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## THE NEXT STEP:

### *To maintain and improve Colorado's transportation system*

MoveColorado has long advocated for increased investments in Colorado's transportation system. MoveColorado recognizes that the quality and extent of the Colorado's transportation system is critical to the growth and economic health of the state. Historically, the vision of business and governmental leadership and Colorado's voters to invest in transportation has created a multi-modal system that is truly the backbone of the state's economy.

To maintain and improve our transportation system requires the cooperation, participation and leadership from the public and private sectors. To this end MoveColorado, a private industry organization, is committed to providing information and education programs that support the efforts of community, business and political leaders to solve transportation funding issues. The organization regularly prepares research and policy papers focused on financing Colorado's transportation; and, through public education, supported legislative and referenda efforts to increase transportation revenue locally and statewide.

Much has happened over the past two years; it is appropriate to take stock of activities, assess the issues impacting Colorado's transportation finance situation and recommend necessary future action. In other words, what should be our Next Step? (1)

### **The Need**

Legislative and voter actions supported by MoveColorado have been beneficial in addressing our transportation needs; however, they have by no means solved the problem. Based on CDOT's 2035 Statewide Transportation Plan a funding gap of \$53 billion is expected by 2035 in order to merely sustain Colorado's existing facilities. More than four times this amount (\$249 billion) will be required to address the transportation vision of state and local governments.

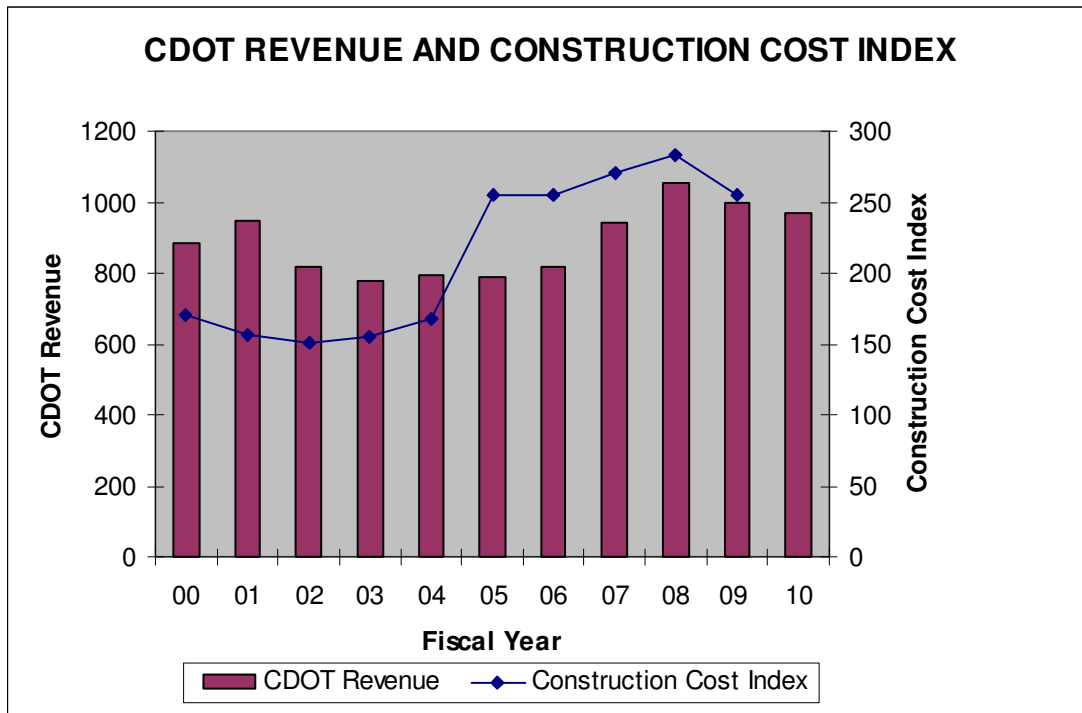
To address this funding gap will require an additional **\$2.1 billion annually** between 2010 and 2035 to sustain Colorado's existing transportation infrastructure. Addressing the vision will necessitate raising nearly \$10 billion annually over and above existing transportation resources.

