Doing so will give voters a more complete picture of the impacts of Proposition 101.]

Arguments For

1) Allowing citizens and businesses to keep more of their own money helps the economy. A family with a yearly income of $55,000 could have their taxes and fees cut by $313 in the first year of Proposition 101 and $708 per year when it is fully implemented. Businesses will also benefit from the cut in taxes and fees, allowing them to invest in their companies and create new jobs. In addition, people who buy or lease cars will save even more from lower sales taxes. Reducing taxes and fees helps businesses and lower- and middle-income families who are struggling in this difficult economy. Consumer spending and business investment tend to increase when the tax burden is lower.

2) Proposition 101 will require state and local governments to eliminate unnecessary spending. Governments will look more closely at how they spend money, ensuring that taxpayer dollars are used in the best and most efficient way. State and local governments already spend about $40 billion a year, which amounts to an average of $20,000 per household in the state. The amount of spending by governments in the state has increased by about 14 percent since 1990, even after accounting for inflation and population growth. Even with Proposition 101's reductions in tax and fee collections, revenue to governments will continue to grow, although at a slower rate. Governments can prioritize and fund the most important services with less money by making better choices about how they spend taxpayer money.

3) Proposition 101 gives people a voice in decisions about fees on phones and vehicles. Rather than asking voters for more money for transportation projects, the state recently increased vehicle registration fees by about $220 million, an average of approximately $44 per car. The state did this even though registration fees exceed what it costs the government to process vehicle registrations. Proposition 101 will require governments to seek voter approval for more money rather than adding more fees. Further, some telecommunication fees raise the cost of basic services for everyone but

help only a small part of the state's population. Proposition 101 simplifies and eliminates these fees — lowering all vehicle registration fees to a flat $10 per year and ending state and local taxes and fees, except 911 fees, on phone and cable bills.

Arguments Against

1) Colorado's economic success depends on services that governments provide, such as education and a safe transportation system. Proposition 101 will force cuts to these services that people rely on for a high quality of life and that businesses need to succeed. Services that have already been reduced because of the economic downturn, such as schools, colleges, prisons, firefighters and police, and water and sewer systems, will be cut further. These cuts could further weaken the already slow economy, reduce jobs, and, over time, hurt the quality of the state's workforce. Rural economies may also be affected because fees that help provide phone and Internet service for rural areas will be eliminated. The state's operating budget is estimated to be cut by $1.6 billion, or about 23 percent, when the measure is fully implemented, an amount greater than what the state currently spends on prisons, courts, and the Colorado State Patrol combined. Further, local governments will have about $1 billion less. State government spending as a percentage of the economy is already third lowest among all states and combined state and local government spending is eighth lowest.

2) Proposition 101 will hurt the ability of the state and local communities to maintain already inadequate roads and bridges and provide public transportation. Studies show that Colorado needs more than twice as much money each year than it currently spends just to maintain existing roads and bridges. Proposition 101 would cut state transportation funding by an estimated 28 percent. In 2009 alone, the state and local governments maintained more than 193,000 lane miles of roadway and 8,000 bridges. The state also snow-plowed and sanded 5.6 million miles of highway, repaired 77,000 street signs, and monitored 278 avalanche paths. Public health and safety may also be affected due to fewer resources for emergency medical services, vehicle emission programs, and road maintenance.

3) Cuts to government services may result in hardship for families who have to pay for services that governments will no longer be able to afford. For example, tuition will likely increase, putting college out of reach for many households. Higher-income people, who are better able to absorb these cost increases, will benefit the most from the reduced taxes and fees in Proposition 101. Low- and middle-income people will be less able to absorb the costs. Proposition 101 also eliminates fees that pay for services to help those with lower incomes and people who are deaf, speech impaired, or blind communicate within society.

Estimate of Fiscal Impact

State revenue. Proposition 101 contains several provisions that decrease revenue to the state government. Because some of the reductions are phased in over time, the reduction in revenue will be lower at first. The first year reduction is estimated to be $744 million, which includes $295 million less in vehicle fees that are constitutionally-required to be used for transportation-related spending. When fully implemented, state tax and fee collections would decrease by an estimated $1.9 billion in today's dollars.

State spending. The state will have less money available for spending on its operating programs and transportation budget. Though the reductions to the transportation budget will be immediate, the reductions to operating programs will occur over time as the cuts to the income and sales tax are phased in. The state will have $450 million, or 6 percent, less in the first year to spend on operating programs. Further, the state will have about $295 million, or 28 percent, less to spend on transportation. When fully implemented, the state would have $1.6 billion, or 23 percent, less in today's dollars to spend on operating programs. The impact on the state's operating programs depend on the future budgeting decisions of the state legislature.

Proposition 101 will also create some additional costs for the state. Current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts. This will cause the state to spend an additional $48 million in the first year and $121 million annually when the measure is fully implemented.

Also, Proposition 101 increases state administrative costs by about $185,000 in budget year 2010-11 and $34,000 in the following few years to implement the reductions in taxes, fees, and charges, and to audit compliance with the measure's provisions. The state's administrative costs will decrease in subsequent years as the tax and fee reductions are fully implemented. It is estimated that the measure will require the addition of 0.5 new staff in budget year 2010-11 and 0.25 new staff in the following few years to administer the auditing of governments' tax and fee reductions.

Local revenue and spending. Because reductions in the local sales tax on vehicles are phased in over four years, revenue decreases in the first few years will be lower than when the measure is fully implemented. Local government revenue is estimated to be reduced by $629 million in the first year, with $99 million of this amount for transportation projects. When fully implemented, local government revenue would decrease by an estimated $1.0 billion in today's dollars. However, since current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts, the net impact on local government budgets would be $580 million in the first year and $880 million when fully implemented.

The extent to which each local government program will be affected will vary depending on what services the government provides and its budget decisions. Local governments may also have increased administrative costs to comply with the auditing requirements of Proposition 101.

Impact on taxpayers. Proposition 101 will reduce households' and businesses' tax and fee bills by different amounts depending on their income, the number and type of vehicles they have, the costs of their phone and cable bills, and whether they purchase, rent, or lease vehicles in a given year. In the first year, before all the tax and fee reductions are fully implemented, an average household with an annual income of $55,000 would experience a reduction in their tax and fee bill of about $313. When fully implemented, the total tax and fee bill for this household would be reduced by about $708 annually in today's dollars. There would be additional reductions if the household purchases, rents, or leases a vehicle. Businesses will also experience reductions in taxes and fees.

RICH JONES COMMENTS ON LAST DRAFT OF PROPOSITION 101

TO: Legislative Council Staff

FROM: Rich Jones and Wade Buchanan, Bell Policy Center

DATE: August 11, 2010

RE: Comments on the Third Draft of the Bluebook Analysis on Proposition 101

Thank you for giving us the opportunity to comment on the third draft of the Legislative Council staff's analysis of Proposition 101 relating to income, vehicle and telecommunications taxes and fees. Some of these comments will apply to Amendments 60 and 61 as well as the overall effects of the combination of the three proposals.

Overall Comments

1. There is a conflict between the level of analysis used to show the amount of tax reductions to voters and the level of analysis used to show the effects of these reductions on services voters use. This ends up presenting voters with a distorted picture of the proposals' effects.

The amount of tax reductions are calculated and presented at the household, business and individual level. However, the effects of these reductions on services are calculated and presented on the city, county and state government level. As a result, voters can easily see what they might individually save in terms of tax reductions but are not shown how much they might lose in terms of services they use individually or services that go to their communities. Because voters have a hard time determining the effects of overall cuts in state and local government revenue on the services they use, this presents a biased picture of this proposal.

While we recognize the difficulty in determining what actions the legislature or local officials might take to adjust to the lower revenues, without presenting some examples of these effects on an individual, family or local community level, voters will have inadequate information to judge the trade-offs that come with the lower taxes.

One approach might be to show the effects these reductions would have on the services provided by an average county or maybe a range of counties such as a large urban county, medium sized suburban county and small rural county. A similar approach might be used to show the effects on families with children who attend a state college, individuals who attend community colleges, families who currently receive Medicaid, individuals who commute to work on state roads and families who rely on fire protection through a special district.

Unless you can present a comparable level of detail to show how the reductions in revenues affect specific services to individuals and communities, then you should not show how the tax reductions affect individual households, businesses and individuals.

Voters need comparable data to effectively judge whether the reduction in the taxes they pay is worth the reduction or elimination of government services they use. Otherwise the analysis presents a distorted and unbalanced picture of the proposition.

2. Proposition 101 alone, and when combined with Amendments 60 and 61, will significantly reduce government expenditures that will hurt Colorado's economy and trigger job losses. The economic effects of these proposals are not adequately presented in the Bluebook analysis.

An analysis conducted by Henry Sobanet at Colorado Strategies, shows that combined, the three proposals reduce revenues by $6.3 billion. This will result in the direct loss of between 67,000 and 73,000 primary jobs statewide. Because many of these revenues go to pay private sector doctors, hospitals, private road construction firms and other venders, nearly 60 percent of the projected jobs lost will be in the private sector statewide[i]. This does not include indirect job losses stemming from reduced spending by those unemployed. This level of job loss approaches the over 110 thousand jobs Colorado has lost in this recession.

There is only a passing reference to job losses in the arguments against on page 9, line 34. The effects of this proposal on the state's economy and jobs needs to be discussed more prominently in the summary and analysis section where a number of Proposition 101 "impacts" are described. Doing so will give voters a more complete picture of the impacts of Proposition 101.

3. The fact that reducing the revenues that state and local governments use to pay for services will affect specific services used by voters needs to be more clearly emphasized.

With fewer revenues, policy makers will have to cut or eliminate services, charge additional fees to pay for them or some combination of both. This needs to be stated clearly in the Summary and Analysis section on page 1, line 25 following the discussion about the amount of expected tax and fee reductions.

In the section describing the impact on the state's transportation budget (see pages 3 and 4) it needs to be stated that the revenue reductions will limit state and local governments' ability to maintain and repair roads. In particular, voters need to know that Proposition 101 eliminates fees that will make it more difficult to pay for fixing Colorado's structurally deficient bridges.

In the section describing Proposition 101's effects on the state income tax, there needs to be a corresponding description of its effect on the state services funded by these revenues. Again, voters need a clear presentation of what they give up in services for the reduction in income tax rates.

Again, thank you for the opportunity to comment on this draft of the Bluebook analysis. Call or email us if you have any questions or would like additional information.

[i] "Working Paper on Proposition 101, Amendments 60 and 61", Henry Sobanet, Capitol Strategies, Updated July 8, 2010. http://coloradostrategy.com/

DAVID J. MCDERMOTT COMMENTS ON LAST DRAFT OF PROPOSITION 101

Legislative Council Staff,

I have reviewed the 3rd draft of the Proposition 101 Analysis and suggest the following changes.

****

Page 3, Lines 37-40 - The text states that the state is required to reimburse school districts for the loss of vehicle specific ownership taxes, but that requirement does not appear in Proposition 101 to my knowledge.

I believe it would help the reader to know the source of this requirement. Is it in existing statutes, Amendment 60, or some other requirement? Without an answer to these questions I cannot suggest how to change the following text.

37 The state will also be required to reimburse school districts for most of their loss of

38 vehicle specific ownership taxes. This obligation increases the total impact on the

39 state general operating budget during the first year from the $422 million shown in

40 Table 2 to $470 million, and when fully implemented, from $1.6 billion to $1.7 billion.

****

Page 4 Lines 18-20. As written the following text conveys that income tax collections will be 26 percent or $1.3 billion less than today. However, the reduction in rates and collections only occurs when collections grow by 6%, so the absolute value of tax collections will actually be increasing. However, on a comparative basis they will be less than they would have been without Proposition 101. I suggest changing the following language from:

18 decreases to 3.5 percent. When the tax rate is fully reduced, income tax collections to

19 the state will be an estimated 26 percent less, or a decline of $1.3 billion in today's
20 dollars to:

18 decreases to 3.5 percent. When the tax rate is fully reduced, income tax collections to

19 the state will be an estimated 26 percent, or 1.3 billion in today's

20 dollars, less than they would have been without Proposition 101.

I calculated the percentage change as 24.4 percent rather than 26 percent, and had to use a 6.96 percent inflation rate for the change to equal $1.3 billion in today's dollars. That seems high to me.

****

Page 4 Lines 21- 23. The term "reach" connotes an increase while the tax rate is actually declining. I suggest the following revision:

21 by $320 when the cut is fully phased in. Because income tax collections historically
22 have not grown by more than 6 percent every year, it will likely take 15 to 20 years for
23 the tax rate to decline to 3.5 percent.

****

Page 5 Lines 21 of Table 3 - The text in line 21 of the "State & Local Govt - Change in Yearly Collections" column says "total for state and local". In referencing the same $75 million reduction the text on lines 9-10 of Page 7 says "The measure reduces state collections by approximately $75 million per year." Either the text on Line 21 of Page 5 or text on Line 10 of Page 7 must be incorrect.

****

Page 5 Lines 35 of Table 3 Footnote /c - This footnote indicates current state law requires the state to reimburse school districts for most of their loss of specific ownership tax. This sounds like a provision from Amendment 60, which is not currently state law. Providing the current statutory citation might resolve this problem. I was unable to find that citation, so I cannot suggest the needed text change.

****

Page 6 Line 11 - I believe taxpayers are familiar with the term "exemption" as it relates to a method of reducing a balance subject to taxation. I do not believe the term "write-off" fits that definition well. I suggest changing the following text from:

11 Vehicles with greater values will receive a $10,000 "write-off." For example, a vehicle to

11 Vehicles with greater values will receive a $10,000 exemption. For example, a vehicle

****

Page 7 Lines 9-10 - The text on Page 5 in line 21 of the "State & Local Govt - Change in Yearly Collections" column says "total for state and local". In referencing the same $75 million reduction the text on lines 9-10 of Page 7 says "The measure reduces state collections by approximately $75 million per year." Either the text on Line 21 of Page 5 or text on Line 10 of Page 7must be incorrect. Does the $75 million reduction apply only to the state or to both the state and local governments?

****

Page 10 Lines 37-40 The text in these lines ascribes the backfill costs for vehicle specific ownership taxes lost by school districts to Proposition 101, but I can't find such a provision in the Proposition. Footnote /c on page 5 and the text in Lines 37 to 40 on Page 3 seem to ascribe the backfill requirement to existing state statute. Since I can't tell which is correct, I cannot suggest the needed change to the following text.

37 Proposition 101 will also create some additional costs for the state. The state will be

38 required to replace most of the loss of vehicle specific ownership taxes for school

39 districts. This will cause the state to spend an additional $48 million in the first year and

40 $121 million annually when the measure is fully implemented.

****

Please contact me if you would like to discuss any of the suggested changes. Thank you for allowing me to provide feedback on the text.

David J. McDermott, CPA
Colorado State Controller
Department of Personnel & Administration
633 17th Street Suite 1500
Denver, CO 80202

Phone 303-866-2739
FAX 303-866-4233
Email david.mcdermott@state.co.us

Natalie Menten, COtaxreform.com

Proposition 101
~~Income,~~ Vehicle, INCOME, and Telecommunication Taxes and Fees

Proposition 101 proposes amending the <u>Colorado statutes</u> to:

- ~~reduce the state income tax rate from 4.63 percent to 4.5 percent in 2011, and to 3.5 percent gradually over time;~~ REDUCE OR ELIMINATE TAXES AND FEES ON VEHICLE PURCHASES, REGISTRATIONS, LEASES, AND RENTALS OVER THE NEXT FOUR YEARS;

- ~~reduce or eliminate taxes and fees on vehicle purchases, registrations, leases, and rentals over the next four years;~~ REDUCE THE STATE INCOME TAX RATE FROM 4.63 PERCENT TO 4.5 PERCENT IN 2011, AND TO 3.5 PERCENT GRADUALLY OVER THE NEXT 15 TO 20 YEARS;

- eliminate all state and local taxes and fees on telecommunication services, except 911 fees; and

- require voter approval to create or increase fees on vehicles and telecommunication services.

Summary and Analysis

Proposition 101 reduces or eliminates various taxes and fees on ~~income,~~ vehicles, INCOME, and telecommunication services. Table 1 shows the annual ~~impact~~ EFFECT of Proposition 101 on three different households, and Table 2 shows the ~~impact~~ EFFECT on government budgets.

