

Proposition 101 Income, Vehicle, and Telecommunication Taxes and Fees

1 Proposition 101 proposes amending the Colorado statutes to:

- 2 ♦ reduce the state income tax rate from 4.63 percent to 4.5 percent in
3 2011, and to 3.5 percent gradually over time;
- 4 ♦ reduce or eliminate taxes and fees on vehicle purchases, registrations,
5 leases, and rentals over the next four years;
- 6 ♦ eliminate all state and local taxes and fees on telecommunication
7 services, except 911 fees; and
- 8 ♦ require voter approval to create or increase fees on vehicles and
9 telecommunication services.

10 **Summary and Analysis**

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

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

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

26 ***Impact on households and businesses.*** Table 1 shows the estimated change in
27 tax and fee bills for three different households as a result of Proposition 101, in both
28 the first full year the measure is in effect and when the measure is fully implemented,
29 in today's dollars. Businesses will also experience reductions in taxes and fees.
30 Households and businesses will be impacted differently depending on annual income,
31 vehicles owned, vehicles purchased, and the amount paid for phone and cable
32 service. Households and businesses will experience additional reductions during
33 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	<i>Household Description:</i> 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	<i>Household Description:</i> 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	<i>Household Description:</i> 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.

1 **Table 2. Annual Change in Government Tax and Fee Collections**
 2 **Due to Proposition 101, First-Year Impact and When Fully Implemented**
 3 *(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.

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

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

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

40 **Impact on state and local government transportation budgets.** Proposition
 41 101 reduces funding dedicated to transportation budgets. The state constitution
 42 requires that vehicle-related fees collected by the state be spent on road safety,
 43 construction, and maintenance. This money is shared between the state, cities, and

1 counties. The state's transportation budget will decrease by an estimated 28 percent
2 from these fee reductions. The impact on city and county government transportation
3 budgets will vary by government. Because cuts affecting transportation budgets are
4 immediate, the full impact shown in Table 2 will occur in 2011.

5 **State Income Tax**

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

10 Proposition 101 gradually lowers the state income tax rate from 4.63 percent to
11 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This
12 will reduce income tax collections to the state by an estimated \$145 million, or
13 3 percent. The tax bill for a household with an annual income of \$55,000 will be
14 reduced by \$40 in 2011. In the future, the rate is reduced by 0.1 percentage point
15 each year in which state income tax collections grow by more than 6 percent. For
16 example, if tax collections increase fast enough, the income tax rate will decrease
17 from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate
18 decreases to 3.5 percent.

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

25 **Vehicle Fees and Taxes**

26 Proposition 101 reduces several types of vehicle fees and taxes as shown in
27 Table 3. The amounts in the table show the impact when the reductions are fully
28 implemented — sales tax reductions on vehicle purchases and specific ownership tax
29 reductions are phased in over a four-year period, while all other vehicle fee and tax
30 changes occur in 2011. The total amount of the reduction in vehicle fees and taxes,
31 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 <i>Four-year Phase in (2011 to 2014)</i>	\$2,100 one-time payment	\$1,400 one-time payment	-\$335 million total for state and local
Registration and Licensing Fees /b <i>Fully Implemented in 2011</i>	\$81 paid once per year	\$10 paid once per year	-\$300 million total for state and local
Specific Ownership Tax <i>Four-year Phase in (2011 to 2014)</i>	\$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 <i>Fully Implemented in 2011</i>	\$1,080 total (\$30 paid monthly during lease term)	\$0	-\$65 million total for state and local
Registration and Licensing Fees /b <i>Fully Implemented in 2011</i>	\$81 paid once per year	\$10 paid once per year	-\$75 million total for state and local
Specific Ownership Tax <i>Fully Implemented in 2011</i>	\$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 <i>Fully Implemented in 2011</i>	\$2.45 per rental day	\$0	-\$80 million total for state and local
State Car Rental Fee <i>Fully Implemented in 2011</i>	\$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.

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

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

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

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

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

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

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

40 Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales
41 taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This

1 will reduce state and local sales tax collections by an estimated \$65 million per year,
2 or 1 percent. It will also eliminate all specific ownership taxes collected by local
3 governments on leased vehicles.

4 Vehicle registration and licensing fees. Leased vehicles are also required to be
5 registered with the state and lessees must pay annual registration fees. Beginning in
6 2011, Proposition 101 eliminates all registration fees and imposes a single \$10 fee per
7 vehicle, resulting in a reduction of \$71 for vehicle lessees. The measure reduces
8 state and local collections by approximately \$75 million per year.

9 **Vehicle renters.** The state charges a fee of \$2 per day for car rentals. The
10 money is shared by the state, cities, and counties to build, repair, and maintain roads
11 and bridges. Sales tax is also applied, with revenue going to the state and local
12 governments. Proposition 101 eliminates the fee and all sales taxes beginning in
13 2011. As a result, state and local transportation budgets will have an estimated
14 \$19 million less per year in fee collections and \$80 million less in sales tax collections.

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

20 **Telecommunication Fees and Taxes**

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

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

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

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

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

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

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

32 Tax and fee collections for local governments are expected to fall by at least
33 \$966 million in the first year of implementation and by \$4.7 billion when the measures
34 are fully implemented. However, the net impact on local government budgets would be
35 at least \$581 million in the first year and \$3.1 billion when fully implemented after the
36 state reimburses school districts.

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

1 **Arguments For**

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

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

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

31 **Arguments Against**

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

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

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

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

21 **Estimate of Fiscal Impact**

22 **State revenue.** Proposition 101 contains several provisions that decrease revenue
23 to the state government. Because some of the reductions are phased in over time, the
24 reduction in revenue will be lower at first. The first year reduction is estimated to be
25 \$744 million, which includes \$295 million less in vehicle fees that are
26 constitutionally-required to be used for transportation-related spending. When fully
27 implemented, state tax and fee collections would decrease by an estimated \$1.9 billion
28 in today's dollars.

29 **State spending.** The state will have less money available for spending on its
30 operating programs and transportation budget. Though the reductions to the
31 transportation budget will be immediate, the reductions to operating programs will occur
32 over time as the cuts to the income and sales tax are phased in. The state will have
33 \$450 million, or 6 percent, less in the first year to spend on operating programs.
34 Further, the state will have about \$295 million, or 28 percent, less to spend on
35 transportation. When fully implemented, the state would have \$1.6 billion, or 23
36 percent, less in today's dollars to spend on operating programs. The impact on the
37 state's operating programs depend on the future budgeting decisions of the state
38 legislature.

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

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

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

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

21 **Impact on taxpayers.** Proposition 101 will reduce households' and businesses' tax
22 and fee bills by different amounts depending on their income, the number and type of
23 vehicles they have, the costs of their phone and cable bills, and whether they purchase,
24 rent, or lease vehicles in a given year. In the first year, before all the tax and fee
25 reductions are fully implemented, an average household with an annual income of
26 \$55,000 would experience a reduction in their tax and fee bill of about \$313. When fully
27 implemented, the total tax and fee bill for this household would be reduced by about
28 \$708 annually in today's dollars. There would be additional reductions if the household
29 purchases, rents, or leases a vehicle. Businesses will also experience reductions in
30 taxes and fees.

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Fully Implemented	-\$185	-\$73	-\$43	-\$301
Household B	<i>Household Description:</i> 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	<i>Household Description:</i> 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

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

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

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

4 Government Collections	Collections under Current Law	Collections under Prop 101	Change*
5 Vehicle Specific Ownership Taxes and 6 Sales Taxes Collected by Local 7 Governments	\$3.9 billion	\$3.4 billion First Year	-\$530 million First Year
		\$3.0 billion Fully Implemented	-\$900 million Fully Implemented
11 Sales Taxes, Income Taxes, and 12 Telecommunication Fees Collected by 13 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
16 Vehicle Registration Fees and State 17 Rental Fees Collected for State and 18 Local Transportation Budgets	\$440 million	\$50 million Fully Implemented During First Year	-\$390 million Fully Implemented During First Year

19 * Totals may not sum due to rounding.

