



## GET THE MUNICIPAL GOVERNMENT PERSPECTIVE

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# BACKGROUND INFORMATION ON INITIATIVES

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## MUNICIPAL OFFICIALS CONCERNED ABOUT 60, 61, 101

**June 28, 2010, Denver, CO**— A session focusing on the municipal finance impacts of the statewide ballot initiatives that will be before Colorado voters in November took place during the Colorado Municipal League's annual conference.

These three ballot questions place cities and towns at a financial crossroads. Proposition 101, Amendment 60, and Amendment 61 combine to slash municipal tax and fee revenue and impose restraints that will make financing of public facilities difficult and expensive.

Although services vary by community, cities and towns provide police, fire protection, street maintenance, street lighting, traffic signals, parks, recreation, water, sewer, storm drainage, and building inspections. These are basic services that residents rely upon for everyday living. Citizens pay for these services through sales tax, property tax, and user fees.

Municipal budgets have mirrored family budgets during the past two years of the recession. Nearly every city and town has cut services and cancelled maintenance work because, in many cases, revenues have seen double digit reductions. Now there's the possibility of even more severe cutbacks to municipal revenue and services.

### **Proposition 101:**

- Reduces specific ownership tax paid on vehicle registration to \$2 for new vehicles, \$1 a year thereafter. The loss of this property tax is estimated at \$500 million statewide for municipalities and other taxing districts.
- Reduces vehicle registration fee to a flat \$10. This ends one of the principal funding sources for the Highway Users Tax Fund – and will reduce the municipal share of HUTF by some \$45 million. Street maintenance dollars to cities and towns will decrease 38%.
- Eliminates sales tax on the first \$10,000 of a vehicle's value. Municipal sales tax averages about 3.5%. This will significantly reduce sales tax revenue for cities and towns.
- Eliminates sales tax on telecommunications services. This is another significant reduction in sales tax revenue – the primary source of revenue for municipalities.
- Cuts the state income tax by 25% - a loss of some \$1 billion for the state budget.

### **Amendment 60**

- Cancels voter authorized property tax TABOR over-rides. TABOR authorizes voters to allow revenue generated above the TABOR limits to be retained and expended by municipalities. Most cities and towns have voter approved permanent or temporary over-rides.
- Future TABOR over-rides limited to four year period. If a future TABOR over-ride is approved, it can never be in effect for longer than four years.
- Enterprise funds must pay property tax. Municipal services such as water, sewer, electrical utilities, recreation programs, will have to pay property tax, forcing an increase in utility bills and program fees.
- Imposes a 10 year limit on any property tax increase approved by voters. This would eliminate the ability of municipalities to ask voters to approve the type of long term bonds used to finance such projects as water treatment plants and library buildings.
- Cuts school district mill levies in half – state required to backfill. This is the same state budget that was forced to cut school district funding by more than \$300 million this year.

## Amendment 61

- Lowers limit on municipal borrowing. Future limit would be set at 10% of real property assessed value.
- Requires voter approval for any public debt, including lease-purchase and lease-back financing.
- Requires tax decrease to match debt payments upon completion of debt repayment. This would require a tax reduction even if the debt was repaid by project revenues and not tax dollars.
- No state government debt – period. What you have now for large state facilities is what you get.

Several cities and towns have already estimated the Proposition 101 revenue reductions:

- **Aurora** estimates it would lose some \$23 million in general fund revenue (*for more details, contact Aurora's PIO, Kim Stuart, at 303-739-7008*)
- **Greeley** estimates \$16 million (*for more details, contact Greeley's PIO, John Pantaleo, at 970- 350-9702*)
- **Loveland** is looking at a 19.7 percent loss to all city funds (*for more details, contact Loveland's Assistant City Manager, Renee Wheeler, at 970-962-2704*)

These losses would come on the heels of a recession that has reduced the tax and fee revenue collected by cities and towns. Municipalities have already made significant cuts in capital projects, system maintenance, city staff and public services.