Some of the ~~reductions~~ CHANGES in Proposition 101 are phased in over time. The ~~impact~~ EFFECT will be smaller in the first year and will grow in size over the next 15 to 20 years. Estimates of the ~~impact~~ EFFECT in the first year, as well as the ~~impact~~ EFFECT once the ~~reductions~~ CHANGES are fully implemented, are based on today's dollars. The fully implemented ~~impacts~~ EFFECTS provide ~~the best estimates~~ A BETTER ESTIMATE of the measure's final effects. Although the actual dollar amounts will differ in the future as inflation and growth increase the size of the economy, the comparable budget ~~impacts~~ EFFECTS on taxpayers and governments are expected to remain consistent over time.

In the first year, the tax and fee ~~reductions~~ CHANGES are expected to be $1.4 billion — $744 million in state ~~reductions~~ CHANGES and $629 million in local government ~~reductions~~ CHANGES. Once fully implemented IN 15 TO 20 YEARS, the ~~impact~~ EFFECT is expected to be $2.9 billion in today's dollars — $1.9 billion in state ~~reductions~~ CHANGES and $1.0 billion in local government ~~reductions~~ CHANGES. *[**Comment:** Ms. Menten disagrees with the numbers in this section. She also requested that a different accounting system be disclosed.]*

~~Impact~~ EFFECT on households and businesses. Table 1 shows the estimated change in tax and fee bills for three different households as a result of Proposition 101, in both the first full year the measure is in effect and when the measure is fully implemented, in today's dollars. Businesses will also experience ~~reductions~~ TAX-FREE SAVINGS in taxes and fees. Households and businesses will be ~~impacted~~ AFFECTED differently depending on annual income, vehicles owned, vehicles purchased, and the amount paid for phone and cable service. Households and businesses will experience additional ~~reductions~~ TAX-FREE SAVINGS during years in which vehicles are rented, leased, or purchased.

*[**Comment:** Ms. Menten questioned whether gross income or taxable income is being used in the analysis and stated that the analysis should note which one is used. Ms. Menten also indicated that the analysis should state the assumed deduction percentage. Ms. Menten also indicated the analysis does not state how many years of income tax relief is being used, (e.g., 15? 20?). Also, she indicated that the analysis' final year savings is not ten times the first year and that it assumed static income for 20 years. Ms. Menten asked that the analysis disclose the assumptions and discounted current value calculation. Also, the analysis should use 26 percent as the stated tax savings.]*

Table 1. Annual Change in Representative Households' Tax and Fee Bills Due to Proposition 101, First-Year ~~Impact~~ EFFECT and When Fully Implemented /a
(In Today's Dollars)

	Income Taxes	Vehicle Fees & Taxes	Telecom Fees & Taxes	Total
Household A	*Household Description:* Annual Income: $35,000; owns a 10-year-old car that had an original ~~retail~~ TAXABLE OWNERSHIP price of $13,000; $60 monthly phone bill.			
TAX-FREE SAVINGS First Year	-$20	-$72	-$43	-$135
TAX-FREE SAVINGS Fully Implemented	-$185	-$73	-$43	-$301
Household B	*Household Description:* Annual Income: $55,000; owns a 5-year-old car that had an original ~~retail~~ TAXABLE OWNERSHIP price of $17,000 and a 5-year-old car that had an original ~~retail~~ TAXABLE OWNERSHIP price of $23,500; $130 monthly combined phone bills.			
TAX-FREE SAVINGS First Year	-$40	-$180	-$93	-$313
TAX-FREE SAVINGS Fully Implemented	-$320	-$295	-$93	-$708
Household C	*Household Description:* Annual Income: $110,000; owns a 2-year-old car that had an original ~~retail~~ TAXABLE OWNERSHIP price of $37,500 and a 3-year-old car that had an original ~~retail~~ TAXABLE OWNERSHIP price of $26,000; $180 monthly combined phone bills.			
TAX-FREE SAVINGS First Year	-$90	-$327	-$128	-$545
TAX-FREE SAVINGS Fully Implemented	-$780	-$883	-$128	-$1,791

** Totals may not sum due to rounding.*
/a This analysis assumes a 7.0 percent combined state and local sales tax rate. THIS ANALYSIS ALSO ASSUMES THAT THE HOUSEHOLDS DO NOT PURCHASE, LEASE, OR RENT A VEHICLE DURING THE PHASE-IN PERIOD. Telecommunication tax and fee ~~reductions~~ CHANGES are fully implemented in 2011. THE ANALYSIS EXCLUDES TAXES ON CABLE SERVICE BECAUSE NOT ALL AREAS OF THE STATE CHARGE SUCH TAXES. Some vehicle tax and fee ~~reductions~~ CHANGES are fully implemented in 2011 and some are phased in between 2011 and 2014. It will take an estimated 15 to 20 years for the income tax rate ~~reductions~~ CHANGES to be fully implemented.

~~Impact~~ EFFECT on government budgets. Table 2 shows the estimated ~~impact~~ EFFECT of Proposition 101 on tax and fee collections used for local government budgets AND the state's general operating budget ~~and transportation budgets~~ in the first year and once it is fully implemented. All of these ~~impacts~~ EFFECTs are shown in today's dollars. More information on the ~~impact~~ EFFECT on each type of budget follows. As a result of the decrease in tax and fee collections, state and local governments ~~will have to~~ MAY decrease spending and services, increase fees to pay for services, FIND GREATER EFFICIENCY OR DIFFERENT PRIORITIES, IMPLEMENT HIRING FREEZES OR LIMITS ON SALARY-PENSION-BENEFIT PAYMENTS, USE RESERVES or some combination. ~~of both~~. GOVERNMENT REVENUE WILL CONTINUE TO GROW YEARLY, HISTORICALLY AT A FASTER RATE THAN ANY ANNUAL TAX RELIEF AMOUNT.

Table 2. Annual Change in Government Tax and Fee Collections Due to Proposition 101, First-Year ~~Impact~~ EFFECT and When Fully Implemented
(In Today's Dollars)

Government Collections	Collections under Current Law	Collections under Prop 101	Change*
Vehicle Specific Ownership Taxes and Sales Taxes Collected by **Local Governments**	$3.9 billion	$3.4 billion First Year	-$530 million First Year
REPRESENTS X PERCENT OF TOTAL LOCAL GOVERNMENT SPENDING OF $X		$3.0 billion Fully Implemented	-$900 million Fully Implemented
Sales Taxes, Income Taxes, and Telecommunication Fees Collected by the **State Government**	$7.2 billion	$6.7 billion First Year	-$450 million First Year
REPRESENTS 36 PERCENT OF TOTAL STATE SPENDING OF $20 BILLION		$5.5 billion Fully Implemented	-$1.6 billion Fully Implemented
~~Vehicle Registration Fees and State Rental Fees Collected for **State and Local Transportation Budgets**~~	~~$440 million~~	~~$50 million Fully Implemented During First Year~~	~~-$390 million Fully Implemented During First Year~~

** Totals may not sum due to rounding. THESE FIGURES REPRESENT ABOUT 2 PERCENT OF TOTAL STATE OR LOCAL SPENDING IN THE FIRST YEAR AND LESS WHEN FULLY IMPLEMENTED. TAX RATES WILL GO DOWN IN 2011. TAXES ARE PAID THROUGHOUT 2011 AND TRUED UP IN APRIL 2012.*

~~Impact~~ EFFECT on local government budgets. Local governments will collect less money from vehicle specific ownership taxes. ~~and sales taxes~~ Local governments affected by the measure include ~~school districts~~, cities, counties, and special districts. Some examples of special districts include recreation, fire, water, sewer, and public transportation districts. The money collected in taxes and fees pays for different services depending on the local government. ~~Most of the money is used for education, public safety, roads, trash service, and parks and recreation.~~ State law requires that school districts be reimbursed by the state for ~~most~~ ALL of their loss in tax collections.

~~Impact~~ EFFECT on the state government operating budget. ~~The state government will collect less money from sales taxes, income taxes, and telecommunication fees. The state spends 96 percent of its general operating budget on: preschool through higher education; health care; prisons; the courts; and programs that help low-income, elderly, and disabled people.~~ Proposition 101 will reduce the amount of money available to pay for the state's general operating budget by an estimated 6 percent in the first year and by an estimated 23 percent once fully implemented IN 15 TO 20 YEARS.

Current law requires the state to reimburse school districts for ~~most~~ ALL of their loss of vehicle specific ownership taxes. This obligation increases the total ~~impact~~

EFFECT on the state general operating budget during the first year from the $450 million shown in Table 2 to $497 million, and when fully implemented, from $1.6 billion to $1.8 billion.

~~***Impact on state and local government transportation budgets.*** Proposition 101 reduces funding dedicated to transportation budgets. The state constitution requires that vehicle-related fees collected by the state be spent on road safety, construction, and maintenance. This money is shared between the state, cities, and counties. The state's transportation budget will decrease by an estimated 28 percent from these fee reductions. The impact on city and county government transportation budgets will vary by government. Because cuts affecting transportation budgets are immediate, the full impact shown in Table 2 will occur in 2011.~~

State Income Tax

*[**Comment:** Ms. Menten requested that the State Income Tax section be moved to follow the Vehicle Fees and Taxes section.]*

Households and businesses pay taxes on their income to both the state and federal governments. The state's income tax rate is a flat 4.63 percent and is the same for all income levels and for both households and businesses. The state income tax is the largest source of money the state receives to pay for its main programs.

Proposition 101 gradually lowers the state income tax rate from 4.63 percent to 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This will ~~reduce~~ SLOW THE RATE OF INCREASE IN income tax collections to the state by an estimated $145 million, or 3 percent. The tax bill for a household with an annual income of $55,000 will be reduced by ~~$40~~ 3 PERCENT TAX FREE in 2011. In the future, the rate is reduced by 0.1 percentage point, TAX FREE, each year in which state income tax collections grow by more than 6 percent. For example, if tax collections increase fast enough, the income tax rate will decrease from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate decreases to 3.5 percent.

~~When the tax rate is fully reduced IN 15 TO 20 YEARS, income tax collections to the state will be an estimated 26 percent less, or $1.3 billion in today's dollars lower than what they would have been without Proposition 101.~~ The tax bill for a household with an annual income of $55,000 will be reduced by $320, OR 26 PERCENT, TAX FREE when the cut is fully phased in. Because income tax collections historically have not grown by more than 6 percent every year, it will likely take 15 to 20 years for the tax rate to decline to 3.5 percent.

Vehicle Fees and Taxes

Proposition 101 reduces several types of vehicle fees and taxes as shown in Table 3. The amounts in the table show the ~~impact~~ EFFECT when the ~~reductions~~ CHANGES are fully implemented — sales tax ~~reductions~~ CHANGES on vehicle purchases and specific ownership tax ~~reductions~~ CHANGES are phased in over a four-year period, while all other vehicle fee and tax changes occur in 2011. The total amount of the ~~reduction~~ CHANGE in vehicle fees and taxes, when fully implemented, is estimated at $1.3 billion in today's dollars.

Table 3. Vehicle Fees and Taxes Under Current Law and Proposition 101, When Fully Implemented
(In Today's Dollars)

	Average Payment		State & Local Govt. Change in Yearly Collections
	Current	**Prop. 101**	
Vehicle Owners			
Sales Tax /a *Four-year Phase in (2011 to 2014)*	$2,100 one-time payment	$1,400 one-time payment	-$335 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$300 million total for state and local
Specific Ownership Tax *Four-year Phase in (2011 to 2014)*	$87 paid once per year	$2 (new cars) or $1 (used cars) paid once per year	-$345 million total for ~~all school districts /c and~~ local governments
Vehicle Lessees			
Sales Tax /a *Fully Implemented in 2011*	$1,080 total ($30 paid monthly during lease term)	$0	-$65 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	~~$10~~ $0 paid once per year	-$75 million total for state and local
Specific Ownership Tax *Fully Implemented in 2011*	$87 paid once per year	$0 paid once per year	-$86 million total for ~~all school districts /c and~~ local governments
Vehicle Renters			
Sales Tax /a *Fully Implemented in 2011*	$2.45 per rental day	$0	-$80 million total for state and local
State Car Rental Fee *Fully Implemented in 2011*	$2 per rental day	$0	-$19 million total for state and local
SPECIFIC OWNERSHIP TAX	$0	$0/c	

/a This analysis assumes a 7.0 percent sales tax rate. For vehicle owners and lessees, it assumes a $30,000 car is purchased or leased for 36 months. For vehicle renters, the analysis assumes a vehicle is rented for $35 a day.

/b Currently, the average registration and license fees are lower than the average payment shown in the table, but are estimated to increase to the amounts shown over the next year. The collections numbers represent registration and license fee ~~impacts~~ EFFECTS assuming what the fees will be when they are increased. THERE ARE ALSO SAVINGS DUE TO THE ELIMINATION OF SALES TAXES ON MANUFACTURER'S REBATES.

~~/c Current law requires the state to reimburse school districts for most of their loss of specific ownership taxes.~~

/C AS VEHICLE OWNERS, RENTAL COMPANIES PAY SPECIFIC OWNERSHIP TAXES FOR THEIR VEHICLES. RENTAL COMPANIES ALSO HAVE THE OPTION TO PERIODICALLY PAY SPECIFIC OWNERSHIP TAXES BY APPLYING CHARGES TO THE BILLS OF PEOPLE WHO RENT CARS. (SECTION 42-3-107 (11), C.R.S.).

Vehicle owners. Upon purchase, vehicle buyers are required to pay sales tax. In addition, each year vehicle owners must register their vehicle(s) with the state and pay registration fees and a specific ownership tax. Proposition 101 reduces all three taxes and fees.

Vehicle sales tax. Sales taxes are paid on the purchase of a new or used vehicle. The tax is applied to the price of the vehicle, including any manufacturer's rebate. The total tax rate is a 2.9 percent state rate plus any applicable local government sales tax rates. Because different local governments have different tax rates, the sales tax a buyer pays differs depending on where the buyer lives. The average combined sales tax rate is close to 7 percent.

Proposition 101 reduces the sales taxes due on vehicle purchases by exempting the first $10,000 of the vehicle's price and any manufacturer's rebate from the sales tax. The $10,000 exemption is phased in over a four-year period beginning in 2011. When fully implemented, vehicles worth $10,000 or less will not have a sales tax bill. Vehicles with greater values will receive a $10,000 exemption. For example, a vehicle purchased for $18,000 will be taxed only on $8,000 of the value. This sales tax cut will reduce local government SALES tax collections by an estimated $195 million, or 6 percent, and state government SALES tax collections by an estimated $140 million, or 7 percent.

Vehicle registration and licensing fees. Vehicle owners pay registration fees each year. Most fees vary according to vehicle weight, age, and value. While most of the money pays for roads and bridges, some pays for services like emergency medical services, vehicle emissions reduction programs, the Colorado State Patrol, and snow plowing.

Beginning in 2011, Proposition 101 combines all registration, licensing, and titling fees into a single $10 annual fee, with the exception of vehicle inspection and new license plate fees. As shown in Table 3, the average registration and licensing fee for vehicle owners would fall from $81 to $10 and the amount collected by state and local governments would decrease by about $300 million, or 88 percent.

Vehicle specific ownership tax. Vehicle owners also pay a specific ownership tax each year when registering a vehicle. The specific ownership tax is a property tax on a vehicle. The tax ranges from 0.45 percent to 2.10 percent of the vehicle's taxable value, based on the vehicle's original recommended retail price. As a vehicle ages, the tax rate is reduced. The minimum specific ownership tax is either $3 or $5 per vehicle, depending on the type of vehicle. Counties collect specific ownership taxes and distribute them to schools, cities, counties, and special districts within their boundaries.

Proposition 101 phases in a cut to specific ownership taxes over four years, beginning in 2011. THAT REDUCTION IN SCHOOL REVENUE IS FULLY REPLACED BY STATE AID. ~~It~~ PROPOSITION 101 also requires permission from voters to create or increase future registration and licensing fees. Table 3 shows the change in vehicle owners' bills and state and local government collections.

Vehicle lessees. Like vehicle owners, persons who lease vehicles must NOW pay sales taxes, registration fees, and specific ownership taxes each year. Proposition 101 reduces or ends all three taxes and fees for vehicle leases.

Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This will reduce state and local sales tax collections by an estimated $65 million per year, or 1 percent. It will also eliminate all specific ownership taxes collected by local governments on leased vehicles.