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

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

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

40 **Impact on state and local government transportation budgets.** Proposition
 41 101 reduces funding dedicated to transportation budgets. The state constitution
 42 requires that vehicle-related fees collected by the state be spent on road safety,
 43 construction, and maintenance. This money is shared between the state, cities, and
 44 counties. The state's transportation budget will decrease by an estimated 28 percent

1 from these fee reductions. The impact on city and county government transportation
2 budgets will vary by government. Because cuts affecting transportation budgets are
3 immediate, the full impact shown in Table 2 will occur in 2011.

4 **State Income Tax**

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

9 Proposition 101 gradually lowers the state income tax rate from 4.63 percent to
10 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This
11 will reduce income tax collections to the state by an estimated \$145 million, or
12 3 percent. The tax bill for a household with an annual income of \$55,000 will be
13 reduced by \$40 in 2011. In the future, the rate is reduced by 0.1 percentage point
14 each year in which state income tax collections grow by more than 6 percent. For
15 example, if tax collections increase fast enough, the income tax rate will decrease
16 from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate
17 decreases to 3.5 percent.

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

24 **Vehicle Fees and Taxes**

25 Proposition 101 reduces several types of vehicle fees and taxes as shown in
26 Table 3. The amounts in the table show the impact when the reductions are fully
27 implemented — sales tax reductions on vehicle purchases and specific ownership tax
28 reductions are phased in over a four-year period, while all other vehicle fee and tax
29 changes occur in 2011. The total amount of the reduction in vehicle fees and taxes,
30 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 <i>Four-year Phase in (2011 to 2014)</i>	\$2,100 one-time payment	\$1,400 one-time payment	-\$335 million total for state and local
Registration and Licensing Fees /b <i>Fully Implemented in 2011</i>	\$81 paid once per year	\$10 paid once per year	-\$300 million total for state and local
Specific Ownership Tax <i>Four-year Phase in (2011 to 2014)</i>	\$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 <i>Fully Implemented in 2011</i>	\$1,080 total (\$30 paid monthly during lease term)	\$0	-\$65 million total for state and local
Registration and Licensing Fees /b <i>Fully Implemented in 2011</i>	\$81 paid once per year	\$10 paid once per year	-\$75 million total for state and local
Specific Ownership Tax <i>Fully Implemented in 2011</i>	\$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 <i>Fully Implemented in 2011</i>	\$2.45 per rental day	\$0	-\$80 million total for state and local
State Car Rental Fee <i>Fully Implemented in 2011</i>	\$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

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

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

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

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

22 AMONG THE FEES ELIMINATED BY PROPOSITION 101 ARE A \$2 EMERGENCY MEDICAL
23 SERVICES FEE AND A 60 CENT PEACE OFFICER TRAINING FEE. THESE FEES ARE CHARGED
24 ANNUALLY WITH EACH VEHICLE'S REGISTRATION FEE. DEPENDING ON THE DECISIONS OF THE
25 STATE LEGISLATURE AND LOCAL GOVERNMENTS, SERVICES CURRENTLY PROVIDED USING
26 THESE FEES MAY BE ELIMINATED OR GREATLY REDUCED. THE MONEY RAISED BY THE
27 EMERGENCY MEDICAL SERVICES FEE PAYS THE CERTIFICATION COST FOR EMT VOLUNTEERS
28 STATEWIDE AND IS USED TO FUND GRANTS TO LOCAL GOVERNMENTS TO PAY FOR
29 EMERGENCY EQUIPMENT, SUCH AS AMBULANCES. THE PEACE OFFICER TRAINING FEE IS
30 USED TO TRAIN LAW ENFORCEMENT OFFICIALS IN RURAL COLORADO.

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

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

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

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

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

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

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

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

40 Tax and fee collections for local governments are expected to fall by at least
41 \$966 million in the first year of implementation and by \$4.7 billion when the measures
42 are fully implemented. However, the net impact on local government budgets would be
43 at least \$581 million in the first year and \$3.1 billion when fully implemented after the
44 state reimburses school districts.

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

6 **Arguments For**

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

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

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

36 **Arguments Against**

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

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

9 2) Proposition 101 will hurt the ability of the state and local communities to maintain
 10 already inadequate roads and bridges and provide public transportation. Studies show
 11 that Colorado needs more than twice as much money each year than it currently spends
 12 just to maintain existing roads and bridges. Proposition 101 would cut state
 13 transportation funding by an estimated 28 percent. In 2009 alone, the state and local
 14 governments maintained more than 193,000 lane miles of roadway and 8,000 bridges.
 15 The state also snow-plowed and sanded 5.6 million miles of highway, repaired
 16 77,000 street signs, and monitored 278 avalanche paths. Public health and safety may
 17 also be affected due to fewer resources for emergency medical services, vehicle
 18 emission programs, and road maintenance.

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

27 **Estimate of Fiscal Impact**

28 **State revenue.** Proposition 101 contains several provisions that decrease revenue
 29 to the state government. Because some of the reductions are phased in over time, the
 30 reduction in revenue will be lower at first. The first year reduction is estimated to be
 31 \$744 million, which includes \$295 million less in vehicle fees that are
 32 constitutionally-required to be used for transportation-related spending. When fully
 33 implemented, state tax and fee collections would decrease by an estimated \$1.9 billion
 34 in today's dollars.

35 **State spending.** The state will have less money available for spending on its
 36 operating programs and transportation budget. Though the reductions to the
 37 transportation budget will be immediate, the reductions to operating programs will occur
 38 over time as the cuts to the income and sales tax are phased in. The state will have
 39 \$450 million, or 6 percent, less in the first year to spend on operating programs.
 40 Further, the state will have about \$295 million, or 28 percent, less to spend on
 41 transportation. When fully implemented, the state would have \$1.6 billion, or
 42 23 percent, less in today's dollars to spend on operating programs. The impact on the
 43 state's operating programs depend on the future budgeting decisions of the state
 44 legislature.

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

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

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

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

25 **Impact on taxpayers.** Proposition 101 will reduce households' and businesses' tax
26 and fee bills by different amounts depending on their income, the number and type of
27 vehicles they have, the costs of their phone and cable bills, and whether they purchase,
28 rent, or lease vehicles in a given year. In the first year, before all the tax and fee
29 reductions are fully implemented, an average household with an annual income of
30 \$55,000 would experience a reduction in their tax and fee bill of about \$313. When fully
31 implemented, the total tax and fee bill for this household would be reduced by about
32 \$708 annually in today's dollars. There would be additional reductions if the household
33 purchases, rents, or leases a vehicle. Businesses will also experience reductions in
34 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

**Proposition 101
Income, Vehicle, and Telecommunication Taxes and Fees**

1 **Proposition 101 proposes amending the Colorado statutes to:**

- 2 ♦ reduce the state income tax rate from 4.63 percent to 4.5 percent in
3 2011, and to 3.5 percent gradually over time;
- 4 ♦ reduce or eliminate taxes and fees on vehicle purchases, registrations,
5 leases, and rentals over the next four years;
- 6 ♦ eliminate all state and local taxes and fees on telecommunication
7 services, except 911 fees; and
- 8 ♦ require voter approval to create or increase fees on vehicles and
9 telecommunication services.

10 **Summary and Analysis**

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

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

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

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

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

	Income Taxes	Vehicle Fees & Taxes	Telecom Fees & Taxes	Total
Household A	<i>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.</i>			
First Year	-\$20	-\$72	-\$43	-\$135
Fully Implemented	-\$185	-\$73	-\$43	-\$301
Household B	<i>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.</i>			
First Year	-\$40	-\$180	-\$93	-\$313
Fully Implemented	-\$320	-\$295	-\$93	-\$708
Household C	<i>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.</i>			
First Year	-\$90	-\$327	-\$128	-\$545
Fully Implemented	-\$780	-\$883	-\$128	-\$1,791

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

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

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

4 Government Collections	Collections under Current Law	Collections under Prop 101	Change*
5 Vehicle Specific Ownership Taxes and 6 Sales Taxes Collected by Local 7 Governments	\$3.9 billion	\$3.4 billion First Year	-\$530 -497 million First Year
		\$3.0 billion Fully Implemented	-\$900 -867 million Fully Implemented
11 Sales Taxes, Income Taxes, and 12 Telecommunication Fees Collected by 13 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
16 Vehicle Registration Fees and State 17 Rental Fees Collected for State and 18 Local Transportation Budgets	\$440 million	\$50 million Fully Implemented During First Year	-\$390 million Fully Implemented During First Year
19 REGIONAL TRANSPORTATION DISTRICT 20 SALES TAXES	\$51 MILLION	\$18.5 MILLION FULLY IMPLEMENTED IN THE FIRST YEAR	-\$33 MILLION FULLY IMPLEMENTED IN THE FIRST YEAR

21 * Totals may not sum due to rounding.