During its deliberations Governor Ritter's Transportation Finance and Implementation Panel examined funding mechanisms that would generate additional annual transportation revenue at several levels. The Panel's preferred alternative focused on a modest goal of raising an additional \$1.5 billion annually to improve our transportation system.

While this recommendation does not meet the minimum necessary to sustain the system, it is based on practical considerations of what may be achievable. As the Panel notes in its report, this level of funding would make it possible for the state to address needs across all program areas: one-third to focus on safely preserving roads with the balance to go to projects, to complete the “7<sup>th</sup> Pot” projects, relieve congestion, better connect the various parts of the state and improve roads and transit options.

As its work was done prior to the current economic slump, the Panel’s recommendation, however, does not address the additional needs of the RTD FasTracks project. As a result of increased commodity costs and decreased sales tax revenues, substantial additional money will be needed to complete this voter approved project as promised – perhaps requiring a doubling of the sales tax approved by District voters for the project.

On an annual basis Colorado’s ability to invest in its transportation system is woefully inadequate. CDOT’s expected revenues for the current fiscal year (FY2010) are only slightly higher than they were ten years earlier. As the chart below illustrates, CDOT revenues have been up and down within a fairly narrow range over the past decade. In the later half of the decade, revenue has generally not kept up with inflation. On a longer term basis, CDOT has noted that each dollar of motor fuel tax revenue in 2006 was worth only about 25% of what it was in 1992. This revenue erosion plus the fact that the Colorado motor fuel tax



has not been raised since 1992 leaves CDOT with little flexibility to address the state’s transportation infrastructure needs. Virtually all of the CDOT’s efforts, of necessity, are focused on maintaining the state’s roads and bridges. New construction and major facility upgrades are just not possible.

## The Issues

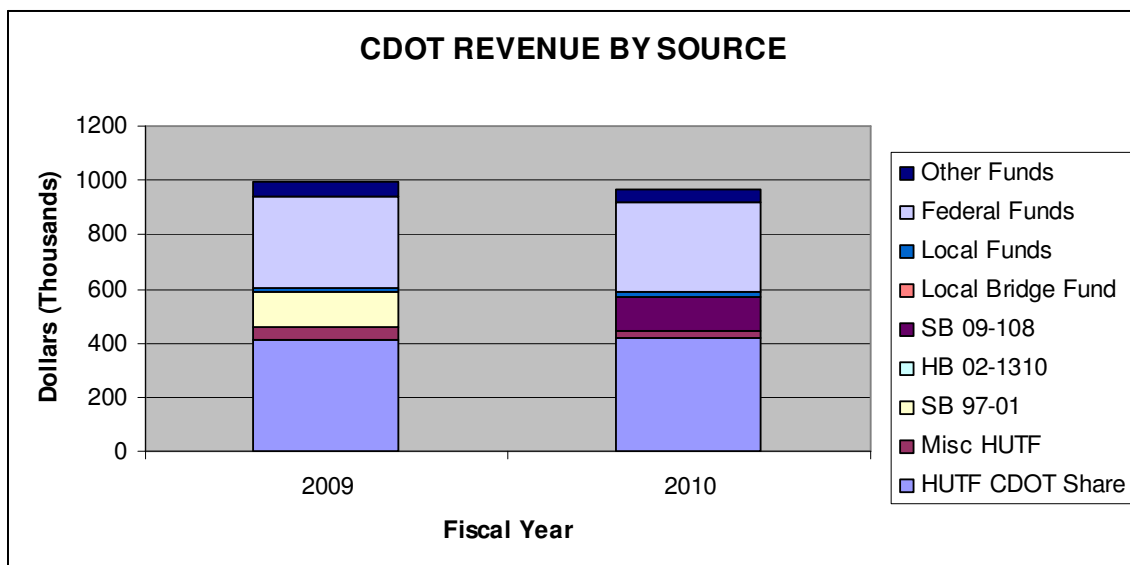
The ability to raise the substantial new transportation revenue necessary to address the state's needs is complicated by actions and issues at the state and federal levels as well as the current economic and political climate.