Vehicle registration and licensing fees. Leased vehicles are also required to be registered with the state and lessees must NOW pay annual registration fees. Beginning in 2011, Proposition 101 eliminates all registration fees. ~~and imposes a single $10 fee per vehicle,~~ resulting in ~~a~~ AN AVERAGE reduction of ~~$71~~ $81 for vehicle lessees. The measure reduces state and local collections by approximately $75 million per year.

Vehicle renters. SINCE 2009, the state ~~charges~~ HAS CHARGED a fee of $2 per day for car rentals. The money is shared by the state, cities, and counties to build, repair, and maintain roads and bridges. THAT FEE IS SUBJECTED TO SALES TAX. Sales tax is also GENERALLY applied, with revenue going to the state and local governments. Proposition 101 eliminates the fee and all sales OR OWNERSHIP taxes ON RENTALS beginning in 2011. ~~As a result, state and local transportation budgets will have an estimated $19 million less per year in fee collections and $80 million less in sales tax collections.~~

Other vehicle fees. The state also charges use and permitting fees for large and overweight vehicles that use Colorado roads. A passenger mile tax is also charged for passenger bus or shuttle businesses. Proposition 101 eliminates these fees beginning in 2011, resulting in $56 million less in state funds, reducing charges to trucking and carrier companies by a like amount.

Telecommunication Fees and Taxes

Proposition 101 eliminates state and local sales tax and other fees on customer bills for any kind of telecommunications service, except for existing 911 fees. The measure lists the following as telecommunication services, even though some of them are not currently taxed: phone, pager, cable, television, radio, Internet, computer, and satellite services. Currently, the state and some local governments charge sales tax on a portion of the cost of phone and pager services, and some local governments charge sales tax on cable services. State fees that are eliminated include fees that help telephone companies provide access to phone service. ~~in rural areas of the state, to the blind, deaf, or speech impaired, and to low-income people.~~ How the elimination of these telephone fees will affect these services is unclear and would likely be determined by the state legislature. However, telephone services for the deaf or speech impaired are required by federal law. Thus, its likely that another funding source will have to be found to continue to provide these services. Local governments may have other fees, such as television franchise fees, that ~~may~~ WILL be eliminated.

Proposition 101 freezes 911 fees at their 2009 level. These fees differ from county to county and ranged from 43 cents to $1.25 per month in 2009. The 911 fees are charged by local governments to help pay for 911 emergency services.

The ~~reduction~~ CHANGE in a household or business's telecommunications bill depends on how much it spends on taxable phone and cable. Tax and fee collections by local governments would be reduced by at least $194 million each year. Tax and fee collections to the state government would be reduced by an estimated $183 million each year.

New voter approval requirements. Proposition 101 redefines all telecommunication fees and most vehicle fees as taxes. Because the state constitution requires a vote to increase taxes but not to increase fees, governments will need to ask voters for permission to create new or increase existing vehicle or telecommunication charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls, vehicle impound fees, vehicle identification and emission inspection fees, and new license plate fees from this requirement.

[First Preference]

~~***How does Proposition 101 interact with two other measures on the ballot?***~~ ~~Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see page x) contain provisions that affect state and local government finances by decreasing taxes paid by households and businesses and restricting government borrowing. How these measures work together may require clarification from the state legislature or the courts.~~

~~Proposition 101 reduces state and local government taxes and fees. Amendment 60 reduces local property taxes, while requiring state expenditures for K-12 education to increase by an amount that offsets the property tax loss for school districts. Amendment 61 requires state and local governments to decrease tax rates when debt is repaid, which is assumed in this analysis to apply to the existing debt of state and local governments, and it prohibits any borrowing by state government.~~

~~Since portions of these measures are phased in over time, the actual impacts to taxpayers and governments will be less in the initial years of implementation and grow over time. Assuming that all three measures are approved by voters, the first-year impact will be to reduce state taxes and fees by $744 million and increase state spending for K-12 education by $385 million. Once fully implemented, the measures are estimated to reduce state taxes and fees by $2.1 billion and increase state spending for K-12 education by $1.6 billion in today's dollars. This would commit almost all of the state's general operating budget to paying for the constitutional and statutory requirements of K-12 education, leaving little for other government services. In addition, the prohibition on borrowing will increase budget pressures for the state if it chooses to pay for capital projects from its general operating budget. This would further reduce the amount of money available for other government services.~~

~~Tax and fee collections for local governments are expected to fall by at least $966 million in the first year of implementation and by $4.7 billion when the measures are fully implemented. However, the net impact on local government budgets would be at least $581 million in the first year and $3.1 billion when fully implemented after the state reimburses school districts.~~

~~Total taxes and fees paid by households and businesses are estimated to decrease by $1.7 billion in the first year and $6.8 billion per year in today's dollars when the measures are fully implemented. The measures reduce the taxes and fees owed by an average household making $55,000 per year that owns a $295,000 house by an estimated $400 in the first year and $1,660 per year when fully implemented.~~

[Second Preference]

How does Proposition 101 interact with two other measures on the ballot? Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see page x) contain provisions that affect state and local government finances by decreasing taxes paid by households and businesses and restricting government borrowing. How these measures work together may require clarification from the state legislature or the courts.

Proposition 101 reduces state and local government taxes and fees. Amendment 60 reduces local property taxes, while requiring state expenditures for K-12 education to increase by an amount that offsets the property tax loss for school districts. Amendment 61 requires state and local governments to decrease tax rates ~~when~~ AFTER debt is repaid, ~~which is assumed in this analysis to apply~~ AND APPLIES to ~~the~~ BOTH existing AND FUTURE debt of state and local governments, and it prohibits any borrowing by state government.

Since portions of these measures are phased in over time, the actual impacts to taxpayers and governments will be less in the initial years of implementation and grow over time. Assuming that all three measures are approved by voters, the first-year impact will be to reduce state taxes and fees by $744 million and increase state spending for K-12 education by $385 million. Once fully implemented BY 2050, the measures are estimated to reduce state taxes and fees by $2.1 billion and increase state spending for K-12 education by $1.6 billion in today's dollars. ~~This would commit almost all of the state's general operating budget to paying for the constitutional and statutory requirements of K-12 education, leaving little for other government services.~~ In addition, the prohibition on borrowing will increase budget pressures for the state if it chooses to pay for capital projects from its general operating budget. This would further reduce the amount of money available for other government services.

Tax and fee collections for local governments are expected to fall by ~~at least $966 million in the first year of implementation and by $4.7 billion when the measures are fully implemented. However, the net impact on local government budgets would be~~ at least $581 million in the first year and $3.1 billion when fully implemented after the state reimburses school districts.

Total taxes and fees paid by households and businesses are estimated to decrease by $1.7 billion (ABOUT 2 PERCENT OF TOTAL STATE AND LOCAL SPENDING) in the first year and $6.8 billion per year in today's dollars when the measures are fully implemented. ~~The measures reduce the taxes and fees owed by an average household making $55,000 per year that owns a $295,000 house by an estimated $400 in the first year and $1,660 per year when fully implemented.~~

***[Comment:** Does your "first-year" impact include property tax replacement that won't occur until the second year (2012)? We dispute your $717M and $385M figures as too* *high. The income tax percentage point phase out occurs only when revenue grows much faster than the effect of the 0.1 percent rate trim, so there is no year-to-year loss possible. You are making up a number that cannot exist. You also ignore dynamic scoring and the stimulative effect on the Colorado economy. Your other dollar amounts are also too high.]*

[Comment: *You also need to list total state spending this year, and its projected level in the last year of the phase in, whichever one you have chosen. Give readers a sense of proportion. You also don't say when the cumulative $3.1 billion occurs - what final year are you using? You don't even say its cumulative, so it looks like it's instantly - another whopper.]*

[Comment: *You don't list the first-year (whenever that is, in your mind) local savings, so no one can see how you arrived at $1.6 billion. If $1.6 billion equals $400 per average household (undefined), that means we have 4,000,000 households in Colorado. That's an average of 1.25 people per household. That false low shows the number of households is smaller and savings for each is greater. $800 for 2.5 people per household is more plausible. Your fallacy is your obsession with claiming business gets most of the savings. News flash: business owners live in households too.]*

Arguments For

1) Allowing citizens and businesses to keep more of their own money ~~helps~~ WILL IMPROVE the economy. A family with a yearly income of $55,000 could have their taxes and fees cut by $313, TAX FREE, in the first year of Proposition 101 and $708, TAX FREE, per year when it is fully implemented. Businesses will also benefit from the cut in taxes and fees, allowing them to invest in their companies and create new jobs. In addition, people who OWN, buy, ~~or~~ lease, OR RENT cars will save even more from lower ~~sales~~ taxes AND CAR REGISTRATION FEES. Reducing taxes and fees helps businesses and lower- and middle-income families who are struggling in this difficult economy. Consumer spending and business investment ~~tend to~~ WILL increase when the tax burden is lower. COLORADO HAS THE SECOND HIGHEST MINIMUM INCOME TAX RATE OF ALL ADJACENT STATES. TOTAL YEARLY STATE SPENDING HAS SOARED 476% SINCE 1984. THIS TAX RELIEF WILL MAKE OUR ECONOMY MORE COMPETITIVE.

2) Proposition 101 will ~~require~~ ENCOURAGE state and local governments to eliminate unnecessary spending. Governments will look more closely at how they spend money, ensuring that taxpayer dollars are used in the best and most efficient way. State and local governments already spend ~~about $40 billion~~ $42.5 BILLION a year, which amounts to an average of ~~$20,000~~ $21,200 per household in the state. The amount of spending by governments in the state has increased by about 14 percent since 1990, even after accounting for inflation and population growth. Even with Proposition 101's ~~reductions~~ CHANGES in tax and fee collections, revenue to governments will continue to grow, although at a slower rate. Governments can prioritize and fund the most important services with less money by making better choices about how they spend taxpayer money.

3) Proposition 101 gives people a voice in decisions about fees on phones and vehicles. Rather than asking voters for more money for transportation projects, the state recently increased vehicle registration fees by about $220 million, an average of

approximately $44 per car. The state did this WITHOUT VOTER APPROVAL even though registration fees NOW FAR exceed ~~what it costs the government~~ THE $4 THE STATE PAYS COUNTY CLERKS to process vehicle registrations. Proposition 101 will require governments to seek voter approval for more money rather than adding more fees. Further, some telecommunication fees raise the cost of basic services for everyone but help only a small part of the state's population. Proposition 101 simplifies and eliminates these fees — lowering all vehicle registration fees to a flat $10 per year FOR EVERYONE and ending state and local taxes and fees, except 911 fees, on phone and cable bills. RECENT NEWS REPORTS REVEALED $10 MILLION IN PAYMENTS OF PHONE SUBSIDIES TO 10,000 INELIGIBLE RECIPIENTS UNDER JUST ONE SUCH PROGRAM.

Arguments Against

1) Colorado's economic success depends on services that governments provide, such as education and a safe transportation system. Proposition 101 will force cuts to these services that people rely on for a high quality of life and that businesses need to succeed. Services that have already been reduced because of the economic downturn, such as schools, colleges, prisons, firefighters and police, and water and sewer systems, will be cut further. These cuts could ~~further weaken the already slow economy, reduce jobs, and,~~ over time hurt the quality of the state's workforce. Rural economies may also be affected because fees that help provide phone and Internet service for rural areas will be eliminated. The state's operating budget is estimated to be cut by $1.6 billion, or about 23 percent, when the measure is fully implemented IN 15 TO 20 YEARS, an amount greater than what the state currently spends on prisons, courts, and the Colorado State Patrol combined. Further, local governments will have about $1 billion less AFTER THAT TIME FRAME. State government spending as a percentage of the economy is already third lowest among all states and combined state and local government spending is eighth lowest.

2) Proposition 101 will hurt the ability of the state and local communities to maintain already inadequate roads and bridges and provide public transportation. Studies show that Colorado needs more than twice as much money each year than it currently spends just to maintain existing roads and bridges. Proposition 101 would cut state transportation funding by an estimated 28 percent. In 2009 alone, the state and local governments maintained more than 193,000 lane miles of roadway and 8,000 bridges. The state also snow-plowed and sanded 5.6 million miles of highway, repaired 77,000 street signs, and monitored 278 avalanche paths. Public health and safety may also be affected due to fewer resources for emergency medical services, vehicle emission programs, and road maintenance.

3) Cuts to government services may result in hardship for families who have to pay for services that governments will no longer be able to afford. For example, tuition will likely increase, putting college out of reach for many households. Higher-income people, who are better able to absorb these cost increases, will benefit the most from the reduced taxes and fees in Proposition 101. Low- and middle-income people will be less able to absorb the costs. Proposition 101 also eliminates fees that pay for services to help those with lower incomes and ~~people who are deaf, speech impaired, or blind~~ DISABILITIES communicate within society.

Estimate of Fiscal Impact

State revenue. Proposition 101 contains several provisions that decrease revenue to the state government. Because some of the ~~reductions~~ CHANGES are phased in over time, the ~~reduction~~ CHANGE in revenue will be lower at first. The first year ~~reduction~~ CHANGE is estimated to be $744 million, which includes $295 million less in vehicle fees that are constitutionally-required to be used for transportation-related spending. When fully implemented, state tax and fee collections would decrease by an estimated $1.9 billion in today's dollars. *[**Comment:** Ms. Menten disagrees with the numbers used in this paragraph.]*

State spending. The state will have less money available for spending on its operating programs and transportation budget. Though the ~~reductions~~ CHANGES to the transportation budget will be immediate, the ~~reductions~~ CHANGES to operating programs will occur over ~~time~~ 15 TO 20 YEARS as the cuts to the income and sales tax are phased in. The state will have $450 million, or 6 percent, less in the first year to spend on operating programs. Further, the state will have about $295 million, or 28 percent, less to spend on transportation. When fully implemented, the state would have $1.6 billion, or 23 percent, less in today's dollars to spend on operating programs. The ~~impact~~ EFFECT on the state's operating programs depend on the future budgeting decisions of the state legislature, AND ON THE RATE OF FUTURE GROWTH IN STATE GOVERNMENT REVENUE.

Proposition 101 will also create some additional costs for the state. Current law requires the state to replace ~~most~~ ALL of the loss of vehicle specific ownership taxes for school districts. This will cause the state to spend an additional $48 million in the first year and $121 million annually when the measure is fully implemented.

Also, Proposition 101 increases state administrative costs by about $185,000 in budget year 2010-11 and $34,000 in the following few years to implement the ~~reductions~~ CHANGES in taxes, fees, and charges, and to audit compliance with the measure's provisions. The state's administrative costs will decrease in subsequent years as the tax and fee ~~reductions~~ CHANGES are fully implemented. It is estimated that the measure will require the addition of 0.5 new staff in budget year 2010-11 and 0.25 new staff in the following few years to administer the auditing of governments' tax and fee ~~reductions~~ CHANGES.

Local revenue and spending. Because ~~reductions~~ CHANGES in the local sales tax on vehicles are phased in over four years, revenue decreases in the first few years will be lower than when the measure is fully implemented. Local government revenue is estimated to be reduced by $629 million in the first year, with $99 million of this amount for transportation projects. When fully implemented, local government revenue would decrease by an estimated $1.0 billion in today's dollars. However, since current law requires the state to replace most of the loss of vehicle specific ownership taxes for school districts, the net impact on local government budgets would be $580 million in the first year and $880 million when fully implemented.

The extent to which each local government program will be affected will vary depending on what services the government provides and its budget decisions. Local governments may also have increased administrative costs to comply with the auditing requirements of Proposition 101.

~~Impact~~ EFFECT on taxpayers. Proposition 101 will reduce ~~households'~~ HOUSEHOLD and ~~businesses'~~ BUSINESS tax and fee bills by different amounts depending on their income, the number and type of vehicles they have, the costs of their phone and cable bills, and whether they OWN, purchase, rent, or lease vehicles in a given year. In the first year, before all the tax and fee ~~reductions~~ CHANGES are fully implemented, an average household with an annual income of $55,000 would experience a ~~reduction~~ CHANGE in their tax and fee bill of about $313, TAX FREE. When fully implemented, the total tax and fee bill for this household would be reduced by about $708 TAX FREE annually in today's dollars. There would be additional ~~reductions~~ CHANGES if the household purchases, rents, or leases a vehicle. Businesses will also experience ~~reductions~~ CHANGES in taxes and fees. *[**Comment:** Ms. Menten disagrees with the numbers used in this section.]*

NATALIE MENTEN COMMENTS ON LAST DRAFT OF PROPOSITION 101

COMMENTS ON THIRD DRAFT OF P-101

PAGE ONE

Title should be "Vehicle, Income, and..." to match the order in the text, ballot title, and your staff filing title.