22 **Impact on local government budgets.** Local governments will collect less
 23 money from vehicle specific ownership taxes and sales taxes. Local governments
 24 affected by the measure include school districts, cities, counties, and special districts.
 25 Some examples of special districts include recreation, fire, water, sewer, and public
 26 transportation districts SUCH AS THE REGIONAL TRANSPORTATION DISTRICT (RTD). The
 27 money collected in taxes and fees pays for different services depending on the local
 28 government. Most of the money is used for education, public safety, roads, trash
 29 service, and parks and recreation. State law requires that school districts be
 30 reimbursed by the state for most of their loss in tax collections.

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

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

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

9 **IMPACT ON THE REGIONAL TRANSPORTATION DISTRICT (RTD) BUDGET.** RTD WILL
10 COLLECT LESS MONEY FROM SALES TAXES. RTD SPENDS ITS SALES TAX REVENUES TO
11 SERVICE DEBT, SUBSIDIZE SERVICE COST, MAINTAIN INFRASTRUCTURE AND BUILD THE
12 FASTRACKS SYSTEM. PROPOSITION 101 WILL RESULT IN THE POTENTIAL OF A REDUCTION IN
13 SERVICE, DEFERRAL OF CAPITAL PROJECTS, LOSS OF JOBS, OR A COMBINATION THEREOF.
14 CERTAIN TRANSIT DEPENDENT PATRONS WILL HAVE LIMITED OPTIONS FOR GETTING TO WORK
15 AND MEDICAL APPOINTMENTS. PROPOSITION 101 WILL REDUCE THE AMOUNT OF MONEY
16 AVAILABLE FOR THE RTD OPERATING BUDGET BY AN ESTIMATED 6% ONCE FULLY
17 IMPLEMENTED.

18 **State Income Tax**

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

23 Proposition 101 gradually lowers the state income tax rate from 4.63 percent to
24 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This
25 will reduce income tax collections to the state by an estimated \$145 million, or
26 3 percent. The tax bill for a household with an annual income of \$55,000 will be
27 reduced by \$40 in 2011. In the future, the rate is reduced by 0.1 percentage point
28 each year in which state income tax collections grow by more than 6 percent. For
29 example, if tax collections increase fast enough, the income tax rate will decrease
30 from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate
31 decreases to 3.5 percent.

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

38 **Vehicle Fees and Taxes**

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

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

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

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

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

35 /b Currently, the average registration and license fees are lower than the average payment shown in the table, but are
 36 estimated to increase to the amounts shown over the next year. The collections numbers represent registration and
 37 license fee impacts assuming what the fees will be when they are increased.

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

39 **Vehicle owners.** Upon purchase, vehicle buyers are required to pay sales tax. In
 40 addition, each year vehicle owners must register their vehicle(s) with the state and pay

Terry Howerter, RTD

1 registration fees and a specific ownership tax. Proposition 101 reduces all three
2 taxes and fees.

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

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

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

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

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

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

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

1 \$215 MILLION EACH YEAR. Tax and fee collections to the state government would be
2 reduced by an estimated \$183 million each year.

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

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

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

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

34 Tax and fee collections for local governments are expected to fall by at least
35 \$966 million in the first year of implementation and by \$4.7 billion when the measures
36 are fully implemented. However, the net impact on local government budgets would be
37 at least \$581 million in the first year and \$3.1 billion when fully implemented after the
38 state reimburses school districts.

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

1 **Arguments For**

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

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

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

31 **Arguments Against**

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

1 2) Proposition 101 will hurt the ability of the state and local communities to maintain
2 already inadequate roads and bridges and provide public transportation. Studies show
3 that Colorado needs more than twice as much money each year than it currently spends
4 just to maintain existing roads and bridges. Proposition 101 would cut state
5 transportation funding by an estimated 28 percent. In 2009 alone, the state and local
6 governments maintained more than 193,000 lane miles of roadway and 8,000 bridges.
7 The state also snow-plowed and sanded 5.6 million miles of highway, repaired 77,000
8 street signs, and monitored 278 avalanche paths. Public health and safety may also be
9 affected due to fewer resources for emergency medical services, vehicle emission
10 programs, and road maintenance. PUBLIC TRANSPORTATION IN THE STATE AND IN THE
11 DENVER METROPOLITAN AREA WILL BE NEGATIVELY AFFECTED BY THE DECREASE IN SALES TAX
12 COLLECTIONS. FOR THE REGIONAL TRANSPORTATION DISTRICT, THE POTENTIAL ANNUAL LOSS
13 OF \$33 MILLION COULD RESULT IN AN APPROXIMATE 15-20 PERCENT REDUCTION IN SERVICE,
14 LAYOFFS, OR MANDATORY FURLOUGHS, SUBSTANTIAL REDUCTION IN CAPITAL ACQUISITIONS
15 (BUS AND RAIL), OTHER CAPITAL PROJECT ELIMINATION OR DEFERRAL, OR A COMBINATION OF
16 THE PREVIOUS IMPACTS.

17 3) Cuts to government services may result in hardship for families who have to pay
18 for services that governments will no longer be able to afford. For example, tuition will
19 likely increase, putting college out of reach for many households. Higher-income
20 people, who are better able to absorb these cost increases, will benefit the most from
21 the reduced taxes and fees in Proposition 101. Low- and middle-income people will be
22 less able to absorb the costs. Proposition 101 also eliminates fees that pay for services
23 to help those with lower incomes and people who are deaf, speech impaired, or blind
24 communicate within society. CUTS TO MASS TRANSIT SERVICE, INCLUDING PARATRANSIT
25 SERVICES, WILL NEGATIVELY IMPACT TRANSIT DEPENDENT PATRONS WHO HAVE NO OTHER
26 MEANS OF TRANSPORTATION TO JOBS AND MEDICAL APPOINTMENTS. IN ADDITION, LESS MASS
27 TRANSIT WILL FORCE MORE PEOPLE TO DRIVE, CREATING MORE CONGESTION AND POLLUTION.

28 **Estimate of Fiscal Impact**

29 **State revenue.** Proposition 101 contains several provisions that decrease revenue
30 to the state government. Because some of the reductions are phased in over time, the
31 reduction in revenue will be lower at first. The first year reduction is estimated to be
32 \$744 million, which includes \$295 million less in vehicle fees that are
33 constitutionally-required to be used for transportation-related spending. When fully
34 implemented, state tax and fee collections would decrease by an estimated \$1.9 billion
35 in today's dollars.

36 **State spending.** The state will have less money available for spending on its
37 operating programs and transportation budget. Though the reductions to the
38 transportation budget will be immediate, the reductions to operating programs will occur
39 over time as the cuts to the income and sales tax are phased in. The state will have
40 \$450 million, or 6 percent, less in the first year to spend on operating programs.
41 Further, the state will have about \$295 million, or 28 percent, less to spend on
42 transportation. When fully implemented, the state would have \$1.6 billion, or 23
43 percent, less in today's dollars to spend on operating programs. The impact on the
44 state's operating programs depend on the future budgeting decisions of the state
45 legislature.