The 2009 General Assembly enacted legislation that raises additional transportation revenue in response to the Finance Panel's recommendation. Conversely, the General Assembly also enacted legislation that has the immediate impact of eliminating existing statutory sources of transportation revenue, although the potential exists for recouping some revenue once the economy improves.

Senate Bill 09-108, called the "FASTER" (Funding Advancement for Surface Transportation and Economic Recovery) bill, was the major transportation legislation enacted in 2009. This statute raised fees and adds surcharges to vehicle registrations together with a new daily fee on rental cars. Revenues generated through the bill are projected to be \$174 million in FY2010, \$230 million in FY2011 and \$255 million in FY2012. These funds are shared between CDOT, counties and municipalities.

The new revenues generated through the FASTER bill represent an important commitment to meet critical transportation needs with a statutory solution, but it is a very small step in addressing the magnitude of the transportation revenue situation. The poor economy, reduced federal funds, and failure to index transportation revenues continues to erode Colorado's transportation fiscal base.

Unfortunately, subsequent to passage of FASTER, issues have arisen which put these revenues in jeopardy. Political controversy over raising fees, thus bypassing TABOR requirements, and issues with vehicle registration late-fee mandates has resulted in legislative efforts to revise FASTER as well as efforts to repeal it.



Presented above is a comparison of the CDOT revenues by source in Fiscal Years 2009 and 2010. Expected revenues from SB 09-108 are reflected in FY2010. As the chart illustrates, overall 2010 CDOT revenue is estimated to be **lower** than 2009—despite the influx of new money. The revenue resulting from SB 09-108 will merely replace SB 97-01 revenue available in 2009 but not 2010.

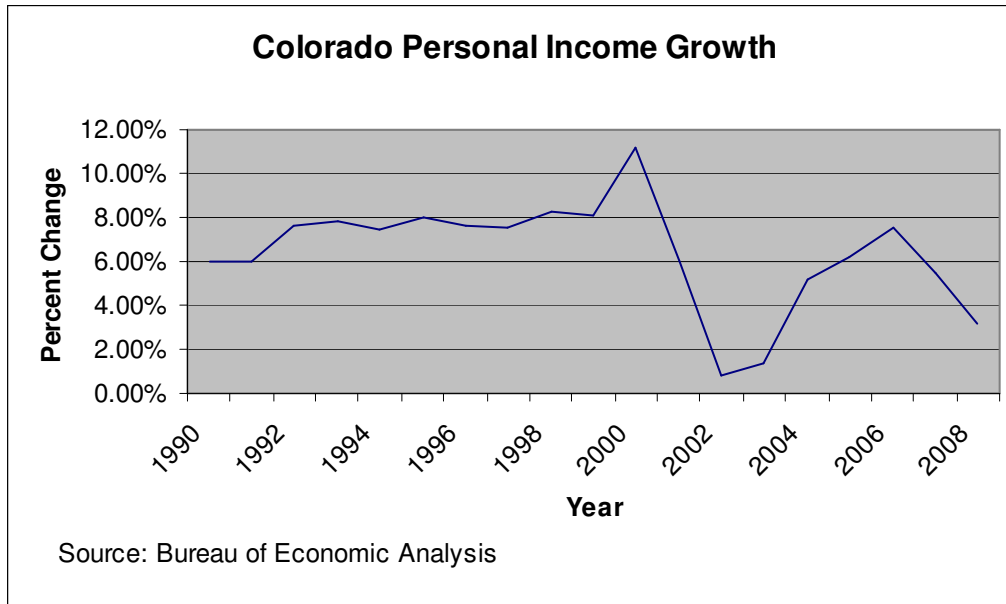
With respect to how these new revenues are to be spent, the FASTER legislation is focused heavily on the safety and maintenance of existing roads and bridges. No new money is available from this source to complete the “7<sup>th</sup> Pot” strategic projects nor are funds provided to address the needs identified in the 2035 Statewide Transportation Plan.