Amendments 60 and 61 are a one-two punch to your monthly utility bill. Amendment 60 ends the ability of municipal enterprises to fund large-scale projects while maintaining reasonable customer rates. For large multi-million dollar projects such as a sewage treatment plant, bonds are issued over a 20 to 30 year time period. Amendment 60 caps that time period at ten years. The results are not unlike what you face with your mortgage. If you choose to pay off your home with a ten year mortgage rather than a 30 year mortgage, your monthly payments will be much higher.

The size of projects will also be affected as Amendment 61 lowers the total amount of debt a municipality may issue. The ceiling of 10% of assessed valuation is much lower than many cities have in place through their citizen approved charter. **Evans** will have to drop its current 15% limit by one third (*for more details, contact Evans' Assistant to the City Manager, Jessica Scheopner, at (970) 475-1108.*) The new limit will lower **Longmont's** debt limit by 64% (*for more details, contact Jim Golden, Longmont's Director of Finance and Support Services, at 303-651-8629.*)

Here's the second punch - even without a bond-issue to repay, your utility bills will see an increase. Amendment 60 for the first time requires a municipal enterprise, such as a water system, to pay property tax. Boulder residents will pay an estimated \$7.9 million more each year in water and sewer rates to pay the property taxes that are required. Aurora estimates their residents will see a 15% hike in their water bills. Colorado Springs, which provides water, sewer, electricity and gas utilities, estimates it will have to increase rates by 50% over a five year period to meet bond repayment and property tax requirements. The municipal hospital in Colorado Springs will have to pay \$6 million a year in property tax.

Amendment 60 goes further – it changes TABOR. The TABOR provisions in the Colorado Constitution allow voters to over-ride TABOR revenue limits and allow municipalities to use all revenue collected to provide services. Residents in most cities and towns have voted to do just that – but Amendment 60 cancels those voter actions. Many voters will see their decisions voided including residents of Keenesburg, Windsor, Platteville and Evans. Cancelling the voter approved TABOR over-rides will cost Golden some \$1.5 million in property tax revenue each year beginning in 2011. Another blow to our communities is the provision slashing school district property tax in half. Somehow the state budget is expected back-fill that loss – a state budget that Proposition 101 is cutting by reducing the state income tax by \$1 billion.

Why would we do this? Are Colorado property taxes high? The business-supported Tax Foundation lists Colorado 6<sup>th</sup> best for business among all 50 states in its 2010 Business Property Tax Index. (Factoring in all taxes, Colorado ranked 13<sup>th</sup> best in the Tax Foundation's overall Business Tax Climate Index.) Residential property taxes in Colorado are low. According to the Tax Foundation the property tax levied on the average Denver home is 0.53% of home value. In comparison Los Angeles is 0.50%, Cheyenne 0.65%, Miami 0.90%, Bergen County, New Jersey 1.63% and Dallas 2.12%. Colorado homeowners enjoy low property tax rates.

Proposition 101, Amendment 60, and Amendment 61 come at a time when municipal revenues and spending are already down. Like the adjustments being made by families during this recession, our cities and towns have had to cut spending, spend smarter, and work with their citizens to determine service priorities. A CML survey shows that nearly a third of our cities and towns have cut staff positions. 41 percent have imposed hiring freezes. Capital projects have been put on the shelf. Routine maintenance has been cancelled. Funding for parks is down an average 21 percent and street maintenance is down 31 percent. Funding cuts have even reached essential services such as public safety as police budgets have been cut an average 13 percent and fire departments 2 percent.

Approval of Proposition 101, Amendment 60, and Amendment 61 could more than double these statistics. Passage of these measures would seriously erode the reliability of basic services, the attraction of new business to the state, and our ability to enjoy the quality of life we have created for our families.

People long ago decided it made sense to pool their resources to build and maintain basic services for safety, sanitation, and preserving property values. Municipalities were incorporated to finance the construction of water systems, purchase fire trucks, pave streets, and employ police officers. In 2010, municipal government remains the most practical way to insure reliable, affordable, and basic services.

CML is a nonprofit, nonpartisan organization established in 1923 and represents the interests of 263 cities and towns. For more information on the Colorado Municipal League, please visit [www.cml.org](http://www.cml.org) or call 303-831-6411.

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