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

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

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

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

25 **Impact on taxpayers.** Proposition 101 will reduce households' and businesses' tax
26 and fee bills by different amounts depending on their income, the number and type of
27 vehicles they have, the costs of their phone and cable bills, and whether they purchase,
28 rent, or lease vehicles in a given year. In the first year, before all the tax and fee
29 reductions are fully implemented, an average household with an annual income of
30 \$55,000 would experience a reduction in their tax and fee bill of about \$313. When fully
31 implemented, the total tax and fee bill for this household would be reduced by about
32 \$708 annually in today's dollars. There would be additional reductions if the household
33 purchases, rents, or leases a vehicle. Businesses will also experience reductions in
34 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

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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 utmost 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

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**Proposition 101
Income, Vehicle, and Telecommunication Taxes and Fees**

1 **Proposition 101 proposes amending the Colorado statutes to:**

- 2 ◆ reduce the state income tax rate from 4.63 percent to 4.5 percent in
3 2011, and to 3.5 percent gradually over time;
- 4 ◆ reduce or eliminate taxes and fees on vehicle purchases, registrations,
5 leases, and rentals over the next four years;
- 6 ◆ eliminate all state and local taxes and fees on telecommunication
7 services, except 911 fees; and
- 8 ◆ require voter approval to create or increase fees on vehicles and
9 telecommunication services.

10 **Summary and Analysis**

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

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

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

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

Michael R. Johnson, Kutak Rock

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	<i>Household Description:</i> 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	<i>Household Description:</i> 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	<i>Household Description:</i> 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.

1 **Table 2. Annual Change in Government Tax and Fee Collections**
 2 **Due to Proposition 101, First-Year Impact and When Fully Implemented**
 3 *(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.

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

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

38 ~~Current law~~ STATE STATUTES (WHICH MAY BE AMENDED OR REPEALED BY THE STATE
 39 LEGISLATURE) requires the state to reimburse school districts for most of their loss of
 40 vehicle specific ownership taxes. This obligation increases the total impact on the state
 41 general operating budget during the first year from the \$450 million shown in Table 2 to
 42 \$497 million, and when fully implemented, from \$1.6 billion to \$1.8 billion.

43 **Impact on state and local government transportation budgets.** Proposition 101
 44 reduces funding dedicated to transportation budgets. The state constitution requires

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1 that vehicle-related fees collected by the state be spent on road safety, construction,
2 and maintenance. This money is shared between the state, cities, and counties. The
3 state's transportation budget will decrease by an estimated 28 percent from these fee
4 reductions. The impact on city and county government transportation budgets will vary
5 by government. Because cuts affecting transportation budgets are immediate, the full
6 impact shown in Table 2 will occur in 2011.

7

State Income Tax

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

12 Proposition 101 gradually lowers the state income tax rate from 4.63 percent to
13 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This will
14 reduce income tax collections to the state by an estimated \$145 million, or 3 percent.
15 The tax bill for a household with an annual income of \$55,000 will be reduced by \$40 in
16 2011. In the future, the rate is reduced by 0.1 percentage point each year in which
17 state income tax collections grow by more than 6 percent. For example, if tax
18 collections increase fast enough, the income tax rate will decrease from 4.5 percent to
19 4.4 percent in 2012. This will occur until the income tax rate decreases to 3.5 percent.

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

26

Vehicle Fees and Taxes

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

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

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

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

32 /b Currently, the average registration and license fees are lower than the average payment shown in the table, but are
 33 estimated to increase to the amounts shown over the next year. The collections numbers represent registration and
 34 license fee impacts assuming what the fees will be when they are increased.

35 /c Current law STATE STATUTES (WHICH MAY BE AMENDED OR REPEALED BY THE STATE LEGISLATURE) requires the state to
 36 reimburse school districts for most of their loss of specific ownership taxes.

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

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

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

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

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

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

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

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

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

37 Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales
38 taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This
39 will reduce state and local sales tax collections by an estimated \$65 million per year, or
40 1 percent. It will also eliminate all specific ownership taxes collected by local
41 governments on leased vehicles.

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1 Vehicle registration and licensing fees. Leased vehicles are also required to be
2 registered with the state and lessees must pay annual registration fees. Beginning in
3 2011, Proposition 101 eliminates all registration fees and imposes a single \$10 fee per
4 vehicle, resulting in a reduction of \$71 for vehicle lessees. The measure reduces state
5 and local collections by approximately \$75 million per year.

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

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

17 **Telecommunication Fees and Taxes**

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

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

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

40 **New voter approval requirements.** Proposition 101 redefines all
41 telecommunication fees and most vehicle fees as taxes. Because the state constitution
42 requires a vote to increase taxes but not to increase fees, governments will need to ask
43 voters for permission to create new or increase existing vehicle or telecommunication
44 charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls,

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1 vehicle impound fees, vehicle identification and emission inspection fees, and new
2 license plate fees from this requirement.

3 ***How does Proposition 101 interact with two other measures on the ballot?***

4 Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see
5 page x) contain provisions that affect state and local government finances by decreasing
6 taxes paid by households and businesses and restricting government borrowing. How
7 these measures work together may require clarification from the state legislature or the
8 courts.

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

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

27 Tax and fee collections for local governments are expected to fall by at least
28 \$966 million in the first year of implementation and by \$4.7 billion when the measures
29 are fully implemented. However, the net impact on local government budgets would be
30 at least \$581 million in the first year and \$3.1 billion when fully implemented after the
31 state reimburses school districts.

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

37 **Arguments For**

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

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

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

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

24 **Arguments Against**

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

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

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

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

13 **Estimate of Fiscal Impact**

14 **State revenue.** Proposition 101 contains several provisions that decrease revenue
15 to the state government. Because some of the reductions are phased in over time, the
16 reduction in revenue will be lower at first. The first year reduction is estimated to be
17 \$744 million, which includes \$295 million less in vehicle fees that are
18 constitutionally-required to be used for transportation-related spending. When fully
19 implemented, state tax and fee collections would decrease by an estimated \$1.9 billion
20 in today's dollars.

21 **State spending.** The state will have less money available for spending on its
22 operating programs and transportation budget. Though the reductions to the
23 transportation budget will be immediate, the reductions to operating programs will occur
24 over time as the cuts to the income and sales tax are phased in. The state will have
25 \$450 million, or 6 percent, less in the first year to spend on operating programs.
26 Further, the state will have about \$295 million, or 28 percent, less to spend on
27 transportation. When fully implemented, the state would have \$1.6 billion, or 23
28 percent, less in today's dollars to spend on operating programs. The impact on the
29 state's operating programs depend on the future budgeting decisions of the state
30 legislature.

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

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

42 **Local revenue and spending.** Because reductions in the local sales tax on
43 vehicles are phased in over four years, revenue decreases in the first few years will be

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1 lower than when the measure is fully implemented. Local government revenue is
2 estimated to be reduced by \$629 million in the first year, with \$99 million of this amount
3 for transportation projects. When fully implemented, local government revenue would
4 decrease by an estimated \$1.0 billion in today's dollars. However, since current law
5 requires the state to replace most of the loss of vehicle specific ownership taxes for
6 school districts, the net impact on local government budgets would be \$580 million in the
7 first year and \$880 million when fully implemented.

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

12 **Impact on taxpayers.** Proposition 101 will reduce households' and businesses' tax
13 and fee bills by different amounts depending on their income, the number and type of
14 vehicles they have, the costs of their phone and cable bills, and whether they purchase,
15 rent, or lease vehicles in a given year. In the first year, before all the tax and fee
16 reductions are fully implemented, an average household with an annual income of
17 \$55,000 would experience a reduction in their tax and fee bill of about \$313. When fully
18 implemented, the total tax and fee bill for this household would be reduced by about
19 \$708 annually in today's dollars. There would be additional reductions if the household
20 purchases, rents, or leases a vehicle. Businesses will also experience reductions in
21 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.

Proposition 101 Income, Vehicle, and Telecommunication Taxes and Fees

1 **Proposition 101 proposes amending the Colorado statutes to:**

- 2 ◆ reduce the state income tax rate from 4.63 percent to 4.5 percent in
3 2011, and to 3.5 percent gradually over time;
- 4 ◆ reduce or eliminate taxes and fees on vehicle purchases, registrations,
5 leases, and rentals over the next four years;
- 6 ◆ eliminate all state and local taxes and fees on telecommunication
7 services, except 911 fees; and
- 8 ◆ require voter approval to create or increase fees on vehicles and
9 telecommunication services.