Lines 1-9 should be in the order stated in the text and in the ballot title and your staff filing title. Therefore, reverse the order of the first two bullets

The NEW second bullet should end "gradually over the next 15-20 years"

Line 11 Put "vehicles," before "income" for the above reasons

THE ORDER OF ANALYSIS OF THE THREE COMPONENTS SHOULD MATCH THIS ORDER. BE CONSISTENT.

Lines 12-13 Change "impact" to "effect," a more neutral, less violent word. Change that throughout.

Lines 14, 16 (twice)-17, 20, 24 Ditto (You make this proposal sound like a slugfest! POW! POW! POW!)

Line 18--Change "the best" to "a better". There are only two (positive, comparative, not superlative).

Lines 22-25 We disagree with the big numbers you are estimating. In part, you may be estimating for 2011 the income tax effect that occurs in collection year 2012. There is intentionally a one-year delay, to stagger further the effects of tax relief. You should disclose a different accounting system.

We also disagree that a 0.1% rate cut in years when income tax revenue grows over 6% is a "reduction." It is a slower rate of increase. There is no year-to-year income tax reduction possible, and that is your largest state component. Substitute "changes" for "reductions" throughout, particularly in light of ever-growing total government revenue.

Line 24--Insert "in 15 to 20 years" after "implemented"

Line 30 Change "impacted" to "affected."

Lines 29 and 32 Change "reductions" to "savings" Households and businesses get increases, not reductions.

PAGE TWO

Clarify in all three categories that it is an original "taxable ownership" price. Sales price and ownership taxable price are not the same.

In the vehicle fees and taxes column, you have a difference of $1 from first to last in example one. If the 4-year reduction in s.o. tax is from $3 to $1, that difference is $2. Just a rounding effect?

Is your income gross income or taxable income? State which. Apparently you are deducting a lot from the stated income before finding your income tax savings. List your assumed deduction percentage.

You don't state how many years of income tax relief you are using. 15? 20? Your final year savings is not ten times the first year. You assume static income for 20 years! Disclose your assumptions and discounted current value calculation if you insist on not offering a straightforward analysis. Use 26% as the stated tax savings.

You also assume no one buys, leases, or rents a car (or saves on a manufacturer's rebate) for the next 20 years. How absurd! At least disclose that silly assumption. The bottom of page 1 is not sufficient.

You mention phone bills in the chart, but not cable bills, etc. Why?

Line 24 There is no such thing as a transportation budget. No body approves such a "budget." It is a construct simply to exaggerate the impact of rental fee and registration savings. It has only two components. Delete that phrase and take it out of Table 2. Is it already double counted as part of the state and local GF budgets?

Line 27 Replace "will have to" with "may"

Line 28 Include "greater efficiency, different priorities, hiring freezes, limits on salary-pension-benefit payments, use of reserves, etc." Also note that government revenue will continue to grow yearly, historically at a faster rate than any annual tax relief amount. Line 29 Delete "or both" since there are many options.

PAGE THREE

Under government budget, list total state spending and total local spending. At least, note that the budget being used is only 36% of total state spending and X% of total local spending.

Under Change column, point out that dollar amount is about 2% of total state or local spending in the first year, and less when fully implemented over 20 years. ($400 million is 2% of $20 billion in each first year case.) Again, income tax revenue is not reduced in 2011 (first year).

You list the state OB as having only three components; that is false. It collects lots more money than from those three sources. Ditto the local OB, which also collects property taxes, etc. If that is your point of comparison of budget effect, it is HIGHLY misleading, just like your phony, invented "transportation budget," the components of which are already part of the OB budget.

Lines 5-10 Do the figures unfairly include specific ownership tax revenue for schools, which get full replacement?

Lines 17-20 DELETE. See above, page two, line 24 comment.

Line 24 Delete "school districts" as being affected because of full state reimbursement.

Line 25 Spare us the examples of wonderful government services. Stick to the types of districts.

Line 27 Delete "education" since it is not an affected local service because its revenue is protected. You should delete the whole sentence, since the issue is tax relief, not a list of popular programs YOU are threatening will be cut. Again, you don't mention the biggest spending, which is SALARIES, BENEFITS, and PENSION CONTRIBUTIONS. Why not?

Line 29 Change "most of" to "all" See your prior drafts, A-23, and the SFA!

Line 31 Delete whole sentence. The "income taxes" claim says the state will collect less; most people would read that to mean "less than today." it will collect MORE every year, just not as much more as you government employees would wish. The 0.1% rate reduction is just over 2% in income tax revenue, and occurs only when income tax revenue grows OVER 6%. Six percent is more than 2% where I come from.

As for sales tax, the base is about $2 BILLION. After the first year, that revenue will grow more than the three-year remaining phase down of part of vehicle sales taxes. This same analysis applies to line 23 "and sales taxes" for local governments.

Line 31-34 Delete whole sentence. See analysis on line 27. Stop hiding behind "low-income, elderly, and disabled people." That is emotional manipulation. Why not mention the CBMS computer scandal which WASTED $200 million plus?

Line 36 After "implemented," add "in 15-20 years. The state budget listed is only 36% of total state spending of about $20 billion. The percentage is similar for the local budget total listed, compared to total local spending."

Line 37 Change "most of" to "all." See Line 29 comments.

Line 41-44 Delete. There IS NO transportation budget. See comments above. SHOW US THE FREE-STANDING DOCUMENT MARKED "TRANSPORTATION BUDGET" AND WHAT BODY APPROVED IT. PROVE ITS REVENUE IS NOT PART OF THE GENERAL BUDGETS ALREADY LISTED (DOUBLE COUNTING).

PAGE FOUR

Lines 1-4 Ditto above

Line 12-13 change "reduce" to "slow the rate of increase in" since you KNOW and have probably already predicted income tax revenue will increase, as it has about 23 of the last 25 years. Change "a decrease of" to "or".

Line 14 Your $40 amount assumes taxable income is LESS than $55,000. Why conceal that? Why not just say "3%" as you did for the effect on government, and skip the hypothetical that applies to very few people, and is misleading as to the taxable base?

Line 18 after "reduced," insert "in 15-20 years,"
Line 19-20--Delete. IT WON'T BE LESS; IT WILL BE MORE. BILLIONS MORE. Even

assuming a static analysis, it will be "an increase that grew at a 26% lower rate because of P-101." Readers are being told the income tax revenue will be 26% less THAN IT IS TODAY; THAT IS FALSE.

Line 21 insert after "$320," the words "or 26% less." The percentages must match! You can't play the game of listing government costs in billions, and taxpayer savings as a few hundred dollars. The percentages are the same and should be used equally.

Line 28 Insert "vehicle" before "fee" to make it clear your sentence does not cover the income tax phase in, which takes 15-20 years.

PAGE FIVE

Lines 15-16 and 23-24-- Change to "total for local governments" and delete the footnote on line 35, and lower the amount since schools won't lose anything.

Lines 20-22 Change the Prop. 101 column to $0. READ THE TEXT. It is "$10 yearly PER VEHICLE." It is NOT per person who has a connection with the vehicle. Registration is paid by the owner, not the renter or lessee. They may have their name on the registration, but at NO CHARGE. Government does not get DOUBLE registration fees. See lines 11-13.

Insert a new box for renter specific ownership tax; list current amount collected, and I KNOW THEY ARE COLLECTED because I have paid them; then $0 for the P-101 column, then the government cost. This is significant because government charges ownership tax to people who are not the owner! Rental agencies now have two ways to bill customers for that tax; under P-101, the owner will pay the ($1) tax and not bill the customer at all.

Your chart does not mention manufacturer rebate sales tax savings; only the narrative. Why?

Line 35 Change "most of" to "all" if you keep the footnote (see above)

PAGE SIX

Line 11 Change "write off" to "sales price exemption". The former is an income tax deduction term.

Line 13 and 14 Insert "sales" before "tax"

Line 35 Insert new sentence "That reduction in school revenue is fully replaced by state aid." Change the next word "It" to "Proposition 101" to avoid ambiguity.

Line 38 Insert "now" after "must"

Line 40 Insert "or ends" after "reduces"

PAGE SEVEN

Line 7 Insert "now" before "pay"
Line 8 End with "fees." There is no registration fee for leased or rented vehicles, only owned

vehicles. "$10 YEARLY PER VEHICLE." See above. The status does not allow double collection. The owner pays. Line 9 thus says $81, not $71.

Line 11 Begin "Since 2009, the state has charged..."

Line 13 Insert a new sentence "That fee is subjected to sales tax." Insert "generally" before "applied"

Line 14 Insert "or ownership" after "sales", and "on rentals" after "taxes"

Line 15 Delete whole sentence, since there is no transportation budget; see above

Line 26 You omitted "and satellite." Insert after "computer" and delete the prior "and"

Line 30 End after "service." Spare readers the emotional tugs of your list, even if "blind" is properly included.

Line 32 Change "may" to "will." It is covered. There is no ambiguity; don't invent one.

PAGE EIGHT

Lines 8-35 DELETE for the reasons stated in comments on the third draft of A-60.

Line 37 Change "helps support" to "will improve" It is our argument; don't water it down to a support of the unacceptable economic status quo

Line 39 Delete "Most" What business does not have a car, income, or phone?

ARGUMENTS

AGAIN, you gave us 29 lines and the opposition 32 lines. Be fair. Either cut theirs or allow us to add the following at the end of the first argument:

Colorado has the second highest minimum income tax rate of all adjacent states. Total yearly state spending has soared 476% since 1984. This tax relief will make our economy more competitive."

PAGE NINE

Line 1 Change to "own, buy, lease, or rent" Delete "sales" before "taxes" because ownership taxes are included. Insert "and car registration fees" after "taxes"

Line 4 Change "tend to" to "will" as it is OUR argument

Line 5 Change "require" to "encourage" Let's not dream too high.

Line 9-10 Change "in most" to "every" Go back at least 30 years and that statement (OUR argument) is justified.

Line 13 Delete "in most years" and see above

Line 15 Insert "taxpayer" before "money"

Line 19 Insert "without voter approval," after "this." Change to "fees now far exceed the $4 the state pays county clerks to process..."

Line 24--insert "for everyone" after "per year"

Line 26 Insert ", except 911," after "fees" Add a new sentence: "Recent news reports revealed $10 million in payments of phone subsidies to 10,000 ineligible recipients under just one such program."

Line 33-34 DELETE after "could" through "and," There is no honest economic data that shows lower taxes have ever hurt an economy. Tax relief helped the economy for Presidents Coolidge (1920s), Kennedy/Johnson (1960s), Reagan (1980s), and Bush 43 (2000s).

Line 38 Insert "in 15-20 years," after "implemented"

Line 40 Insert "after that time frame." after "less"

PAGE TEN

Line 5 Delete "each year." It sounds as if it will be eliminated in four years.

Lines 16-17 Change after "and" to "disabilities may also lose..." There is no reason to threaten an end the program, as budget decisions remain with elected officials. Nothing in P-101 ends any program.
Lines 22, 24 We dispute the dollar amounts

Line 29 Replace "time" with "15-20 years"

Line 30 End with "programs." The examples are biased.

Line 35 Add "legislature, and on the rate of future growth in state government revenue."

Line 38 Replace "most of" with "all"

PAGE ELEVEN

Line 8-10 Do the figures unfairly include s.o. tax revenue for schools?

Lines 15 delete the " s' " in two places as not needed

Line 17 change to "own, purchase, rent, or lease"

Lines 21 We still believe the individual and aggregate tax savings are higher than that.

Line 22 Insert ", rents," after "purchases"

NATALIE MENTEN ADDITIONAL COMMENTS ON FINAL DRAFTS OF AMENDMENTS 60, 61, AND PROPOSITION 101

In my comments to the third drafts, please include the words "tax-free" each time you mention the taxpayer savings, whether in the first year dollar amount, after full implementation, or the cumulative effect of all three (though I still object to that repetitive language you are inserting in all three analyses).

Getting added money "tax-free" is worth more than getting added money that is taxable. It should be noted.

Based on the new figures and recalculation of one of your colleagues, listed below, please adjust our third draft argument of "about $40 billion"and "$20,000" to fit his estimate for 2008 of $42.5 billion. It is shown on page 9, lines 8 and 9 of the third draft for P-101.

Please share it with the A-60 and A-61. It is our best argument that CO can afford this modest tax relief, when placed in perspective. We repeatedly have said we wish it stated in your analysis, which has more credibility than the arguments of either side. If you decline to put this contextual figure in your analysis, it should be in the first argument in favor in each of the three analyses.

Since you insist on making the same half-page argument three times on the cumulative effect (to which we object), that would be a logically place to insert these figures. You list total "cost" to government, which begs the question, "Compared to what?" That's where you should list the total.

The figures are out of date, but newer figures are not available. Certainly they haven't gone down. If you wish to estimate $44 billion for 2011 and "$22,000," it would be reasonable to do so. But if you need written support, contact him and stick to the $42.5 billion figure and adjust the family amount upwards by 6% to $21,200.

HENRY SOBANET COMMENTS ON LAST DRAFT OF PROPOSITION 101

Hello Chris, Todd and Natalie,

I appreciate very much Todd and Natalie's time on the phone with me today. As you know I have been doing research for the opposition to the three ballot issues. We did not submit comments regarding the third versions of Amendment 60 and Proposition 101. But to avoid something changing from the third version to the final, we would express our opinion that Argument Against #1 in Proposition 101 should remain intact and the same is true for Argument Against #2 in Amendment 60.

Thanks for your wonderful responsiveness to our questions.

Please let me know if I can clarify anything.

Henry
303-250-3372

Proposition 101
Income, Vehicle, and Telecommunication Taxes and Fees

Proposition 101 proposes amending the <u>Colorado statutes</u> to:

- ♦ reduce the state income tax rate from 4.63 percent to 4.5 percent in 2011, and to 3.5 percent gradually over time;
- ♦ reduce or eliminate taxes and fees on vehicle purchases, registrations, leases, and rentals over the next four years;
- ♦ eliminate all state and local taxes and fees on telecommunication services, except 911 fees; and
- ♦ require voter approval to create or increase fees on vehicles and telecommunication services.

Summary and Analysis

Proposition 101 reduces or eliminates various taxes and fees on income, vehicles, and telecommunication services. Table 1 shows the annual impact of Proposition 101 on three different households, and Table 2 shows the impact on government budgets.

Some of the reductions in Proposition 101 are phased in over time. The impact will be smaller in the first year and will grow in size over the next 15 to 20 years. Estimates of the impact in the first year, as well as the impact once the reductions are fully implemented, are based on today's dollars. The fully implemented impacts provide the best estimates of the measure's final effects. Although the actual dollar amounts will differ in the future as inflation and growth increase the size of the economy, the comparable budget impacts on taxpayers and governments are expected to remain consistent over time.

In the first year, the tax and fee reductions are expected to be $1.3 billion — $717 million in state reductions and $587 million in local government reductions. Once fully implemented, the impact is expected to be $2.9 billion in today's dollars — $1.9 billion in state reductions and $1.0 billion in local government reductions.

Impact on households and businesses. Table 1 shows the estimated change in tax and fee bills for three different households as a result of Proposition 101, in both the first full year the measure is in effect and when the measure is fully implemented, in today's dollars. Businesses will also experience reductions in taxes and fees. Households and businesses will be impacted differently depending on annual income, vehicles owned, vehicles purchased, and the amount paid for phone and cable service. Households and businesses will experience additional reductions during years in which vehicles are leased or purchased.

