ISSUE BRIEF
Prop 109 – Authorize Bonds for Highway Projects

What Prop 109 Does

Prop 109 proposes to amend the Colorado statutes to:

- require the state to borrow up to $3.5 billion in 2019 for up to 66 specific highway projects without providing any new revenue to repay the debt;
- limit the total repayment amount, including principal and interest, to $5.2 billion over 20 years; and
- mandate the state to identify a source of funds to repay the borrowed amount but prohibiting any new revenue source to make debt repayments over 20 years.

Where Prop 109 Goes Wrong – Policy Problems

- Initiative DOES NOT generate enough funding to pay for all the promised projects. The estimated cost to construct the projects listed in the measure is $5.6 billion, but the proposal only raises $3.5 billion.
- Local entities and multimodal projects are NOT including in this proposal. Borrowed money may only be used for state road and bridge expansion, construction, maintenance, and repair on the limited transportation projects identified in Prop 109.
- The measure will divert up to $260 million a year for 20 years from other critical programs, including education, health care, public safety and routine transportation maintenance.
- Prop 109 DOES NOT include funding for preventive maintenance on any existing roads and bridges.
- The think tank's measure would replace financial commitments made by the General Assembly and the Governor in the 2018 legislative session. In 2018, the state demonstrated its commitment to transportation funding by pledging $50 million over 20 years from existing revenue sources. If Prop 109 passes, it replaces the legislature's commitment with borrowed money.
- If the legislature cannot make the bond payment, CDOT is required to make up the difference. This would cause CDOT to take dollars already dedicated toward existing safety, maintenance, resurfacing and bridge projects and redirect them to bond repayments on the think tank's bonds.

Details Matter – Problems with the financial structure

- Prop 109 requires CDOT to issue the full $3.5 billion in bonds by July 1, 2019. That could mean selling $3.5b in bonds ALL AT ONCE. This creates several problems for CDOT:
    - **This size of bond issuance is just bad policy and a poor use of taxpayer dollars.** Very rarely do issuances in excess of $1 billion hit the market. A bond issuance of $3.5 billion would pay a steep yield penalty to get to market. Put another way, issuing $3.5 billion at once is an inefficient way to generate funds.
    - **This proposal requires unrealistic spending limits that would lead to high interest rates.** CDOT would be required to spend 85% of bond proceeds within

three years of issuance per IRS rules. If the State issues $3.5 billion in 2019, CDOT has to be able to spend $2.975 billion by 2022. If the CDOT can't hit this spending target, it would have to issue the bonds on a taxable basis — which would carry a higher interest rate.

- Repayment cap of $5.2 billion is entirely too low for a $3.5 billion bond
    - Current market trends suggest the State would face a repayment cost of $5.63 billion on a $3.5 billion bond exceeding the limit set by the think tank's proposal. At the currently estimated 5% rates, the State would likely be limited to $3.23 billion on a $5.2 billion repayment cap. That's over $250m in lost project funding capability.

Let's Go, Colorado a Much Better Plan – Prop 110

- The "Let's Go, Colorado" initiative creates a new funding source to fix our roads. This initiative will raise the state sales tax by 0.62% — or about six cents on a ten-dollar purchase — to fund state, local and multimodal transportation projects.
- Prop 110 will distribute:
    - 45% of the revenue to the State Highway Fund for bond repayments for state projects and, after required payments have been made each year, maintenance and pay-as-you-go projects
    - 40% of the revenue would be allocated to the newly created Local Transportation Priorities Fund and dedicate 50% to cities and 50% to counties 50% utilizing the current HUTF local distribution formula. Local governments will have complete flexibility to spend these dollars on any transportation related purpose
    - 15% of new revenue will be allocated to the newly created Multimodal Transportation Options Fund and will fund bond repayment for multi-modal projects, state transit projects and for urban and rural local multimodal projects

What happens if both proposals pass?

If there is a dispute over which measure is to be given effect, both propositions will be reviewed by the courts to determine if there are direct conflicts. If there are none, both will go into effect. If there are any direct conflicts, the measure that receives the most votes will prevail. Since both contain bonding authority, CDOT's ability to bond would increase by approximately $2b over what is included in Prop 110 provided the legislature makes an annual general fund transfer to CDOT. The Transportation Commission would have to review both lists of projects and determine which projects to advance where conflicts in project scopes differ.