10 **Summary and Analysis**

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

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

22 In the first year, the tax and fee reductions are expected to be \$1.4 billion — \$744
23 million in state reductions and \$629 million in local government reductions. Once fully
24 implemented, the impact is expected to be \$2.9 billion in today's dollars — \$1.9 billion
25 in state reductions and \$1.0 billion in local government reductions. WITH FEWER
26 REVENUES, POLICY MAKERS WILL HAVE TO CUT OR ELIMINATE SERVICES, CHARGE
27 ADDITIONAL FEES TO PAY FOR THEM OR SOME COMBINATION OF BOTH.

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

Rich Jones and Wade Buchanan, Bell Policy Center

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

	Income Taxes	Vehicle Fees & Taxes	Telecom Fees & Taxes	Total
Household A	<i>Household Description:</i> 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	<i>Household Description:</i> 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	<i>Household Description:</i> 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

18 * Totals may not sum due to rounding.

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

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

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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

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1 counties. The state's transportation budget will decrease by an estimated 28 percent
2 from these fee reductions. The impact on city and county government transportation
3 budgets will vary by government. Because cuts affecting transportation budgets are
4 immediate, the full impact shown in Table 2 will occur in 2011. THE REVENUE
5 REDUCTIONS WILL LIMIT STATE AND LOCAL GOVERNMENTS' ABILITY TO MAINTAIN AND REPAIR
6 ROADS. IN PARTICULAR, PROPOSITION 101 ELIMINATES FEES THAT WILL MAKE IT MORE
7 DIFFICULT TO PAY FOR FIXING COLORADO'S STRUCTURALLY DEFICIENT BRIDGES.

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

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

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

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

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

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

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State Income Tax

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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.

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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.

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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.

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[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.]

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Vehicle Fees and Taxes

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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.

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**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 <i>Four-year Phase in (2011 to 2014)</i>	\$2,100 one-time payment	\$1,400 one-time payment	-\$335 million total for state and local
Registration and Licensing Fees /b <i>Fully Implemented in 2011</i>	\$81 paid once per year	\$10 paid once per year	-\$300 million total for state and local
Specific Ownership Tax <i>Four-year Phase in (2011 to 2014)</i>	\$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 <i>Fully Implemented in 2011</i>	\$1,080 total (\$30 paid monthly during lease term)	\$0	-\$65 million total for state and local
Registration and Licensing Fees /b <i>Fully Implemented in 2011</i>	\$81 paid once per year	\$10 paid once per year	-\$75 million total for state and local
Specific Ownership Tax <i>Fully Implemented in 2011</i>	\$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 <i>Fully Implemented in 2011</i>	\$2.45 per rental day	\$0	-\$80 million total for state and local
State Car Rental Fee <i>Fully Implemented in 2011</i>	\$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.*

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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

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

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

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

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

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

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

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

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

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1 Vehicle registration and licensing fees. Leased vehicles are also required to be
2 registered with the state and lessees must pay annual registration fees. Beginning in
3 2011, Proposition 101 eliminates all registration fees and imposes a single \$10 fee per
4 vehicle, resulting in a reduction of \$71 for vehicle lessees. The measure reduces
5 state and local collections by approximately \$75 million per year.

6 **Vehicle renters.** The state charges a fee of \$2 per day for car rentals. The
7 money is shared by the state, cities, and counties to build, repair, and maintain roads
8 and bridges. Sales tax is also applied, with revenue going to the state and local
9 governments. Proposition 101 eliminates the fee and all sales taxes beginning in
10 2011. As a result, state and local transportation budgets will have an estimated
11 \$19 million less per year in fee collections and \$80 million less in sales tax collections.

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

17 **Telecommunication Fees and Taxes**

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

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

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

40 **New voter approval requirements.** Proposition 101 redefines all
41 telecommunication fees and most vehicle fees as taxes. Because the state constitution
42 requires a vote to increase taxes but not to increase fees, governments will need to ask
43 voters for permission to create new or increase existing vehicle or telecommunication
44 charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls,

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1 vehicle impound fees, vehicle identification and emission inspection fees, and new
2 license plate fees from this requirement.

3 ***How does Proposition 101 interact with two other measures on the ballot?***

4 Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see
5 page x) contain provisions that affect state and local government finances by decreasing
6 taxes paid by households and businesses and restricting government borrowing. How
7 these measures work together may require clarification from the state legislature or the
8 courts.

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

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

27 Tax and fee collections for local governments are expected to fall by at least
28 \$966 million in the first year of implementation and by \$4.7 billion when the measures
29 are fully implemented. However, the net impact on local government budgets would be
30 at least \$581 million in the first year and \$3.1 billion when fully implemented after the
31 state reimburses school districts.

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

37 ONE ANALYSIS BY A PRIVATE CONSULTING FIRM SHOWED THAT THE REDUCED REVENUES
38 TO GOVERNMENTS WILL RESULT IN THE DIRECT LOSS OF BETWEEN 67,000 AND 73,000
39 PRIMARY JOBS STATEWIDE. BECAUSE MANY OF THESE REVENUES GO TO PAY PRIVATE SECTOR
40 DOCTORS, HOSPITALS, PRIVATE ROAD CONSTRUCTION FIRMS AND OTHER VENDERS, NEARLY 60
41 PERCENT OF THE PROJECTED JOBS LOST WILL BE IN THE PRIVATE SECTOR STATEWIDE. THIS
42 DOES NOT INCLUDE INDIRECT JOB LOSSES STEMMING FROM REDUCED SPENDING BY THOSE
43 UNEMPLOYED. THIS LEVEL OF JOB LOSS APPROACHES THE OVER 110 THOUSAND JOBS
44 COLORADO HAS LOST IN THIS RECESSION.

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

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

13 There is only a passing reference to job losses in the arguments against on page 9, line
14 34. The effects of this proposal on the state’s economy and jobs needs to be discussed
15 more prominently in the summary and analysis section where a number of Proposition
16 101 “impacts” are described. Doing so will give voters a more complete picture of the
17 impacts of Proposition 101.]

18 **Arguments For**

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

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

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

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

4 **Arguments Against**

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

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

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

38 **Estimate of Fiscal Impact**

39 **State revenue.** Proposition 101 contains several provisions that decrease revenue
40 to the state government. Because some of the reductions are phased in over time, the
41 reduction in revenue will be lower at first. The first year reduction is estimated to be
42 \$744 million, which includes \$295 million less in vehicle fees that are
43 constitutionally-required to be used for transportation-related spending. When fully

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1 implemented, state tax and fee collections would decrease by an estimated \$1.9 billion
2 in today's dollars.

3 **State spending.** The state will have less money available for spending on its
4 operating programs and transportation budget. Though the reductions to the
5 transportation budget will be immediate, the reductions to operating programs will occur
6 over time as the cuts to the income and sales tax are phased in. The state will have
7 \$450 million, or 6 percent, less in the first year to spend on operating programs.
8 Further, the state will have about \$295 million, or 28 percent, less to spend on
9 transportation. When fully implemented, the state would have \$1.6 billion, or 23
10 percent, less in today's dollars to spend on operating programs. The impact on the
11 state's operating programs depend on the future budgeting decisions of the state
12 legislature.

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

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

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

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

37 **Impact on taxpayers.** Proposition 101 will reduce households' and businesses' tax
38 and fee bills by different amounts depending on their income, the number and type of
39 vehicles they have, the costs of their phone and cable bills, and whether they purchase,
40 rent, or lease vehicles in a given year. In the first year, before all the tax and fee
41 reductions are fully implemented, an average household with an annual income of
42 \$55,000 would experience a reduction in their tax and fee bill of about \$313. When fully
43 implemented, the total tax and fee bill for this household would be reduced by about
44 \$708 annually in today's dollars. There would be additional reductions if the household
45 purchases, rents, or leases a vehicle. Businesses will also experience reductions in
46 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 vendors, nearly 60 percent of the projected jobs lost will be in the private sector statewideⁱ. 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 7 must 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.