Table 1. Annual Change in Representative Households' Tax and Fee Bills Due to Proposition 101, First Year Impact and When Fully Implemented /a
(In Today's Dollars)

	Income Taxes	Vehicle Fees & Taxes	Telecom Fees & Taxes	Total
Household A	*Household Description:* Annual Income: $35,000; owns a 10-year-old car that had an original retail price of $13,000; $60 monthly phone bill.			
First Year	-$20	-$72	-$43	-$135
Fully Implemented	-$185	-$73	-$43	-$301
Household B	*Household Description:* Annual Income: $55,000; owns a 5-year-old car that had an original retail price of $17,000 and a 5-year-old car that had an original retail price of $23,500; $130 monthly combined phone bills.			
First Year	-$40	-$180	-$93	-$313
Fully Implemented	-$320	-$295	-$93	-$708
Household C	*Household Description:* Annual Income: $110,000; owns a 2-year-old car that had an original retail price of $37,500 and a 3-year-old car that had an original retail price of $26,000; $180 monthly combined phone bills.			
First Year	-$90	-$327	-$128	-$545
Fully Implemented	-$780	-$883	-$128	-$1,791

/a This analysis assumes a 7.0 percent combined state and local sales tax rate. Telecommunication tax and fee reductions are fully implemented in 2011. Some vehicle tax and fee reductions are fully implemented in 2011 and some are phased in between 2011 and 2014. It will take an estimated 15 to 20 years for the income tax rate reductions to be fully implemented.

Impact on government budgets. Table 2 shows the estimated impact of Proposition 101 on tax and fee collections used for local government budgets, the state's general operating budget, and transportation budgets in the first year and once it is fully implemented. All of these impacts are shown in today's dollars. More information on the impact on each type of budget follows. As a result of the decrease in tax and fee collections, state and local governments will have to consider options such as decreasing spending and services, increasing fees to pay for services, or some combination of both.

Table 2. Annual Change in Government Tax and Fee Collections Due to Proposition 101, First Year Impact and When Fully Implemented
(In Today's Dollars)

Government Budget	Collections under Current Law	Collections under Prop 101	Change*
Local Governments Vehicle Specific Ownership Taxes and Sales Taxes	$3.9 billion	$3.4 billion First Year	-$489 million First Year
		$3.0 billion Fully Implemented	-$872 million Fully Implemented
State Government General Operating Budget Sales Taxes, Income Taxes, and Telecommunication Fees	$7.2 billion	$6.8 billion First Year	-$422 million First Year
		$5.5 billion Fully Implemented	-$1.6 billion Fully Implemented
City, County, and State Government Transportation Budgets Vehicle Registration Fees and State Rental Fee	$440 million	$50 million Fully Implemented During First Year	-$390 million Fully Implemented During First Year

** Totals may not sum due to rounding.*

Impact on local government budgets. Local governments will collect less money from vehicle specific ownership taxes and sales taxes. Local governments affected by the measure include school districts, cities, counties, and special districts such as recreation, fire, water, sewer, and public transportation districts. The money collected in taxes and fees pays for different services depending on the local government. Most of the money is used for education, public safety, roads, trash service, and parks and recreation. State law requires that school districts be reimbursed by the state for most of their loss in tax collections.

Impact on the state government operating budget. The state government will collect less money from sales taxes, income taxes, and telecommunication fees. The state spends 96 percent of its general operating budget on: preschool through higher education; health care; prisons; the courts; and programs that help low-income, elderly, and disabled people. Proposition 101 will reduce the amount of money available to pay for the state's general operating budget by an estimated 6 percent in the first year and by an estimated 23 percent once fully implemented.

The state will also be required to reimburse school districts for most of their loss of vehicle specific ownership taxes. This obligation increases the total impact on the state general operating budget during the first year from the $422 million shown in Table 2 to $470 million, and when fully implemented, from $1.6 billion to $1.7 billion.

Impact on state and local government transportation budgets. Proposition 101 reduces funding dedicated to transportation budgets. The state constitution requires that vehicle-related fees collected by the state be spent on road safety, construction, and maintenance. This money is shared between the state, cities, and counties. The state's transportation budget will decrease by an estimated 28 percent from these fee reductions. The impact on city and county government transportation budgets will vary by government. Because cuts affecting transportation budgets are immediate, the full impact shown in Table 2 will occur in 2011.

State Income Tax

Households and businesses pay taxes on their income to both the state and federal governments. The state's income tax rate is a flat 4.63 percent and is the same for all income levels and for both households and businesses. The state income tax is the largest source of money the state receives to pay for its main programs.

Proposition 101 gradually lowers the state income tax rate from 4.63 percent to 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This will reduce income tax collections to the state by an estimated $145 million, a decrease of 3 percent. The tax bill for a household with an annual income of $55,000 will be reduced by $40 in 2011. In the future, the rate is reduced by 0.1 percentage point each year in which state income tax collections grow by more than 6 percent. For example, if tax collections increase fast enough, the income tax rate will decrease from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate decreases to 3.5 percent. When the tax rate is fully reduced, income tax collections to the state will be an estimated 26 percent less, or a decline of $1.3 billion in today's dollars. The tax bill for a household with an annual income of $55,000 will be reduced by $320 when the cut is fully phased in. Because income tax collections historically have not grown by more than 6 percent every year, it will likely take 15 to 20 years for the tax rate to reach 3.5 percent.

Vehicle Fees and Taxes

Proposition 101 reduces several types of vehicle fees and taxes as shown in Table 3. The amounts in the table show the impact when the reductions are fully implemented—sales tax reductions on vehicle purchases and specific ownership tax reductions are phased in over a four-year period, while all other fee and tax changes occur in 2011. The total amount of the reduction in vehicle fees and taxes, when fully implemented, is estimated at $1.3 billion in today's dollars.

Table 3. Vehicle Fees and Taxes Under Current Law and Proposition 101, When Fully Implemented
(In Today's Dollars)

	Average Payment		State & Local Govt. Change in Yearly Collections
	Current	*Prop. 101*	
Vehicle Owners			
Sales Tax /a *Four-year Phase-in (2011 to 2014)*	$2,100 one-time payment	$1,400 one-time payment	-$285 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$300 million total for state and local
Specific Ownership Tax *Four-year Phase-in (2011 to 2014)*	$87 paid once per year	$2 (new cars) or $1 (used cars) paid once per year	-$345 million total for all school districts /c and local governments
Vehicle Lessees			
Sales Tax /a *Fully Implemented in 2011*	$1,080 total ($30 paid monthly during lease term)	$0	-$60 million total for state and local
Registration and Licensing Fees /b *Fully Implemented in 2011*	$81 paid once per year	$10 paid once per year	-$75 million total for state and local
Specific Ownership Tax *Fully Implemented in 2011*	$87 paid once per year	$0 paid once per year	-$86 million total for all school districts /c and local governments
Vehicle Renters			
Sales Tax /a *Fully Implemented in 2011*	$2.45 per rental day	$0	-$80 million total for state and local
State Car Rental Fee *Fully Implemented in 2011*	$2 per rental day	$0	-$19 million total for state and local

/a This analysis assumes a 7.0 percent sales tax rate. For vehicle owners and lessees, it assumes a $30,000 car is purchased or leased for 36 months. For vehicle renters, the analysis assumes a vehicle is rented for $35 a day.
/b Currently, the average registration and license fees are lower than the average payment shown in the table, but are estimated to increase to the amounts shown over the next year. The collections numbers represent registration and license fee impacts assuming what the fees will be when they are increased.
/c State law requires the state to reimburse school districts for most of their loss of specific ownership taxes.

Vehicle owners. Upon purchase, vehicle buyers are required to pay sales tax. In addition, each year vehicle owners must register their vehicle(s) with the state and pay registration fees and a specific ownership tax. Proposition 101 reduces all three taxes and fees.

<u>*Vehicle sales tax.*</u> Sales taxes are paid on the purchase of a new or used vehicle. The tax is applied to the price of the vehicle, including any manufacturer's rebate. The

total tax rate is a 2.9 percent state rate plus any applicable local government sales tax rates. Because different local governments have different tax rates, the sales tax a buyer pays differs depending on where the buyer lives. The average combined sales tax rate is close to 7 percent.

Proposition 101 reduces the sales taxes due on vehicle purchases by exempting the first $10,000 of the vehicle's price and any manufacturer's rebate from the sales tax. The $10,000 exemption is phased in over a four-year period beginning in 2011. When fully implemented, vehicles worth $10,000 or less will not have a sales tax bill. Vehicles with greater values will receive a $10,000 "write-off." For example, a vehicle purchased for $18,000 will be taxed only on $8,000 of the value. This sales tax cut will reduce local government tax and fee collections by an estimated $165 million, or 5 percent, and state government tax and fee collections by an estimated $120 million, or 6 percent.

Vehicle registration and licensing fees. Vehicle owners pay registration fees each year. Most fees vary according to vehicle weight, age, and value. While most of the money pays for roads and bridges, some pays for services like emergency medical services, vehicle emissions reduction programs, the Colorado State Patrol, and snow plowing.

Beginning in 2011, Proposition 101 combines all registration, licensing, and titling fees into a single $10 annual fee, with the exception of vehicle inspection and new license plate fees. As shown in Table 3, the average registration and licensing fee for vehicle owners would fall from $81 to $10 and the amount collected by state and local governments would decrease by about $300 million, or 88 percent.

Vehicle specific ownership tax. Vehicle owners also pay a specific ownership tax each year when registering a vehicle. The specific ownership tax is a property tax on a vehicle. The tax ranges from 0.45 percent to 2.10 percent of the vehicle's taxable value, based on the vehicle's original recommended retail price. As a vehicle ages, the tax rate is reduced. The minimum specific ownership tax is either $3 or $5 per vehicle, depending on the type of vehicle. Counties collect specific ownership taxes and distribute them to schools, cities, counties, and special districts within their boundaries.

Proposition 101 phases in a cut to specific ownership taxes over four years, beginning in 2011. It also requires permission from voters to create or increase future registration and licensing fees. Table 3 shows the change in vehicle owners' bills and state and local government collections.

Vehicle lessees. Like vehicle owners, persons who lease vehicles must pay sales taxes, registration fees, and specific ownership taxes each year. Proposition 101 reduces all three taxes and fees for vehicle leases.

Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This will reduce state and local sales tax collections by an estimated $60 million per year, or 1 percent. It will also eliminate all specific ownership taxes collected by local governments on leased vehicles.

Vehicle registration and licensing fees. Leased vehicles are also required to be registered with the state and lessees must pay annual registration fees. Beginning in 2011, Proposition 101 eliminates all registration fees and imposes a single $10 fee per vehicle, resulting in a reduction of $71 for vehicle lessees. The measure reduces state collections by approximately $75 million per year.

Vehicle renters. The state charges a fee of $2 per day for car rentals. The money is shared by the state, cities, and counties to build, repair, and maintain roads and bridges. Sales tax is also applied, with revenue going to the state and local governments. Proposition 101 eliminates the fee and all sales taxes beginning in 2011. As a result, state and local transportation budgets will have an estimated $19 million less per year in fee collections and $80 million less in sales tax collections.

Other vehicle fees. The state also charges use and permitting fees for large and overweight vehicles that use Colorado roads. A passenger mile tax is also charged for passenger bus or shuttle businesses. Proposition 101 eliminates these fees beginning in 2011, resulting in $56 million less in state funds, reducing charges to trucking and carrier companies by a like amount.

Telecommunication Fees and Taxes

Proposition 101 eliminates state and local sales tax and other fees on customer bills for any kind of telecommunications service, except for existing 911 fees. The measure lists the following as telecommunication services, even though some of them are not currently taxed: phone, pager, cable, television, radio, Internet, and computer services. Currently, the state and some local governments charge sales tax on a portion of the cost of phone and pager services, and some local governments charge sales tax on cable services. State fees that are eliminated include fees that help telephone companies provide access to phone service in rural areas of the state, to the blind or deaf, and to low-income people. Local governments may have other fees, such as television franchise fees, that may be eliminated.

Proposition 101 freezes 911 fees at their 2009 level. These fees differ from county to county and ranged from 43 cents to $1.25 per month in 2009. The 911 fees are charged by local governments to help pay for 911 emergency services.

The reduction in a household or business's telecommunications bill depends on how much it spends on taxable phone and cable. Tax and fee collections by local governments would be reduced by at least $194 million each year. Tax and fee collections to the state government would be reduced by an estimated $183 million each year.

New voter approval requirements. Proposition 101 redefines all telecommunication fees and most vehicle fees as taxes. Because the state constitution requires a vote to increase taxes but not to increase fees, governments will need to ask voters for permission to create new or increase existing vehicle or telecommunication charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls, vehicle impound fees, vehicle identification and emission inspection fees, and new license plate fees from this requirement.

How does Proposition 101 interact with two other measures on the ballot? Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see page x) contain provisions that affect state and local government finances by decreasing taxes paid by households and businesses and restricting government borrowing. How these measures work together may require clarification from the state legislature or the courts.

Proposition 101 reduces state and local government taxes and fees. Amendment 60 reduces local property taxes, while requiring state expenditures for K-12 education to increase by an amount that offsets the property tax loss for school districts. Amendment 61 requires state and local governments to decrease tax rates when debt is repaid, and is assumed in this analysis to apply to the existing debt of state and local governments.

Since portions of these measures are phased in over time, the actual impacts to taxpayers and governments will be less in the initial years of implementation and grow over time. Assuming that all three measures are approved by voters, the first-year impact will be to reduce state taxes and fees by $717 million and increase state spending for K-12 education by $385 million. Once fully implemented, the measures are estimated to reduce state taxes and fees by $2.1 billion and increase state spending for K-12 education by $1.6 billion in today's dollars. This would commit almost all of the state's general operating budget to paying for the constitutional and statutory requirements of K-12 education. Tax and fee collections by local governments are estimated to decrease by $5.0 billion, but the net impact on local government budgets would be $3.4 billion after the state reimburses school districts.

Households and businesses are estimated to save $1.6 billion in the first year and $7.1 billion per year in today's dollars when the measures are fully implemented. The measures reduce the taxes and fees owed by an average household making $55,000 per year that owns a $295,000 house by an estimated $400 in the first year and $1,750 per year when fully implemented.

Arguments For

1) Allowing citizens and businesses to keep more of their own money helps support the economy. A family with a yearly income of $55,000 could save $313 in the first year of Proposition 101 and $708 per year when its fully implemented. Most businesses will also have more money, allowing them to invest in their companies and create new jobs. In addition, people who buy or lease cars will save even more from lower sales taxes. Reducing taxes and fees helps businesses and lower- and middle-income families who are struggling in this difficult economy. Consumer spending and business investment tend to increase when the tax burden is lower.

2) Proposition 101 will require state and local governments to eliminate unnecessary spending. Governments will look more closely at how they spend money, ensuring that taxpayer dollars are used in the best and most efficient way. State and local governments already spend about $40 billion a year, which amounts to an average of $20,000 per household in the state. Also, government spending continues to grow in most years. The amount of spending by governments in the state has increased by about 14 percent since 1990, even after accounting for inflation and population growth. Even with Proposition 101's reductions in tax and fee collections, revenue to governments will continue to grow in most years, although at a slower rate. Governments can prioritize and fund the most important services with less money by making better choices about how they spend money.

3) Proposition 101 gives people a voice in decisions about fees on phones and vehicles. Rather than asking voters for more money for transportation projects, the state recently increased vehicle registration fees by about $220 million, an average of approximately $44 per car. The state did this even though registration fees exceed what it costs the government to process vehicle registrations. Proposition 101 will require governments to seek voter approval for more money rather than adding more fees. Further, some telecommunication fees raise the cost of basic services for everyone but help only a small part of the state's population. Proposition 101 simplifies and eliminates these fees—lowering all vehicle registration fees to a flat $10 per year and ending state and local taxes and fees on phone and cable bills.

Arguments Against

1) Colorado's economic success depends on services that governments provide, such as education and a safe transportation system. Proposition 101 will force cuts to these services which people rely on for a high quality of life and that businesses need to succeed. Services that have already been reduced because of the economic downturn, such as schools, colleges, prisons, firefighters and police, and water and sewer systems, will be cut further. These cuts could further weaken the already slow economy, reduce jobs, and, over time, hurt the quality of the state's workforce. Rural economies may also be affected because money currently dedicated to phone and Internet service for rural areas will be eliminated. The state's operating budget is estimated to be cut by $1.6 billion, or about 23 percent, when the measure is fully implemented, an amount greater than what the state currently spends on prisons, courts, and the Colorado State Patrol combined. Further, local governments will have about $1 billion less. State government spending as a percentage of the economy is already third lowest among all states and combined state and local government spending is eighth lowest.