Complicating matters, Governor Ritter signed into law SB 09-228 on June 3, 2009. This new law eliminates the Arveschoug-Bird limit on General Fund appropriations enacted in 1991. Under Arveschoug-Bird year to year General Fund growth could not exceed six percent. The importance of this growth limitation to transportation is that general fund revenues in excess of the six percent limit, subject to certain “triggers,” were transferred to transportation and other capital construction needs. While these funds have not been available every year, they have become a significant source of revenue devoted to completing the state’s “7<sup>th</sup> Pot” strategic projects.

In order to partially compensate for the loss of these funds, SB 09-228 provides a complicated mechanism by which additional General Fund revenues can flow to transportation. This mechanism is keyed to personal income growth in Colorado. Beginning in calendar year 2012, if personal income growth exceeds five percent, transportation will receive two percent of gross General Fund revenues (about \$174 million) in Fiscal Year 2013. If personal income growth does not exceed five percent, this diversion is pushed off to the first fiscal year following a calendar year that achieves such growth. The amount available to transportation would increase in the subsequent four fiscal years, estimated at \$212 million in the final year.

While these funds would be an important source of revenue, they do not represent an annual, consistent source of new revenue. At best they merely replace revenues from SB 97-1 and HB 02-1310 eliminated by SB 09-228. At worst they could be eliminated entirely if TABOR refunds exceed three percent of gross General Fund Revenues. The triggering of these revenues is also problematic. While personal income growth may be a better measure than General Fund growth, it continues to make availability of revenue subject to economic conditions rather than a measure of transportation system need.

The chart below illustrates personal income growth in Colorado since 1990. Historically, the state has had a good record of growth. As the economy turns around, personal income can reasonably be expected to grow in excess of five percent (although 2008 was at 3.2%). On the other hand if the current recession continues, these additional revenues will not be available—at a time when new infrastructure construction could help stimulate the economy.



Another issue complicating the transportation revenue picture is RTD’s need for additional revenue to complete the FasTracks project as it was promised to the voters. RTD’s latest figures indicate that the expected funding gap in completing FasTracks as proposed by 2017 has increased by some \$ 2.45 billion with no additional revenues. Cost increases coupled with current and projected declines in sales tax revenue have created a difficult situation for the District.

After considering its options, the RTD Board of Directors has committed to continuing to pursue build out of the system as promised to the voters by 2017. To do this will require additional revenue. It is likely that District voters will be asked for a doubling of the sales tax approved in 2004 to construct FasTracks. While the Board as yet has not taken action calling for an election to raise the RTD sales tax by 0.4%, the General Assembly has authorized the Board to do so. At this time it is likely that such an election will occur in November, 2010 or 2012.

A significant source of CDOT’s budget (34% in FY2010) is the federal government. RTD’s FasTracks budget also relies on federal support. In addition to the full funding grant agreement in place for the west corridor, the project budget anticipates federal funding in excess of \$1 billion for the East and Gold corridors. Recent national administration commitments to these corridors provide for a degree of optimism that these funds may materialize. A complicating factor, however, is that the federal transportation programs that provide the funds, must be reauthorized.

Transportation reauthorization will not be an easy process. Many issues must be addressed, not the least of which is to provide stability to the Highway Trust Fund and consider raising the federal motor fuel tax. As a result of long-term changes in vehicle efficiency and declines in driving, fuel tax revenues have not kept pace with need. The reauthorization process is expected to be difficult, with numerous constituencies and issues that must be

addressed. Given the current economic and political climate, the nature and timing of reauthorization cannot be predicted – complicating the funding dilemma facing Colorado.