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

1 **Proposition 101 proposes amending the Colorado statutes to:**

- 2 ◆ ~~reduce the state income tax rate from 4.63 percent to 4.5 percent in~~
3 ~~2011, and to 3.5 percent gradually over time;~~ REDUCE OR ELIMINATE
4 TAXES AND FEES ON VEHICLE PURCHASES, REGISTRATIONS, LEASES, AND
5 RENTALS OVER THE NEXT FOUR YEARS;
- 6 ◆ ~~reduce or eliminate taxes and fees on vehicle purchases, registrations,~~
7 ~~leases, and rentals over the next four years;~~ REDUCE THE STATE INCOME
8 TAX RATE FROM 4.63 PERCENT TO 4.5 PERCENT IN 2011, AND TO 3.5
9 PERCENT GRADUALLY OVER THE NEXT 15 TO 20 YEARS;
- 10 ◆ eliminate all state and local taxes and fees on telecommunication
11 services, except 911 fees; and
- 12 ◆ require voter approval to create or increase fees on vehicles and
13 telecommunication services.

14 **Summary and Analysis**

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

19 Some of the ~~reductions~~ CHANGES in Proposition 101 are phased in over time. The
20 ~~impact~~ EFFECT will be smaller in the first year and will grow in size over the next 15 to
21 20 years. Estimates of the ~~impact~~ EFFECT in the first year, as well as the ~~impact~~
22 EFFECT once the ~~reductions~~ CHANGES are fully implemented, are based on today's
23 dollars. The fully implemented ~~impacts~~ EFFECTS provide ~~the best estimates~~ A BETTER
24 ESTIMATE of the measure's final effects. Although the actual dollar amounts will differ
25 in the future as inflation and growth increase the size of the economy, the comparable
26 budget ~~impacts~~ EFFECTS on taxpayers and governments are expected to remain
27 consistent over time.

28 In the first year, the tax and fee ~~reductions~~ CHANGES are expected to be \$1.4 billion
29 — \$744 million in state ~~reductions~~ CHANGES and \$629 million in local government
30 ~~reductions~~ CHANGES. Once fully implemented IN 15 TO 20 YEARS, the ~~impact~~ EFFECT IS
31 expected to be \$2.9 billion in today's dollars — \$1.9 billion in state ~~reductions~~ CHANGES
32 and \$1.0 billion in local government ~~reductions~~ CHANGES. *[Comment: Ms. Menten*
33 *disagrees with the numbers in this section. She also requested that a different*
34 *accounting system be disclosed.]*

35 **Impact EFFECT on households and businesses.** Table 1 shows the estimated
36 change in tax and fee bills for three different households as a result of
37 Proposition 101, in both the first full year the measure is in effect and when the

Natalie Menten, COtaxreform.com

1 measure is fully implemented, in today's dollars. Businesses will also experience
2 ~~reductions~~ TAX-FREE SAVINGS in taxes and fees. Households and businesses will be
3 ~~impacted~~ AFFECTED differently depending on annual income, vehicles owned, vehicles
4 purchased, and the amount paid for phone and cable service. Households and
5 businesses will experience additional ~~reductions~~ TAX-FREE SAVINGS during years in
6 which vehicles are rented, leased, or purchased.

7 **[Comment:** Ms. Menten questioned whether gross income or taxable income is being
8 used in the analysis and stated that the analysis should note which one is used. Ms.
9 Menten also indicated that the analysis should state the assumed deduction
10 percentage. Ms. Menten also indicated the analysis does not state how many years of
11 income tax relief is being used, (e.g., 15? 20?). Also, she indicated that the analysis'
12 final year savings is not ten times the first year and that it assumed static income for
13 20 years. Ms. Menten asked that the analysis disclose the assumptions and
14 discounted current value calculation. Also, the analysis should use 26 percent as the
15 stated tax savings.]

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

	Income Taxes	Vehicle Fees & Taxes	Telecom Fees & Taxes	Total
Household A	<i>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.</i>			
TAX-FREE SAVINGS First Year	-\$20	-\$72	-\$43	-\$135
TAX-FREE SAVINGS Fully Implemented	-\$185	-\$73	-\$43	-\$301
Household B	<i>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.</i>			
TAX-FREE SAVINGS First Year	-\$40	-\$180	-\$93	-\$313
TAX-FREE SAVINGS Fully Implemented	-\$320	-\$295	-\$93	-\$708
Household C	<i>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.</i>			
TAX-FREE SAVINGS First Year	-\$90	-\$327	-\$128	-\$545
TAX-FREE SAVINGS Fully Implemented	-\$780	-\$883	-\$128	-\$1,791

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

28 **Impact EFFECT on government budgets.** Table 2 shows the estimated ~~impact~~
 29 EFFECT of Proposition 101 on tax and fee collections used for local government
 30 budgets AND the state's general operating budget and ~~transportation budgets~~ in the
 31 first year and once it is fully implemented. All of these ~~impacts~~ EFFECTS are shown in
 32 today's dollars. More information on the ~~impact~~ EFFECT on each type of budget
 33 follows. As a result of the decrease in tax and fee collections, state and local
 34 governments ~~will have to~~ MAY decrease spending and services, increase fees to pay
 35 for services, FIND GREATER EFFICIENCY OR DIFFERENT PRIORITIES, IMPLEMENT HIRING
 36 FREEZES OR LIMITS ON SALARY-PENSION-BENEFIT PAYMENTS, USE RESERVES OR SOME

1 combination. of both. GOVERNMENT REVENUE WILL CONTINUE TO GROW YEARLY,
 2 HISTORICALLY AT A FASTER RATE THAN ANY ANNUAL TAX RELIEF AMOUNT.

3 **Table 2. Annual Change in Government Tax and Fee Collections**
 4 **Due to Proposition 101, First-Year Impact EFFECT and When Fully Implemented**
 5 *(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

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

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

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

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

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

4 ~~**Impact on state and local government transportation budgets.**~~ Proposition
5 101 reduces funding dedicated to transportation budgets. The state constitution
6 requires that vehicle-related fees collected by the state be spent on road safety,
7 construction, and maintenance. This money is shared between the state, cities, and
8 counties. The state's transportation budget will decrease by an estimated 28 percent
9 from these fee reductions. The impact on city and county government transportation
10 budgets will vary by government. Because cuts affecting transportation budgets are
11 immediate, the full impact shown in Table 2 will occur in 2011.

12 **State Income Tax**

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

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

19 Proposition 101 gradually lowers the state income tax rate from 4.63 percent to
20 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This
21 will ~~reduce~~ SLOW THE RATE OF INCREASE IN income tax collections to the state by an
22 estimated \$145 million, or 3 percent. The tax bill for a household with an annual
23 income of \$55,000 will be reduced by ~~\$40~~ 3 PERCENT TAX FREE in 2011. In the future,
24 the rate is reduced by 0.1 percentage point, TAX FREE, each year in which state income
25 tax collections grow by more than 6 percent. For example, if tax collections increase
26 fast enough, the income tax rate will decrease from 4.5 percent to 4.4 percent in 2012.
27 This will occur until the income tax rate decreases to 3.5 percent.

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

35 **Vehicle Fees and Taxes**

36 Proposition 101 reduces several types of vehicle fees and taxes as shown in
37 Table 3. The amounts in the table show the ~~impact~~ EFFECT when the ~~reductions~~
38 ~~CHANGES~~ are fully implemented — sales tax ~~reductions~~ ~~CHANGES~~ on vehicle purchases
39 and specific ownership tax ~~reductions~~ ~~CHANGES~~ are phased in over a four-year period,
40 while all other vehicle fee and tax changes occur in 2011. The total amount of the
41 ~~reduction~~ CHANGE in vehicle fees and taxes, when fully implemented, is estimated at
42 \$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 /e 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 /e 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.

/e 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.).

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

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

11 Proposition 101 reduces the sales taxes due on vehicle purchases by exempting
12 the first \$10,000 of the vehicle's price and any manufacturer's rebate from the sales
13 tax. The \$10,000 exemption is phased in over a four-year period beginning in 2011.
14 When fully implemented, vehicles worth \$10,000 or less will not have a sales tax bill.
15 Vehicles with greater values will receive a \$10,000 exemption. For example, a vehicle
16 purchased for \$18,000 will be taxed only on \$8,000 of the value. This sales tax cut will
17 reduce local government SALES tax collections by an estimated \$195 million, or
18 6 percent, and state government SALES tax collections by an estimated \$140 million, or
19 7 percent.