2) Proposition 101 will hurt the ability of the state and local communities to maintain already inadequate roads and bridges and provide public transportation. Studies show that Colorado needs more than twice as much money each year than it currently spends just to maintain existing roads and bridges. Proposition 101 would cut state transportation funding by an estimated 28 percent each year. In 2009 alone, the state and local governments maintained more than 193,000 lane miles of roadway and 8,000 bridges. The state also snow-plowed and sanded 5.6 million miles of highway, repaired 77,000 street signs, and monitored 278 avalanche paths. Public health and safety may also be affected due to fewer resources for emergency medical services, vehicle emission programs, and road maintenance.

3) Cuts to government services may result in hardship for families who have to pay for services that governments will no longer be able to afford. For example, tuition will likely increase, putting college out of reach for many households. Higher-income people, who are better able to absorb these cost increases, will benefit the most from the reduced taxes and fees in Proposition 101. Low- and middle-income people will be less able to absorb the costs. Those with lower incomes and people who are deaf or blind will also lose a source of money that helps them communicate within society.

Estimate of Fiscal Impact

State revenue. Proposition 101 contains several provisions that decrease revenue to the state government. Because some of the reductions are phased in over time, the reduction in revenue will be lower at first. The first year reduction is estimated to be $717 million, which includes $295 million less in vehicle fees that are constitutionally-required to be used for transportation-related spending. When fully implemented, state tax and fee collections would decrease by an estimated $1.9 billion in today's dollars.

State spending. The state will have less money available for spending on its operating programs and transportation budget. Though the reductions to the transportation budget will be immediate, the reductions to operating programs will occur over time as the cuts to the income and sales tax are phased in. The state will have $422 million, or 6 percent less, in the first year to spend on operating programs, such as education, prisons, and social services. Further, the state will have about $295 million, or 28 percent, less to spend on transportation. When fully implemented, the state would have $1.6 billion, or 23 percent, less in today's dollars to spend on operating programs. The impact on the state's operating programs depend on the future budgeting decisions of the state legislature.

Proposition 101 will also create some additional costs for the state. The state will be required to replace most of the loss of vehicle specific ownership taxes for school districts. This will cause the state to spend an additional $48 million in the first year and $121 million annually when the measure is fully implemented.

Also, Proposition 101 increases state administrative costs by about $185,000 in budget year 2010-11 and $34,000 in the following few years to implement the reductions in taxes, fees, and charges, and to audit compliance with the measure's provisions. The state's administrative costs will decrease in subsequent years as the tax and fee reductions are fully implemented. It is estimated that the measure will require the addition of 0.5 new staff in budget year 2010-11 and 0.25 new staff in the following few years to administer the auditing of governments' tax and fee reductions.

Local revenue and spending. Because reductions in the local sales tax on vehicles are phased in over four years, revenue decreases in the first few years will be lower than when the measure is fully implemented. Local government revenue is estimated to be reduced by $587 million in the first year, with $99 million of this amount for transportation projects. When fully implemented, local government revenue would decrease by an estimated $1.0 billion in today's dollars.

The extent to which each local government program will be affected will vary depending on what services the government provides and its budget decisions. Local governments may also have increased administrative costs to comply with the auditing requirements of Proposition 101.

Impact on taxpayers. Proposition 101 will reduce households' and businesses' tax and fee bills by different amounts depending on their income, the number and type of vehicles they have, the costs of their phone and cable bills, and whether they purchase or lease vehicles in a given year. In the first year, before all the tax and fee reductions are fully implemented, an average household with an annual income of $55,000 would experience a reduction in their tax and fee bill of about $313. When fully implemented, the total tax and fee bill for this household would be reduced by about $708 annually in today's dollars. There would be additional reductions if the household purchases or leases a vehicle. Businesses will also experience reductions in taxes and fees.

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Senator Abel Tapia
P.O. Box 1769
Pueblo, CO 81002
abel.tapia.senate@state.co.us

Adrienne Benavidez
Office of the State Controller
633 17th St., #1600
Denver, CO 80202
adrienne.benavidez@state.co.us

Senator Al White
P.O. Box 1627
Hayden, CO 81639
al.white.senate@state.co.us

Alicia Mullenbach
Univision Colorado
777 Grant St., #500
Denver, CO 80203
vistacomm@comcast.net

Amber Valdez
Ruben Valdez and Associates
11236 W. Ford Drive
Lakewood, CO 80226
ambernvaldez@aol.com

Amy Charlton
Colorado Rural Electric Association
5400 N. Washington St.
Denver, CO 80216
acharlton@coloradorea.org

Representative Amy Stephens
P.O. Box 207
Monument, CO 80132
amy.stephens.house@state.co.us

Andi Leopoldus
Denver, CO 80204
andileo@earthlink.net

Andy Carlson
Colorado Department of Higher Education
1560 Broadway, Suite 1600
Denver, CO 80202
andrew.carlson@dhe.state.co.us

Representative Andy Kerr
9206 W. Alameda Ave.
Lakewood, CO 80226
andy.kerr.house@state.co.us

Ann Terry
Special District Association
225 E. 16th Ave., #1000
Denver, CO 80203
ann.terry@sdaco.org

Anne Boyle
McKenna and Long
1400 Wewatta St., #700
Denver, CO 80202
aboyle@mckennalong.com

Athena Dalton
House Minority Office
200 E. Colfax #212
Denver, CO 80203
athena.dalton@state.co.us

Barb Zahn
Aurora, CO 80011
barbz@q.com

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Barbara Fiedler
Colorado Treasurers Office
200 E. Colfax #140
Denver, CO 80203
barbara.fiedler@state.co.us

Becky Long
Colorado Environmental Coalition
1536 Wynkoop #5C
Denver, CO 80202
becky@cecenviro.org

Ben Degrow
Independence Institute
13952 Denver West Pkwy. Bldg. 53, #400
Golden, CO 80401
ben@i2i.org

Ben Stein
Department of Transportation
4201 E. Arkansas Ave.
Denver, CO 80205
ben.stein@dot.state.co.us

Beth Skinner
Broomfield, CO 80020
biskinner@comcast.net

Senator Betty Boyd
12527 W Arizona Place
Lakewood, CO 80228
betty.boyd.senate@state.co.us

Bill Fulton
The Civic Company
1625 E. 35th Ave.
Denver, CO 80205
bill@civiccanopy.org

Bill Ray
CFRR
190 E. Sherman St., #100
Denver, CO 80203
bill@wr-communications.com

Bill Skewes
ClS Public Affairs
2847 Scotia Road
Evergreen, CO
Bill@CLSPublicAffairs.com

Senator Bob Bacon
720 Gilgalad Way
Fort Collins, CO 80526
bob.bacon.senate@state.co.us

Bob Eichem
Finance Director
City of Boulder
1777 Broadway
Boulder, CO 80306
EichemB@bouldercolorado.gov

Representative Bob Gardner
P.O. Box 1082
Colorado Springs, CO 80901
bob.gardner.house@state.co.us

Bob McCluskey
719 Westshore Court
Fort Collins, CO 80525
rrmccluskey@aol.com

Bob Yuhnke
SW Energy Efficiency Project
2260 Baseline Road, #212
Boulder, CO 80302
byuhnke@swenergy.org

Brad Young
Wheat Ridge, CO 80033
brad@rxplus.com

Bradley Arnold
Cherry Creek Schools
4850 S. Yosemite St.
Greenwood Village, CO 80111
barnold4@cherrycreekschools.org

Brandon McGuire
Vail Resorts
390 Interlocken Crescent
Broomfield, CO 80021
bmcguire@vailresorts.com

Senator Brandon Shaffer
3028 Colgate Drive
Longmont, CO 80503
brandon@brandonshaffer.com

Brett Fuhrman
Denver Public Schools
900 Grant St.
Denver, CO 80203
brett_fuhrman@dpsk12.org

Representative Brian DelGrosso
1805 Grey's Peak Dr #204
Loveland, CO 80538
brian@briandelgrosso.com

Brian Elms
Denver International Airport
8500 Pena Blvd.
Denver, CO 80249
brian.elms@flydenver.com

Bruce Broderius
Greeley, CO 80634
brucebroder@comcast.net

Bruce Caughey
Colorado Assoc. of School Executives
4101 S. Bannock Street
Englewood, CO 80110
bcaughey@co-case.org

Bruce Eisenhauer
Department of Local Affairs
1313 Sherman #500
Denver, CO 80203
bruce.eisenhauer@state.co.us

Senator Bruce Whitehead
1362 CR 126
Hesperus, CO 81326
bruce.whitehead.senate@state.co.us

Representative Buffie McFadyen
385 W. Baldwyn Drive
Pueblo, CO 81007
mcfadyen2002@hotmail.com

Carol Boigon
City and County of Denver
201 W. Colfax Ave., Dept. 705
Denver, CO 80202
carol.boigon@denvergov.org

Carol Haller
101 W. Colfax Ave., #500
Denver, CO 80202
carol.haller@judicial.state.co.us

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Carol Hedges
Colorado Fiscal Policy Institute
1490 Lafayette St., Suite 206
Denver, CO 80218
chedges@cclponline.org

Cary Kennedy
State Treasurer
200 E. Colfax #140
Denver, CO 80203
cary.kennedy@state.co.us

Casey Wardynski
Aurora Public Schools
15701 E. First Ave., Suite 106
Aurora, CO 80011
ecwardynski@aps.k12.co.us

Cathy Wanstrath
Denver, CO 80209
cathywanstrath@q.com

Charles Malick
Golden, CO 80401
cnmalick@yahoo.com

Charles Scheibe
State Treasurer's Office
200 E. Colfax #140
Denver, CO 80203
charles.scheibe@state.co.us

Charlie Brown
Littleton, CO 80123
brownchaz@msn.com

Charlie Jaquez
Centennial School District R-1
909 N. Main Street
San Luis, CO 81152
cjaquez@amigo.net

Representative Cheri Gerou
P.O. Box 940
Evergreen, CO 80437
cheri.gerou@gmail.com

Chip Taylor
Colorado Counties Inc.
800 Grant St., #500
Denver, CO 80203
jtaylor@ccionline.org

Chris Lines
Department of Reg Agencies
1560 Broadway, Suite 1550
Denver, CO 80202
chris.lines@dora.state.co.us

Chris Mendez
Colorado Counties Inc.
800 Grant St., #500
Denver, CO 80203
cmendez@ccionline.org

Senator Chris Romer
840 Detroit St.
Denver, CO 80206
chris.romer.senate@state.co.us

Christie Donner
Colorado Criminal Justice Reform
Coalition
1212 Mariposa St., #6
Denver, CO 80204
christie@ccjrc.org

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Chuck Berry
Colorado Association of Commerce & Industry
1600 Broadway, Suite 1000
Denver, CO 80202-4935
cberry@COchamber.com

Cindy Sovine
Denver, CO 80228
Cindy@SovineMiller.com

Clark Bolser
Department of Personnel and Administration
633 17th St.
Denver, CO 80202
clark.bolser@state.co.us

Coleen Slevin
cslevin@ap.org

Representative Cory Gardner
PO Box 86
Yuma, CO 80759
gardner@plains.net

Cris White
Colorado Housing and Finance Authority
1981 Blake St.
Denver, CO 80202
cwhite@chfainfo.com

Dan Anglin
Colorado Association of Commerce & Industry
1600 Broadway, Suite 1000
Denver, CO 80202-4935
danglin@cochamber.com

Dan Chapman
Denver, CO 80210
danmchapman@msn.com

Senator Dan Gibbs
P.O. Box 704
Silverthorne, CO 80498
dan.gibbs.senate@state.co.us

Dan Krug
Department of Higher Education
1560 Broadway, #1600
Denver, CO 80202
dan.krug@dhe.state.co.us

Dan Powers
Boulder Chamber of Commerce
2440 Pearl St.
Boulder, CO 80302
dan.powers@boulderchamber.com

Dan Hoffman
Environment Colorado
1530 Blake St., Suite 2002
Denver, CO 80202
dhoffman@environmentcolorado.org

Representative Daniel Kagan
200 E. Colfax Ave. Rm 271
Denver, CO 80203
repkagan@gmail.com

Danny L. Tomlinson
Tomlinson and Associates
7535 Yorkshire Dr.
Castle Rock, CO 80108
dtomlinson@msn.com

AMENDMENT 60 - PROPERTY TAXES
AMENDMENT 61 - LIMITS ON STATE AND LOCAL GOVERNMENT BORROWING
PROPOSITION 101 - INCOME, VEHICLE, AND TELECOMMUNICATIONS TAXES AND FEES
CONTACT LIST

Darci Mohr
Douglas County School District
620 Wilcox St.
Castle Rock, CO 80104
darci.mohr@dcsdk12.org

Darlene Jensen
Colo. Assn. of Conservation Districts
901 Rampart Range Road
Woodland Park, CO 80866
darlene@cacd.us

Representative David Balmer
6043 S. Eagle St.
Centennial, CO 80016
david.balmer.house@state.co.us

Davi Dawson
Audio Information Network of Colorado
2200 Central Ave., Suite A
Boulder, CO 80301
ainc@aincolorado.org

David Hart
Denver Public Schools
900 Grant St.
Denver, CO 80203
david_hart@dpsk12.org

David McDermott
Department of Personnel and Admin.
633 17th St.
Denver, CO 80202
david.mcdermott@state.co.us

David Oppenheim
Dept. of Health Care Policy & Financing
1570 Grant St.
Denver, CO 80203
david.oppenheim@state.co.us

David A. Ervin
The Resource Exchange
418 S. Weber St.
Colorado Springs, CO 80903
dervin@tre.org

Deb Demuth
CollegeInvest
1560 Broadway, #1700
Denver, CO 80202
ddemuth@collegeinvest.org

Deb Kugler
Department of Corrections
12157 West Cedar Drive
Lakewood, CO 80228
deb.kugler@doc.state.co.us

Representative Debbie Benefield
8370 Yarrow St.
Arvada, CO 80005
debbie@debbiebenefield.org

Debbie Wagner
Lombard & Clayton
debbie@lombardclayton.com
1560 Broadway, #1099
Denver, CO 80202

Deborah Obermeyer
MetroNorth Chamber of Commerce
2921 W. 120th Ave., Suite 210
Westminster, CO 80234
deborah@metronorthchamber.com

Dee Wisor
Sherman & Howard
633 17th St., #3000
Denver, CO 80202
dwisor@shermanhoward.com

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Diane Doney
Douglas County School District RE1
620 Wilcox St.
Castle Rock, CO 80104
diane.doney@dcsdk12.org

Dianna Orf
1410 Grant St., Suite C-207
Denver, CO 80203
dianna@orfco.net

Dick Brown
Denver, CO 80231
Rgbscuba@aol.com

Dina Murray
South Routt School District RE-3
305 S. Grant St.
Oak Creek, CO 80467
dmurray@southroutt.k12.co.us

Donna Alengi
Special District Association
225 E. 16th Ave., #1000
Denver, CO 80203
donna.alengi@sdaco.org

Douglas Bruce
Colorado Springs, CO 80936
taxcutter@msn.com

Representative Ed Vigil
P.O. Box 642
Alamosa, CO 81101
edvigil1@gmail.com

Representative Edward Casso
200 E. Colfax, Room 271
Denver, CO 80203
edward.casso.house@state.co.us

Dianna May
Colorado Forum
511 16th Street, Suite 210
Denver, CO 80202
diannamay@coloradoforum.com

Representative Dianne Primavera
P.O. Box 192
Broomfield, CO 80038
dianne.primavera.house@state.co.us

Dick Hartman
Union Pacific Railroad
2120 Carey Ave., Suite 410
Cheyenne, WY 82001
dickhartman@up.com

Don Bain
Holme Roberts & Owen LLP
1700 Lincoln #4100
Denver, CO 80203
don.bain@hro.com

Donna Lynne
Kaiser Foundation Health Plan
10350 E. Dakota Ave.
Denver, CO 80247
donna.l.lynne@kp.org

D. Capra
dcapra@aol.com

Edie Busam
Aponte & Busam
303 E. 17th Ave., #502
Denver, CO 80203
ebusam@aponte-busam.com

Elena Wilken
Colorado Assoc. of Transit Agencies
1580 Lincoln St., #780
Denver, CO 80203
executivedirector@coloradotransit.com

AMENDMENT 60 - PROPERTY TAXES
AMENDMENT 61 - LIMITS ON STATE AND LOCAL GOVERNMENT BORROWING
PROPOSITION 101 - INCOME, VEHICLE, AND TELECOMMUNICATIONS TAXES AND FEES
CONTACT LIST