Economic and political issues also factor into decisions regarding Colorado's transportation revenue situation. The weak economy nationally and in the state tends to militate against increasing taxes. Colorado's unemployment rate as of January, 2010 stood at 7.4%. While better than the national rate of 9.7%, it grew substantially from April, 2008 when it was 4.4% (US Dept of Labor, Bureau of Labor Statistics). Such unemployment together with the precipitous decline of the stock market in 2008-09 creates a challenging economic environment within which to consider raising new transportation revenues.

While the General Assembly can and has raised fees (SB 09-108 discussed above) any tax increase must be put before voters pursuant to the TABOR amendment. Colorado's political leadership has been reluctant to ask voters to increase transportation taxes. Complicating the situation is the state budgetary dilemma and the expiration of Amendment C – the TABOR timeout. Lawmakers struggled mightily during the 2009 session to balance the state budget. During the 2010 session the lack of sufficient revenue has resulted in the General Assembly and the Governor taking action to rescind various tax exemptions in order to balance the budget.

With Amendment C expiring in FY 2011 any excess General Fund revenues must again be refunded to taxpayers. Whether the General Assembly will again ask voters to allow the state to keep excess revenues or whether it will attempt to resolve conflicting constitutional mandates is unknown at this time.

What is known, however, is that 2010 will be highly political! With the Governor, half of the Senate and the entire House of Representatives on the ballot in November 2010, not to mention attempts to repeal the FASTER bill, it will be extremely difficult to get political attention focused on increasing taxes for transportation. Also, if RTD asks District voters to approve an additional 0.4% increase to its sales tax, the ability to ask voters to support other tax increases for highways and transit statewide is made doubly difficult.

### **The Next Step**

Despite the difficulty, Colorado must move forward to address its transportation needs; the safety of the motoring public and the economic health of the state demand action. Our transportation infrastructure is aging. The system will age faster as revenues to maintain it decline and construction costs escalate. There are currently 128 structurally deficient bridges in the state, four of ten of our roads are in poor condition, and nearly half of the system in metro Denver is congested. These current deficiencies taken together with the expected 1.2 million more people in the state by 2020 suggest that the problem will only get worse unless decisive action is taken soon.

Move Colorado is in the process of developing a 3-5 years Strategic Plan which will address the need to increase funding for transportation in Colorado by \$1.5 Billion annually to maintain and improve the state's transportation system. While little more than half of what is necessary to sustain the current system, it is nevertheless a more politically practical

goal. This will require a statewide ballot measure, regional and local financing initiatives. Timing will be a critical factor in any successful measure, and building a coalition to support and craft a statewide measure will be the first step to be taken next year – a “NEXT STEP.”

The important thing in 2010 is to begin the process. We need to move ahead to reach out to citizens across the state, in communities and neighborhoods, to build support for implementing a 21<sup>st</sup> Century transportation system in Colorado.

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(1) This paper was prepared by David A. Pampu who also serves as Policy Research Consultant to Move Colorado with review and comment by a wide range of technical and policy experts. Mr. Pampu also edits Perspectives for Move Colorado covering issues impacting transportation finance. Perspectives may be found on the Move Colorado website [www.movecolorado.org](http://www.movecolorado.org)

During 2010, the paper will be updated periodically as new information becomes available from financial forecasts and analyses, policy studies and reports, and transportation laws and initiatives as they change. As the paper suggests, the challenge of a difficult economy and uncertain federal policies will continue to impact Colorado transportation finance. Move Colorado will continue to provide information as issues and decisions unfold.

**MoveColorado** is a private industry organization that provides information, sponsors education programs, and supports the efforts of Colorado community, business and political leaders to solve transportation funding issues.

Contact us:

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