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

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

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

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

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

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

9 Vehicle registration and licensing fees. Leased vehicles are also required to be
10 registered with the state and lessees must now pay annual registration fees.
11 Beginning in 2011, Proposition 101 eliminates all registration fees. ~~and imposes a~~
12 ~~single \$10 fee per vehicle,~~ resulting in ~~a~~ AN AVERAGE reduction of ~~\$74~~ \$81 for vehicle
13 lessees. The measure reduces state and local collections by approximately \$75
14 million per year.

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

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

28 **Telecommunication Fees and Taxes**

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

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

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

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

16 **[First Preference]**

17 ***How does Proposition 101 interact with two other measures on the ballot?***

18 Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see
19 page x) contain provisions that affect state and local government finances by decreasing
20 taxes paid by households and businesses and restricting government borrowing. How
21 these measures work together may require clarification from the state legislature or the
22 courts.

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

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

41 Tax and fee collections for local governments are expected to fall by at least
42 \$966 million in the first year of implementation and by \$4.7 billion when the measures
43 are fully implemented. However, the net impact on local government budgets would be
44 at least \$581 million in the first year and \$3.1 billion when fully implemented after the
45 state reimburses school districts.

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

6 **[Second Preference]**

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

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

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

32 Tax and fee collections for local governments are expected to fall by at least
33 \$966 million in the first year of implementation and by \$4.7 billion when the measures
34 are fully implemented. However, the net impact on local government budgets would be
35 at least \$581 million in the first year and \$3.1 billion when fully implemented after the
36 state reimburses school districts.

37 Total taxes and fees paid by households and businesses are estimated to decrease
38 by \$1.7 billion (ABOUT 2 PERCENT OF TOTAL STATE AND LOCAL SPENDING) in the first year
39 and \$6.8 billion per year in today's dollars when the measures are fully implemented.
40 The measures reduce the taxes and fees owed by an average household making
41 \$55,000 per year that owns a \$295,000 house by an estimated \$400 in the first year and
42 \$1,660 per year when fully implemented.

43 **[Comment: Does your "first-year" impact include property tax replacement that won't**
44 **occur until the second year (2012)? We dispute your \$717M and \$385M figures as too**

1 high. The income tax percentage point phase out occurs only when revenue grows
2 much faster than the effect of the 0.1 percent rate trim, so there is no year-to-year loss
3 possible. You are making up a number that cannot exist. You also ignore dynamic
4 scoring and the stimulative effect on the Colorado economy. Your other dollar amounts
5 are also too high.]

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

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

18 Arguments For

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

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

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

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

11 **Arguments Against**

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

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

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

1 **Estimate of Fiscal Impact**

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

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

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

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

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

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

1 **Impact EFFECT on taxpayers.** Proposition 101 will reduce households¹ HOUSEHOLD
2 and businesses¹ BUSINESS tax and fee bills by different amounts depending on their
3 income, the number and type of vehicles they have, the costs of their phone and cable
4 bills, and whether they OWN, purchase, rent, or lease vehicles in a given year. In the
5 first year, before all the tax and fee reductions¹ CHANGES are fully implemented, an
6 average household with an annual income of \$55,000 would experience a reduction
7 CHANGE in their tax and fee bill of about \$313, TAX FREE. When fully implemented, the
8 total tax and fee bill for this household would be reduced by about \$708 TAX FREE
9 annually in today's dollars. There would be additional reductions¹ CHANGES if the
10 household purchases, rents, or leases a vehicle. Businesses will also experience
11 reductions¹ CHANGES in taxes and fees. **[Comment: Ms. Menten disagrees with the**
12 **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

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Proposition 101 Income, Vehicle, and Telecommunication Taxes and Fees

1 **Proposition 101 proposes amending the Colorado statutes to:**

- 2 ◆ reduce the state income tax rate from 4.63 percent to 4.5 percent in
3 2011, and to 3.5 percent gradually over time;
- 4 ◆ reduce or eliminate taxes and fees on vehicle purchases, registrations,
5 leases, and rentals over the next four years;
- 6 ◆ eliminate all state and local taxes and fees on telecommunication
7 services, except 911 fees; and
- 8 ◆ require voter approval to create or increase fees on vehicles and
9 telecommunication services.

10 **Summary and Analysis**

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

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

22 In the first year, the tax and fee reductions are expected to be \$1.3 billion —
23 \$717 million in state reductions and \$587 million in local government reductions.
24 Once fully implemented, the impact is expected to be \$2.9 billion in today's dollars —
25 \$1.9 billion in state reductions and \$1.0 billion in local government reductions.

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

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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	<i>Household Description:</i> 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	<i>Household Description:</i> 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	<i>Household Description:</i> 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.

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**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

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1 from these fee reductions. The impact on city and county government transportation
2 budgets will vary by government. Because cuts affecting transportation budgets are
3 immediate, the full impact shown in Table 2 will occur in 2011.

4 **State Income Tax**

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

9 Proposition 101 gradually lowers the state income tax rate from 4.63 percent to
10 3.5 percent over time. The rate is first lowered to 4.5 percent starting in 2011. This
11 will reduce income tax collections to the state by an estimated \$145 million, a
12 decrease of 3 percent. The tax bill for a household with an annual income of \$55,000
13 will be reduced by \$40 in 2011. In the future, the rate is reduced by 0.1 percentage
14 point each year in which state income tax collections grow by more than 6 percent.
15 For example, if tax collections increase fast enough, the income tax rate will decrease
16 from 4.5 percent to 4.4 percent in 2012. This will occur until the income tax rate
17 decreases to 3.5 percent. When the tax rate is fully reduced, income tax collections to
18 the state will be an estimated 26 percent less, or a decline of \$1.3 billion in today's
19 dollars. The tax bill for a household with an annual income of \$55,000 will be reduced
20 by \$320 when the cut is fully phased in. Because income tax collections historically
21 have not grown by more than 6 percent every year, it will likely take 15 to 20 years for
22 the tax rate to reach 3.5 percent.

23 **Vehicle Fees and Taxes**

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

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**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 <i>Four-year Phase-in (2011 to 2014)</i>	\$2,100 one-time payment	\$1,400 one-time payment	-\$285 million total for state and local
Registration and Licensing Fees /b <i>Fully Implemented in 2011</i>	\$81 paid once per year	\$10 paid once per year	-\$300 million total for state and local
Specific Ownership Tax <i>Four-year Phase-in (2011 to 2014)</i>	\$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 <i>Fully Implemented in 2011</i>	\$1,080 total (\$30 paid monthly during lease term)	\$0	-\$60 million total for state and local
Registration and Licensing Fees /b <i>Fully Implemented in 2011</i>	\$81 paid once per year	\$10 paid once per year	-\$75 million total for state and local
Specific Ownership Tax <i>Fully Implemented in 2011</i>	\$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 <i>Fully Implemented in 2011</i>	\$2.45 per rental day	\$0	-\$80 million total for state and local
State Car Rental Fee <i>Fully Implemented in 2011</i>	\$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.

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

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

5 Proposition 101 reduces the sales taxes due on vehicle purchases by exempting
6 the first \$10,000 of the vehicle's price and any manufacturer's rebate from the sales
7 tax. The \$10,000 exemption is phased in over a four-year period beginning in 2011.
8 When fully implemented, vehicles worth \$10,000 or less will not have a sales tax bill.
9 Vehicles with greater values will receive a \$10,000 "write-off." For example, a vehicle
10 purchased for \$18,000 will be taxed only on \$8,000 of the value. This sales tax cut will
11 reduce local government tax and fee collections by an estimated \$165 million, or
12 5 percent, and state government tax and fee collections by an estimated \$120 million,
13 or 6 percent.

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

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

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

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

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

39 Vehicle sales tax and specific ownership tax. Proposition 101 eliminates sales
40 taxes and annual specific ownership taxes on leased vehicles beginning in 2011. This
41 will reduce state and local sales tax collections by an estimated \$60 million per year,

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1 or 1 percent. It will also eliminate all specific ownership taxes collected by local
2 governments on leased vehicles.