Elinor Christiansen
HCAC Foundation
P.O. Box 280767
Lakewood, CO 80228
echris7doc@gmail.com

Representative Ellen Roberts
P.O. Box 3373
Durango, CO 81302
ellen.roberts.house@state.co.us

Emily Arell
Legislative Director
Colorado House Democrats
200 E. Colfax Ave., Room 222
Denver, CO 80203
emily.arell@state.co.us

Erin Goff
Axiom Strategies Inc.
225 E. 16th Ave., #260
Denver, CO 80203
erin@axiomstrategiesinc.com

Senator Evie Hudak
7649 Harlan Way
Westminster, CO 80003
senatorhudak@gmail.com

Representative Frank McNulty
P.O. Box 630573
Highlands Ranch, CO 80163
frank@frankmcnulty.com

Frank Waterous
The Bell Policy Center
1905 Sherman St., Suite 900
Denver, CO 80203
waterous@bellpolicy.org

Fred Holden
Arvada, CO 80004
fredholden@aol.com

Senator Gail Schwartz
P.O. Box 6578
Snowmass Village, CO 81615
gail.schwartz.senate@gmail.com

Geffrey Hier
Colorado Rural Electric Association
5400 N. Washington St.
Denver, CO 80216
ghier@coloradorea.org

Geoff Wilson
Colorado Municipal League
1144 Sherman
Denver, CO 80203
gwilson@cml.org

George Dibble
Englewood, CO 80111
georgedibble@mindspring.com

Gerry Cummins
League of Women Voters
1410 Grant St., Suite B-204
Denver, CO 80203
gerry.cummins@prodigy.net

Gini Pingenot
Colorado Counties Inc.
800 Grant St., Suite 500
Denver, CO 80203
gpingenot@ccionline.org

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Ginny Brown
Dept. of Health Care Policy & Financing
1570 Grant St.
Denver, CO 80203
ginny.brown@state.co.us

Representative Glenn Vaad
P.O. Box 411
Mead, CO 80542
repglennvaad@gmail.com

Senator Greg Brophy
P.O. Box 332
Wray, CO 80758
greg@gregbrophy.net

Greg Fulton
Colorado Motor Carriers Association
4060 Elati St.
Denver, CO 80216
greg@cmca.com

Gully Stanford
College in Colorado
1560 Broadway, Suite 1700
Denver, CO 80202
gully.stanford@cic.state.co.us

Heather Atkinson
Siegel Public Affairs
1280 Sherman St., Suite 202
Denver, CO 80203
heather@siegelpa.com

Heather Kline
Denver, CO 80203
heather.kline@cu.edu

Glenn Gustafson
Colorado Springs School District 11
1115 N. El Paso Street
Colorado Springs, CO 80903
gustage@d11.org

Greg Abboud
Power Sports Dealers Association
13670 Cherry Way
Thornton, CO 80602
g.abboud@comcast.net

Greg Dorman
DMVA
6848 W. Revere Parkway
Centennial, CO 80112
greg.dorman@dmva.state.co.us

Greg Smith
Colo. Public Employees Retirement Assn.
1301 Pennsylvania St.
Denver, CO 80203
gsmith@copera.org

Guy G. Bellville
Cherry Creek Schools
4850 S. Yosemite St.
Greenwood Village, CO 80111
gbellville@cherrycreekschools.org

Heather Copp
Department of Transportation
4201 E. Arkansas Ave.
Denver, CO 80222
heather.copp@dot.state.co.us

Heidi Wagner
Tri-State Generation & Transmission Assoc.
P.O. Box 33695
Denver, CO 80233-0695
hwagner@tristategt.org

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Henry Sobanet
Colorado Strategies
info@coloradostrategies.com

Henry "Corky" Kyle
The Kyle Group
14450 W. 56th Place
Arvada, CO 80002
ckyle@thekylegroup.com

Herb Homan
Denver, CO 80210-6122
hhoman1@yahoo.com

Herman Stockinger
Department of Transportation
4201 E. Arkansas Ave.
Denver, CO 80222
herman.stockinger@dot.state.co.us

Representative Jack Pommer
605 Pine St.
Boulder, CO 80302
jack.pommer.house@state.co.us

Jamee Allen
jamee_allen@fmi.com

Representative James Kerr
6359 S. Chase Court
Lakewood, CO 80226
james.kerr.house@state.co.us

Jan Tanner
Board of Education School District 11
1115 N. El Paso St.
Colorado Springs, CO 80903
tannerjj@gmail.com

Jane Urschel
Colorado Association of School Boards
1200 Grant Street
Denver, CO 80203-2306
jurschel@casb.org

Jason Gelender
Office of Legislative Legal Services
Room 091 State Capitol
Denver, CO 80203
jason.gelender@state.co.us

Jay Hicks
Hicks & Associates
jay@rjhicksinc.com

Representative Jeanne Labuda
3975 S. Pinehurst Circle
Denver, CO 80235-3124
replabuda@yahoo.com

Jeffrey Zax
Department of Economics
University of Colorado - Boulder
256 UCB
Boulder, CO 80309
jeffrey.zax@colorado.edu

Jen Walmer
Colorado House Democrats
200 E. Colfax, Room 246
Denver, CO 80203
jen.walmer@state.co.us

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Jennifer Okes
Colorado Department of Personnel
1313 Sherman St.
Denver, CO 80203
jennifer.okes@state.co.us

Jerry McElroy
Kaiser Permanente
10350 E. Dakota Ave.
Denver, CO 80231
jerel.mcelroy@kp.org

Jesi Dobosz
Colorado Department of Public Health and Environment
4300 Cherry Creek Drive South
Denver, CO 80246
jesi.dobosz@state.co.us

Jim Barclay
Lutheran Family Services of Colorado
363 S. Harlan
Denver, CO 80226
jim.barclay@lfsco.org

Jim Driscoll
Governor's Office
200 E. Colfax, Room 136
Denver, CO 80203
jim.driscoll@state.co.us

Jim McCuskey
E-470 Authority
22470 E. Sixth Parkway
Aurora, CO 80018
jmccuskey@e-470.com

JoAnn Groff
Department of Local Affairs
1313 Sherman, Room 419
Denver, CO 80203
joann.groff@state.co.us

Representative Jerry Frangas
3867 Meade Street
Denver, CO 80211
kjerryfrangas@earthlink.net

Representative Jerry Sonnenberg
4465 Road 63
Sterling, CO 80751
jerry@repsonnenberg.com

Jessica L. Erickson
Broomfield Economic Development Corp.
2655 W. Midway Blvd., Suite 370
Broomfield, CO 80020
jessica@broomfieldbusiness.com

Jim Cole
Denver, CO 80203
jim@lobby4co.com

Jim Griffith
Colorado League of Charter Schools
725 S. Broadway, Suite 7
Denver, CO 80209
jgriffin@coloradoleague.org

Representative Jim Riesberg
P.O. Box 1523
Greeley, CO 80632
jim.riesberg.house@state.co.us

Representative Joe Rice
6165 S Coventry Lane West
Littleton, CO 80123
joe.rice.house@state.co.us

AMENDMENT 60 - PROPERTY TAXES
AMENDMENT 61 - LIMITS ON STATE AND LOCAL GOVERNMENT BORROWING
PROPOSITION 101 - INCOME, VEHICLE, AND TELECOMMUNICATIONS TAXES AND FEES
CONTACT LIST

Joe Watt
The Bell Policy Center
1801 Broadway, Suite 280
Denver, CO 80202
watt@bellpolicy.org

John Andrews
8547 E. Arapahoe Rd. PMB J122
Englewood, CO 80112
andrewsjk@aol.com

Senator John Morse
1213 E. Columbia St., #5
Colorado Springs, CO 80909
john.morse.senate@state.co.us

John Ziegler
Joint Budget Committee
200 E. 14th Ave., Third Floor
Denver, CO 80203
john.ziegler@state.co.us

Jonathan Coors
CoorsTek
16000 Table Mountain Parkway
Golden, CO 80403
jdcoors@coorstek.com

Senator Joyce Foster
8239 E. Fifth Ave.
Denver, CO 80230
joyce.foster.senate@state.co.us

Julie George
Colorado Association of School Boards
1200 Grant Street
Denver, CO 80203-2306
jgeorge@casb.org

Julie Whitacre
Colorado Education Association
1500 Grant Street
Denver, CO 80203
jwhitacre@nea.org

Representative Joel Judd
2904 W. 24th Ave.
Denver, CO 80211
repjoeljudd@joeljudd.com

Representative John Kefalas
604 Sycamore St.
Fort Collins, CO 80521
john.kefalas.house@state.co.us

Representative John Soper
235 Starlight Road
Thornton, CO 80260
john.soper.house@state.co.us

Jon Caldara
Independence Institute
13952 Denver West Pkwy., Suite 400
Golden, CO 80401
jon@i2i.org

Senator Josh Penry
P.O. Box 1604
Grand Junction, CO 81502
joshpenry@gmail.com

Juanita Chacon
Remax
1873 S. Bellaire St., #700
Denver, CO 80222
juanitachacon@remax.net

Julie McKenna
Northern Colorado Water Conservancy Dist.
1410 Grant C-309
Denver, CO 80203
julie@bbmk.com

J. Frickey
jfrickey@mac.com

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Karen Beye
Colorado Department of Human Services
1575 Sherman
Denver, CO 80203
karen.beye@state.co.us

Representative Karen Middleton
481 Nome St.
Aurora, CO 80010
karen@karenmiddleton.com

Karen Strakbein
Summit School District
P.O. Box 7
Frisco, CO 80443
kstrakbein@summit.k12.co.us

Karl Spiecker
Colorado Department of Corrections
2862 S. Circle Drive
Colorado Springs, CO 80906
karl.spiecker@doc.state.co.us

Representative Kathleen Curry
54542 E. Highway 50
Gunnison, CO 81230
repcurry@gmail.com

Kathryn Knox
Colorado Virtual Academy
11990 Grant St., Suite 402
Northglenn, CO 80233
kknox@covcs.org

Katie Genereux
Hope On Line
367 Inverness Parkway #225
Englewood, CO 80112
katie.genereux@hopeonline.org

Katy Atkinson
Atkinson & Associates
110 16th St.
Denver, CO 80202
katyatkinson@aol.com

Senator Keith King
4715 Bywood Court
Colorado Springs, CO 80906
keith@keithking.org

Kelly Fox
University of Colorado
Box 035UCA
Boulder, CO 80309
kelly.fox@cusys.edu

Ken Delay
Colorado Association of School Boards
1200 Grant St.
Denver, CO 80203
kdelay@casb.org

Representative Ken Summers
P.O. Box 27301
Lakewood, CO 80227
ken.summers.house@state.co.us

Representative Kent Lambert
990 Point of the Pines Drive
Colorado Springs, CO 80919
rep.kent.lambert@comcast.net

Representative Kevin Priola
12255 Ursula St.
Henderson, CO 80640
kpriola@gmail.com

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Kim Fear
Dept. of Public Health and Environment
4300 Cherry Creek Drive South
Denver, CO 80246
kfear@cdphe.state.co.us

Dr. Kirvin Knox
Mountain Plains ACA
4505 29th St.
Greeley, CO 80634
kknox@lamar.colostate.edu

Lance Nozot
Lewis-Palmer School District #38
146 Jefferson St.
Monument, CO 80132
LNozot@lewispalmer.org

Larry Friedberg
Department of Personnel
1313 Sherman St., Suite 319
Denver, CO 80203
larry.friedberg@state.co.us

Larry Hoyt
P.O. Box 471
Boulder, CO 80306
lhoyt@co.boulder.co.us

Representative Larry Liston
P.O. Box 8205
Colorado Springs, CO 80933
Larry.Liston.house@state.co.us

Larry G. Hudson
Hudson Government Affairs
2308 Bellaire St.
Denver, CO 80207
larryghudson@yahoo.com

Representative Laura Bradford
P.O. Box 565
Collbran, CO 81624
laurabradford55@gmail.com

Lawrence Norman
The Center 4 Excellence
hilltopia23@yahoo.com

Leanne Arrant
Capstone Group
1410 Grant St., Suite B-303
Denver, CO 80203
larrant@capstonegroupllc.com

Lee White
George K. Baum & Company
1400 Wewatta St., Suite 800
Denver, CO 80202
WhiteML@gkbaum.com

Leo J. Boyle
1223 Race St., #801
Denver, CO 80206
leojboyle@aol.com

Leslie Stafford
Boulder Valley School District
6500 Arapahoe
Boulder, CO 80303
leslie.stafford@bvsd.org

Lise Aangeenbrug
Great Outdoors Colorado
1600 Broadway, Suite 1650
Denver, CO 80202
liseaa@goco.org

Representative Lois Court
780 Elizabeth St.
Denver, CO 80206
lois.court.house@state.co.us

Senator Lois Tochtrop
9984 Appletree Place
Thornton, CO 80260
lotochtrop@aol.com

AMENDMENT 60 - PROPERTY TAXES
AMENDMENT 61 - LIMITS ON STATE AND LOCAL GOVERNMENT BORROWING
PROPOSITION 101 - INCOME, VEHICLE, AND TELECOMMUNICATIONS TAXES AND FEES
CONTACT LIST

Loren Furman
Colorado Association of Commerce & Industry
1600 Broadway, Suite 1000
Denver, CO 80202-4935
lfurman@cochamber.com

Lorie Gillis
Jefferson County Public Schools
1829 Denver West Drive, Bldg. 27
Golden, CO 80401
lgillis@jeffco.k12.co.us

Lynn Johnson
l15johnson@aol.com

Lynn Notarianni
Department of Regulatory Agencies
1600 Broadway, Suite 1650
Denver, CO 80202
lynn.notarianni@dora.state.co.us

L. Martinez
Adams State College
208 Edgemont Blvd.
Alamosa, CO 81102
lamartin@adams.edu

Mac Zimmerman
maczimmerman@yahoo.com

Marge Rinaldi
Adams County District 50 School Board
6933 Raleigh St.
Westminster, CO 80030
margerinaldi@msn.com

Marjorie Fisch
League of Women Voters
1410 Grant St., Suite B-204
Denver, CO 80203
ralphmarj@msn.com

Mark Couch
Department of Revenue
1375 Sherman St., Room 504
Denver, CO 80261
mcouch@spike.dor.state.co.us

Representative Mark Ferrandino
200 E. Colfax, Room 071
Denver, CO 80203
mferrandino@yahoo.com

Mark Radtke
Colorado Municipal League
1144 Sherman
Denver, CO 80203
mradtke@cml.org

Senator Mark Scheffel
9791 Summit Ridge Place
Parker, CO 80138
mark.scheffel.senate@state.co.us

Representative Marsha Looper
23935 Sweet Road
Calhan, CO 80808
marshalooper@gmail.com

Marty Neilson
Colorado Union of Taxpayers
363 Riverside Drive
Lyons, CO 80540
marty5539@gmail.com

AMENDMENT 60 - PROPERTY TAXES
AMENDMENT 61 - LIMITS ON STATE AND LOCAL GOVERNMENT BORROWING
PROPOSITION 101 - INCOME, VEHICLE, AND TELECOMMUNICATIONS TAXES AND FEES
CONTACT LIST

Mary Buckley
Denver International Airport
8500 Pena Blvd.
Denver, CO 80249
mary.buckley@flydenver.com

Senator Mary Hodge
447 Poplar Circle
Brighton, CO 80601
mary.hodge.senate@state.co.us

Mary Wickersham
State Treasurer's Office
200 E. Colfax #140
Denver, CO 80203
mary.wickersham@state.co.us

Mary Zuchegno
Special District Association
225 E. Sixteenth Avenue
Denver, CO 80203
mary@sdaco.org

Mary E. Deganhart
Ouray County Attorney
P.O. Box 28
Ridgway, CO 81432
mdeganhart@ouraycountyco.gov

Mary Frances Nevans
State Board of Education
201 E. Colfax
Denver, CO 80203
nevans_m@cde.state.co.us

Senator Maryanne Keller
4325 Iris Street
Wheat Ridge, CO 80033
moe.keller.senate@state.co.us

Matt Cheroutes
Governor's Office of Economic Development
1625 Broadway, Suite 2700
Denver, CO 80202
matt.cheroutes@state.co.us

Matthew Gray
Sherman & Howard
633 17th St., Suite 3000
Denver, CO 80202
mgray@shermanhoward.com

Representative Max Tyler
200 E. Colfax, Room 271
Denver, CO 80203
max@maxtyler.us

Melissa Baumgart
House Minority Office
200 E. Colfax, Room 212
Denver, CO 80203
melissa.baumgart@state.co.us

Melissa Kuipers
Colorado Automobile Dealers Association
290 E. Speer Blvd.
Denver, CO 80203
melissa.kuipers@coloradodealers.org

Melissa Nelson
Department of Transportation
4201 E. Arkansas Ave.
Denver, CO 80222
melissa.nelson@dot.state.co.us

Michael Corn
mchlcorn@aol.com

Michael Johnson
1801 California St
Denver, CO 80202
michael.johnson@KutakRock.com

Senator Michael Johnston
PO Box 40700
Denver, CO 80204
mike.johnston.senate@state.co.us

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Representative Michael Merrifield
907 N. Sheridan Ave.
Colorado Springs, CO 80909
mmerrifield2003@yahoo.com

Mike Beasley
303 Broadway, #200
Denver, CO 80203
mike@5280strategies.com

Senator Mike Kopp
10589 W. Raspberry Mountain
Littleton, CO 80127
mkoppsd22@gmail.com

Mike Mauer
Colorado Legislative Council
200 E. Colfax, #029
Denver, CO 80203
mike.mauer@state.co.us

Representative Mike May
18978 E. Creekside Dr.
Parker, CO 80134
mike.may.house@state.co.us

Morey Wolfson
Colorado Energy Management & Conservation
1580 Logan St., Suite 100
Denver, CO 80203
morey.wolfson@state.co.us

Ms. Patti Mason
US Green Building Council
1821 Blake St., Suite 3-D
Denver, CO 80202
patti@usgbccolorado.org

Senator Nancy Spence
6330 S. Olathe Street
Centennial, CO 80016
nancyjspence@gmail.com

Natalie Menten
info@COtaxreforms.com

Neil Langland
Department of Regulatory Agencies
1600 Broadway, Suite 1650
Denver, CO 80202
neil.langland@dora.state.co.us

Nichole Goodman
Alliance for Sustainable Colorado
1536 Wynkoop St., Suite 4-A
Denver, CO 80202
ngoodman@sustainablecolorado.org

Nicole Myers
Office of Legislative Legal Services
Room 091 State Capitol
Denver, CO 80203
nicole.myers@state.co.us

Pam Kiely
Environment Colorado
1530 Blake St., Suite 2002
Denver, CO 80202
pkiely@environmentcolorado.org

Pamela Benigno
Independence Institute
13952 Denver West Pkwy. Bldg. 53, Suite 400
Golden, CO 80401
pam@i2i.org

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Pat Flanagan
Division of Motor Vehicles
1881 Pierce St., Room 114
Lakewood, CO 80214
pflanagan@spike.dor.state.co.us

Senator Pat Steadman
1257 Corona Street
Denver, CO 80218
pat.steadman.senate@state.co.us

Patrick Byrne
Department of Transportation
4201 E. Arkansas Ave.
Denver, CO 80222
patrick.byrne@dot.state.co.us

Patty Schoedler
League of Women Voters
1410 Grant St., Suite B-204
Denver, CO 80203
pshades@earthlink.net

Representative Paul Weissmann
P.O. Box 673
Louisville, CO 80027
reppaul@aol.com

Paula Stephenson
1180 Redwoods Drive
Steamboat Springs, CO 80487
ruralcaucus@comcast.net

Paula Larsen
Metro Denver
1445 Market St.
Denver, CO 80202
paula.larsen@metrodenver.org

Paula Noonan
7140 S. Depew St.
Littleton, CO 80128
penoonan@comcast.net

Senator Paula Sandoval
4077 W 26th Avenue
Denver, CO 80212
nwden34@yahoo.com

Phil Hayes
Colorado AFL/CIO
140 Sheridan Blvd., #201
Denver, CO 80226
phayes@coaflcio.org

Phil Onofrio
Eagle County Schools
948 Chambers Ave.
Eagle, CO 81631
philip.onofrio@eagleschools.net

Phyllis Horney
phyllisjhorn@comcast.net

Rachel Erbert
Political Works
1580 Lincoln St., #1125
Denver, CO 80203
rlee@politicalworks.net

Representative Randy Baumgardner
P.O. Box 108
Hot Sulphur Springs, CO 80451
randy.baumgardner.house@state.co.us

AMENDMENT 60 - PROPERTY TAXES
AMENDMENT 61 - LIMITS ON STATE AND LOCAL GOVERNMENT BORROWING
PROPOSITION 101 - INCOME, VEHICLE, AND TELECOMMUNICATIONS TAXES AND FEES
CONTACT LIST

Randy Black
Colorado Association of School Boards
1200 Grant Street
Denver, CO 80203-2306
rblack@casb.org

Representative Randy Fischer
3007 Moore Lane
Fort Collins, CO 80526
randyfischer@frii.com

Renee Howell
Littleton Public Schools
5776 S. Crocker St.
Littleton, CO 80120
reneehowell5280@aol.com

Renny Fagan
Colorado Nonprofit Association
455 Sherman St., #207
Denver, CO 80203
rfagan@coloradononprofits.org

Rich Wobbekind
Leeds School of Business
University of Colorado
995 Regent Drive
Boulder, CO 80309
richard.wobbekind@colorado.edu

Rich Jones
The Bell Policy Center
1801 Broadway, Suite 280
Denver, CO 80202
jones@bellpolicy.org

Rich Mauro
DRCOG
1290 Broadway, Suite 700
Denver, CO 80246
rmauro@drcog.org

Richard Valenty
rvalenty@msn.com

Richard G. Evans
Coloradans for Responsible Reform
1717 Downing St.
Denver, CO 80218
richard@reiter5280.com

Rick Randall
Denver, CO 80219
rrandall@richardrandall.com

Rob Juchem
Department of Public Safety
700 Kipling St., #1000
Denver, CO 80215
rob.juchem@cdps.state.co.us

Robert McCarty
Scientific Learning
300 Frank H. Ogawa Plaza
Oakland, CA
bmccarty@scilearn.com

Roberta Robinette
DeFilippo Rees Robinette
1675 Broadway, Suite 2440
Denver, CO 80202
rmkrobinette@aol.com

Roberto Venegas
Policy Advisor
City and County of Denver
1437 Bannock St., #350
Denver, CO 80202
roberto.venegas@denvergov.org

AMENDMENT 60 - PROPERTY TAXES
AMENDMENT 61 - LIMITS ON STATE AND LOCAL GOVERNMENT BORROWING
PROPOSITION 101 - INCOME, VEHICLE, AND TELECOMMUNICATIONS TAXES AND FEES
CONTACT LIST

Robin Baker
Colorado Children's Campaign
1580 Lincoln St., Suite 420
Denver, CO 80203
robin@coloradokids.org

Ron Teck
627 Broken Spoke Road
Grand Junction, CO 81504
ronteck@gmail.com

Representative Sal Pace
124 Lincoln St.
Pueblo, CO 81004
sal.pace.house@state.co.us

Representative Sara Gagliardi
11854 W. 56th Drive
Arvada, CO 80002
sara.gagliardi.house@state.co.us

Scott Moore
Political Science Department
Colorado State University
Fort Collins, CO 805216
scott.moore@colostate.edu

Scott Spendlove
Inter Mountain Corp. Affairs
1675 Broadway, #1850
Denver, CO 80203
sspendlove@intermountainca.com

Sean Conway
County Commissioner
Weld County
915 Tenth St.
Greeley, CO 80632
sconway@co.weld.co.us

Senator Rollie Heath
2455 Vassar Drive
Boulder, CO 80305
rollie.heath.senate@state.co.us

R.J. Hicks
rj@rjhicksinc.com

Sam Mamet
Colorado Municipal League
1144 Sherman
Denver, CO 80203
smamet@cml.org

Sara Rosene
Grand County
308 Byers Ave.
Hot Sulpur Springs, CO 80451
srosene@co.grand.co.us

Senator Scott Renfroe
3201 Grandview Dr
Greeley, CO 80631
scott.renfroe.senate@state.co.us

Scott Wasserman
Colorado Wins
2525 W. Alameda Ave.
Denver, CO 80219
scott.wasserman@cowins.org

Senator Shawn Mitchell
12530 Newton St.
Broomfield, CO 80020
shawnmitch@aol.com

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Shelley Becker
Douglas County School District
620 Wilcox St.
Castle Rock, CO 80104
shelley.becker@dcsdk12.org

Sherry Ellebracht
Regional Transportation District
1600 Blake St.
Denver, CO 80202
sherry.ellebracht@rtd-denver.com

Sol Malick
American Planning Association
P.O. Box 265
Golden, CO 80402
solomonmalick@gmail.com

Representative Spencer Swalm
7250 S. Ivy Court
Centennial, CO 80112
spencer.swalm.house@state.co.us

Steph Chichester
North Slope Capital
1400 16th St.
Denver, CO 80202
steph@northslopecapital.com

Stephannie Finley
Colorado Springs Chamber of Commerce
6 S. Tejon St., #700
Colorado Springs, CO 80903
stephannie@cscc.org

Stephen Bohrer
San Luis Valley BOCES
2261Enterprise Drive
Alamosa, CO 81101
sbohrer@slvboces.org

Steve Balcerovich
Denver, CO 80205
stevebalcerovich@aol.com

Steve Holdren
319 Belford Drive
Northglenn, CO 80260
s.holdren@ctos.com

Representative Steve King
P.O. Box 896
Grand Junction, CO 81502
steve.king.house@state.co.us

Steve Palmer
Dutko Worldwide
2265 Pebble Beach Court
Evergreen, CO
steve.palmer@dutkoworldwide.com

Susan Cox
Susan.M.Cox@kp.org

Senator Suzanne Williams
2647 S. Troy Court
Aurora, CO 80014
suzanne.williams.senate@state.co.us

Tammi McCoy
Colorado Automobile Dealers Association
290 E. Speer Blvd.
Denver, CO 80203
tammi.mccoy@coloradodealers.org

Amendment 60 - Property Taxes
Amendment 61 - Limits on State and Local Government Borrowing
Proposition 101 - Income, Vehicle, and Telecommunications Taxes and Fees
Contact List

Tamra Ward
Denver Metro Chamber of Commerce
1445 Market St.
Denver, CO 80202
tamra.ward@denverchamber.org

Tanya Kelly
TKB Consulting
11630 Zenobia Court
Westminster, CO 80031
tanya@tanyakellybowry.com

Senator Ted Harvey
P.O. Box 630438
Highlands Ranch, CO 80126
ted.harvey.senate@state.co.us

Teresa Osborne
CU System
1800 Grant St., Suite 800
Denver, CO 80203
teresa.osborne@cu.edu

Representative Terrance Carroll
200 E. Colfax, #246
Denver, CO 80203
terrance.carroll.house@state.co.us

Terry Casey
RBC Dain
1200 17th St., Suite 2200
Denver, CO 80202
terry.casey@rbcdain.com

Terry Howerter
Regional Transportation District
1600 Blake St.
Denver, CO 80202
terry.howerter@RTD-Denver.com

Terry Phillips
Colorado Dept. of Labor and Employment
633 17th St., Suite 201
Denver, CO 80202
terry.phillips@state.co.us

Tim Hoover
The Denver Post
101 W. Colfax Ave., Suite 600
Denver, CO 80202
thoover@denverpost.com

Todd Engdahl
Education News Colorado
1244 Grant St.
Denver, CO 80203
tengdahl@ednewscolorado.org

Todd Saliman
OSPB
State Capitol Building, Room 111
Denver, CO 80203
todd.saliman@state.co.us

Tom Clark
CU-Denver Planning Department
1445 Market Street, Suite 350
Denver, Colorado 80202
tom.clark@metrodenver.org

Tonette Salazar
Salazar & Associates
2516 Yosemite St.
Denver, CO 80238
tonette@t2salazar.com

Tony Gagliardi
National Federation of Independent Businesses
1410 Grant St., Suite C-107
Denver, CO 80203
tony.gagliardi@nfib.org

AMENDMENT 60 - PROPERTY TAXES
AMENDMENT 61 - LIMITS ON STATE AND LOCAL GOVERNMENT BORROWING
PROPOSITION 101 - INCOME, VEHICLE, AND TELECOMMUNICATIONS TAXES AND FEES
CONTACT LIST

Tony Salazar
Colorado Education Association
1500 Grant Street
Denver, CO 80203
pnoscroy@nea.org

Totsy Rees
Denver, CO 80203
Totsyr@aol.com

Tracie Rainey
Colorado School Finance Project
1200 Grant
Denver, CO 80203
tracie.rainey@earthlink.net

Troy Bratton
Office of Legislative Legal Services
Room 091 State Capitol
Denver, CO 80203
troy.bratton@state.co.us

Vanessa Hannemann
Colorado Health Foundation
501 S. Cherry St., Suite 1100
Denver, CO 80246
vhannemann@ColoradoHealth.org

Vicki Newell
Colorado Parent Teacher Association
PO Box 4280
Parker, CO 80134
vickilnewell@aol.com

Vincent Badolato
Colorado League of Charter Schools
1601 Vine Street
Denver, CO 80206
vbadolato@coloradoleague.org

Virginia Morrison Love
Morrison, Love & Company
1301 Pennsylvania St., Suite 900
Denver, CO 80203
VAMLOVE@AOL.COM

Vody Herrmann
Colorado Department of Education
201 East Colfax Room 502
Denver, CO 80203
herrmann_v@cde.state.co.us

Wade Buchanan
Bell Policy Center
1801 Broadway, Suite 280
Denver, CO 80202
buchanan@bellpolicy.org

Wes Skiles
House Minority Office
200 E. Colfax Ave., Room 212
Denver, CO 80203
wes.skiles@state.co.us

Will Kugel
Dept. of Health Care Policy & Financing
1570 Grant St.
Denver, CO 80203
will.kugel@state.co.us

Zach Zaslow
Senate Majority Office
200 E. Colfax Ave., Room 266
Denver, CO 80203
zach.zaslow@state.co.us

Proposition 101
Income, Vehicle, and Telecommunication Taxes and Fees

Ballot Title: An amendment to the Colorado Revised Statutes concerning limits on government charges, and, in connection therewith, reducing vehicle ownership taxes over four years to nominal amounts; ending taxes on vehicle rentals and leases; phasing in over four years a $10,000 vehicle sale price tax exemption; setting total yearly registration, license, and title charges at $10 per vehicle; repealing other specific vehicle charges; lowering the state income tax rate to 4.5% and phasing in a further reduction in the rate to 3.5%; ending state and local taxes and charges, except 911 charges, on telecommunication service customer accounts; and stating that, with certain specified exceptions, any added charges on vehicles and telecommunication service customer accounts shall be tax increases.

Text of Proposal:

Be it Enacted by the People of the State of Colorado:

Title 39, article 25 of the Colorado Revised Statutes

Reducing government charges

(1) Enforcement. This voter-approved revenue change shall be strictly enforced to reduce government revenue. It is self-executing, severable, and a matter of statewide concern that overrides conflicting statutes and local laws. Prevailing plaintiffs only shall have their legal fees and court costs repaid. The state shall audit yearly compliance with this reform to reduce unfair, complex charges on common basic needs.

(2) Vehicle. Starting January 1, 2011: (a) All annual specific ownership taxes shall decrease in four equal yearly steps to: New vehicles, $2; and other vehicles, $1. All state and local taxes shall cease on vehicle rentals and leases, and on $10,000, reached in four equal yearly steps, of sale prices per vehicle. Sale rebates are not taxable.

(b) All registration, license, and title charges combined shall total $10 yearly per vehicle. Except those charges, and tax, fine, toll, parking, seizure, inspection, and new plate charges, all state and local government charges on vehicles and vehicle uses shall cease. Except the last six specific charges, added charges shall be tax increases.

(3) Income. The 2011 income tax rate shall be 4.5%. Later rates shall decrease 0.1% yearly, until reaching 3.5%, in each of the first ten years that yearly income tax revenue net growth exceeds 6%.

(4) Telecommunication. Starting January 1, 2011, except 911 fees at 2009 rates, no charge by, or aiding programs of, the state or local governments shall apply to telephone, pager, cable, television, radio, Internet, computer, satellite, or other telecommunication service customer accounts. Added charges shall be tax increases.