3 Vehicle registration and licensing fees. Leased vehicles are also required to be
4 registered with the state and lessees must pay annual registration fees. Beginning in
5 2011, Proposition 101 eliminates all registration fees and imposes a single \$10 fee per
6 vehicle, resulting in a reduction of \$71 for vehicle lessees. The measure reduces
7 state collections by approximately \$75 million per year.

8 **Vehicle renters.** The state charges a fee of \$2 per day for car rentals. The
9 money is shared by the state, cities, and counties to build, repair, and maintain roads
10 and bridges. Sales tax is also applied, with revenue going to the state and local
11 governments. Proposition 101 eliminates the fee and all sales taxes beginning in
12 2011. As a result, state and local transportation budgets will have an estimated
13 \$19 million less per year in fee collections and \$80 million less in sales tax collections.

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

19 **Telecommunication Fees and Taxes**

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

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

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

38 **New voter approval requirements.** Proposition 101 redefines all
39 telecommunication fees and most vehicle fees as taxes. Because the state constitution
40 requires a vote to increase taxes but not to increase fees, governments will need to ask

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1 voters for permission to create new or increase existing vehicle or telecommunication
2 charges in the future. Proposition 101 excludes vehicle-related fines, parking fees, tolls,
3 vehicle impound fees, vehicle identification and emission inspection fees, and new
4 license plate fees from this requirement.

5 ***How does Proposition 101 interact with two other measures on the ballot?***

6 Proposition 101 along with Amendment 60 (see page x) and Amendment 61 (see
7 page x) contain provisions that affect state and local government finances by decreasing
8 taxes paid by households and businesses and restricting government borrowing. How
9 these measures work together may require clarification from the state legislature or the
10 courts.

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

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

28 Households and businesses are estimated to save \$1.6 billion in the first year and
29 \$7.1 billion per year in today's dollars when the measures are fully implemented. The
30 measures reduce the taxes and fees owed by an average household making \$55,000
31 per year that owns a \$295,000 house by an estimated \$400 in the first year and \$1,750
32 per year when fully implemented.

33 **Arguments For**

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

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

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

22 **Arguments Against**

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

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1 2) Proposition 101 will hurt the ability of the state and local communities to maintain
2 already inadequate roads and bridges and provide public transportation. Studies show
3 that Colorado needs more than twice as much money each year than it currently spends
4 just to maintain existing roads and bridges. Proposition 101 would cut state
5 transportation funding by an estimated 28 percent each year. In 2009 alone, the state
6 and local governments maintained more than 193,000 lane miles of roadway and
7 8,000 bridges. The state also snow-plowed and sanded 5.6 million miles of highway,
8 repaired 77,000 street signs, and monitored 278 avalanche paths. Public health and
9 safety may also be affected due to fewer resources for emergency medical services,
10 vehicle emission programs, and road maintenance.

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

18 **Estimate of Fiscal Impact**

19 **State revenue.** Proposition 101 contains several provisions that decrease revenue
20 to the state government. Because some of the reductions are phased in over time, the
21 reduction in revenue will be lower at first. The first year reduction is estimated to be
22 \$717 million, which includes \$295 million less in vehicle fees that are
23 constitutionally-required to be used for transportation-related spending. When fully
24 implemented, state tax and fee collections would decrease by an estimated \$1.9 billion
25 in today's dollars.

26 **State spending.** The state will have less money available for spending on its
27 operating programs and transportation budget. Though the reductions to the
28 transportation budget will be immediate, the reductions to operating programs will occur
29 over time as the cuts to the income and sales tax are phased in. The state will have
30 \$422 million, or 6 percent less, in the first year to spend on operating programs, such as
31 education, prisons, and social services. Further, the state will have about \$295 million,
32 or 28 percent, less to spend on transportation. When fully implemented, the state would
33 have \$1.6 billion, or 23 percent, less in today's dollars to spend on operating programs.
34 The impact on the state's operating programs depend on the future budgeting decisions
35 of the state legislature.

36 Proposition 101 will also create some additional costs for the state. The state will be
37 required to replace most of the loss of vehicle specific ownership taxes for school
38 districts. This will cause the state to spend an additional \$48 million in the first year and
39 \$121 million annually when the measure is fully implemented.

40 Also, Proposition 101 increases state administrative costs by about \$185,000 in
41 budget year 2010-11 and \$34,000 in the following few years to implement the reductions
42 in taxes, fees, and charges, and to audit compliance with the measure's provisions. The

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1 state's administrative costs will decrease in subsequent years as the tax and fee
2 reductions are fully implemented. It is estimated that the measure will require the
3 addition of 0.5 new staff in budget year 2010-11 and 0.25 new staff in the following few
4 years to administer the auditing of governments' tax and fee reductions.

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

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

15 **Impact on taxpayers.** Proposition 101 will reduce households' and businesses' tax
16 and fee bills by different amounts depending on their income, the number and type of
17 vehicles they have, the costs of their phone and cable bills, and whether they purchase
18 or lease vehicles in a given year. In the first year, before all the tax and fee reductions
19 are fully implemented, an average household with an annual income of \$55,000 would
20 experience a reduction in their tax and fee bill of about \$313. When fully implemented,
21 the total tax and fee bill for this household would be reduced by about \$708 annually in
22 today's dollars. There would be additional reductions if the household purchases or
23 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
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AMENDMENT 60 - PROPERTY TAXES
AMENDMENT 61 - LIMITS ON STATE AND LOCAL GOVERNMENT BORROWING
PROPOSITION 101 - INCOME, VEHICLE, AND TELECOMMUNICATIONS TAXES AND FEES
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Proposition 101
Income, Vehicle, and Telecommunication Taxes and Fees

1 **Ballot Title:** An amendment to the Colorado Revised Statutes concerning limits on
2 government charges, and, in connection therewith, reducing vehicle ownership taxes
3 over four years to nominal amounts; ending taxes on vehicle rentals and leases; phasing
4 in over four years a \$10,000 vehicle sale price tax exemption; setting total yearly
5 registration, license, and title charges at \$10 per vehicle; repealing other specific vehicle
6 charges; lowering the state income tax rate to 4.5% and phasing in a further reduction
7 in the rate to 3.5%; ending state and local taxes and charges, except 911 charges, on
8 telecommunication service customer accounts; and stating that, with certain specified
9 exceptions, any added charges on vehicles and telecommunication service customer
10 accounts shall be tax increases.

11 **Text of Proposal:**

12 *Be it Enacted by the People of the State of Colorado:*

13 Title 39, article 25 of the Colorado Revised Statutes

14 **Reducing government charges**

15 **(1) Enforcement.** This voter-approved revenue change shall be strictly enforced to
16 reduce government revenue. It is self-executing, severable, and a matter of statewide
17 concern that overrides conflicting statutes and local laws. Prevailing plaintiffs only shall
18 have their legal fees and court costs repaid. The state shall audit yearly compliance with
19 this reform to reduce unfair, complex charges on common basic needs.

20 **(2) Vehicle.** Starting January 1, 2011: (a) All annual specific ownership taxes shall
21 decrease in four equal yearly steps to: New vehicles, \$2; and other vehicles, \$1. All state
22 and local taxes shall cease on vehicle rentals and leases, and on \$10,000, reached in four
23 equal yearly steps, of sale prices per vehicle. Sale rebates are not taxable.

24 (b) All registration, license, and title charges combined shall total \$10 yearly per vehicle.
25 Except those charges, and tax, fine, toll, parking, seizure, inspection, and new plate
26 charges, all state and local government charges on vehicles and vehicle uses shall cease.
27 Except the last six specific charges, added charges shall be tax increases.

28 **(3) Income.** The 2011 income tax rate shall be 4.5%. Later rates shall decrease 0.1%
29 yearly, until reaching 3.5%, in each of the first ten years that yearly income tax revenue
30 net growth exceeds 6%.

31 **(4) Telecommunication.** Starting January 1, 2011, except 911 fees at 2009 rates, no
32 charge by, or aiding programs of, the state or local governments shall apply to telephone,
33 pager, cable, television, radio, Internet, computer, satellite, or other telecommunication
34 service customer accounts. Added charges shall be tax increases.