

## FINANCE MEMORANDUM

#10-16

DATE: June 4, 2010

TO: Honorable Mayor Joyce Downing and City Council Members

FROM: Bill Simmons, City Manager *WAS*  
Shawn Cordsen, Finance Director *SC*

SUBJECT: Financial Impact Assessment – Proposition 101, Amendment 60, & Amendment 61

### BACKGROUND:

Recently three new measures, Proposition 101, Amendment 60, and Amendment 61, were approved for the 2010 general election ballot. Due to the significant financial implications of these measures at both the State and local levels, staff has prepared a financial impact assessment. A brief summary of each measure is provided below:

#### Proposition 101

- Reduces annual specific ownership taxes to \$2.00 for new vehicles and \$1.00 for all others (implemented in four equal and annual steps).
- Exempts the first \$10,000 of vehicle purchases from sales tax (phased in over four equal and annual steps).
- Reduces annual vehicle license, registration, and title fees to \$10.00 per vehicle.
- Eliminates State and local taxes on telecommunication service customer accounts.
- Reduces State income tax rate from 4.63% to 3.50%

#### Amendment 60

- Establishes that enterprises and authorities shall pay property tax and that local governments must lower their tax rates to offset the additional collections.
- Establishes that electors may vote on property taxes where they own real property.
- Allows the use of petitions to reduce property taxes as voter-approved revenue changes.
- Requires that property tax measures be voted on during November elections and must be separate from debt measures.
- Implements the expiration of all current property tax TABOR-exemptions.
- Establishes that future TABOR-exemptions of property tax must be re-voted every four years.
- Mandates that increases to property tax will be limited to ten years.
- Classifies property tax extensions as property tax increases.
- Requires that by 2020 non-college school districts must phase out half of their 2011 property tax rate not dedicated to debt. The State shall be responsible to replace the lost revenue.

#### Amendment 61

- Prohibits the State from issuing any debt in any form.
- Establishes that local governments must receive voter approval during a November election prior to issuing debt in any form.
- Mandates that non-enterprise may not issue debt which exceeds 10% of the assessed value within its jurisdiction.
- Provides that with the exception of enterprise debt, after debt repayment, tax rates must decline by an amount equal to the annual debt service payments, even if such debt was funded via other sources.

## UPDATE:

The following financial impact assessment illustrates the potential direct financial implications as they pertain to the City of Northglenn. While they almost certainly exist, at this time the indirect implications are largely unknown and subjective. It should be noted that at this point the measures themselves are subject to widespread interpretation, therefore the actual financial impacts maybe different than those presented. Figures provided below are based on figures provided in the draft 2009 CAFR.

### Proposition 101

The proposed measure will reduce the City's revenue collections. Staff is estimating an overall reduction of approximately \$3.68 million or 18.9% of the General Fund's 2009 revenue collections.

The specific ownership tax reduction will in effect eliminate collections at the local level. Preliminary estimates suggest that over the four-year phase in period the City's revenue collections associated with specific ownership taxes will be reduced by approximately \$54,584 when compared to the prior fiscal period. At full implementation, specific ownership tax collections are anticipated to decrease a total of 97% or \$218,335 below those of the 2009 collections.

The sales tax exemption associated with the first \$10,000 of a vehicle purchase will result in a loss of revenue for the City. At full implementation, for each \$10,000 exemption the City will forego \$400 in sales/use tax revenue. Based on recent vehicle purchase activity within the City, staff anticipates a loss of approximately \$89,894 in each subsequent year during the four-year phase in period, resulting in a full implementation decrease of 42% or \$359,575 when compared to 2009 collections.

The reduction in motor vehicle registration fees will also diminish local funding. It has been estimated that the City will no longer receive a share of vehicle registration fees resulting in a loss of \$109,792 annually. The proposition also eliminates the revenue associated with the recent "FASTER" legislation, as well as diminishes funding of the State's Highway Users Tax Fund (HUTF) and the related share back to City. As a result, staff anticipates an additional loss of \$313,729 to the City.

The proper application of the proposition in regards to telecommunication taxes is still unclear and subject to interpretation. Legally it is uncertain whether or not such restrictions will include occupational taxes and may depend on how such agreements are worded and even future court decisions. For the sake of remaining conservative, staff has estimated the complete loss of both the occupational tax/fee revenue, which combined total \$1,117,418 annually. The proposition is fairly clear however that the sales and use taxes associated with telecommunication services will be eliminated resulting in an additional loss of such revenues in the amount of \$1,556,750 annually.

### Amendment 60

Depending upon the interpretation and financial structure of the City, the proposed measure may or may not significantly increase the City's expenditures while reinstating the TABOR growth limits on property tax revenue. At present the City's Water & Wastewater Fund does not qualify as an enterprise under TABOR, which states:

*"Enterprise means a government-owned business authorized to issue its own revenue bonds and receiving under 10% of annual revenue in grants from all Colorado state and local governments combined."*

The sales taxes collected by the Water & Wastewater fund exceed the above 10% limitation. As such it has been surmised by staff that the property tax provisions included in the amendment may be avoided until such time as the fund qualifies for enterprise status. As the City is somewhat unique in this aspect, it has been difficult to ascertain legal interpretation.

Should the Water & Wastewater fund qualify as an enterprise under TABOR, staff has estimated a property tax liability of approximately \$655,403. The property tax, which would be paid by the Water & Wastewater Fund, would require a reduction in the City's property tax mill levy in order to not recognize any additional property tax collection. Ultimately this would result in a decreased tax payment by the citizens; however it will likely be necessary to increase water and wastewater rates to compensate for the property tax requirements placed on the enterprise itself.

#### **Amendment 61**

Once again whether or not the City's Water & Wastewater fund qualifies as an enterprise is an integral part of the analysis. As required in the amendment the City's non-enterprise related debt limitation will decrease from \$68,976,966 to \$22,529,223. In addition, the definition of debt subject to this limitation has been expanded to include capital leases, and lease-back financing.

Given the City's current outstanding debt of \$11,083,715 and financial structure, whereby the Water & Wastewater fund does not qualify as an enterprise, the City would retain the ability to issue approximately \$11,445,508 million in additional debt. At present, the City's non-enterprise related debt service payments average \$1.4 million annually (although approximately \$300,000 in outstanding leases are scheduled to retire by the end of 2010). Therefore, \$1.1 million is the amount by which the City would need to decrease tax revenues upon the retirement of the current outstanding debt.

Should the Water & Wastewater fund qualify as an enterprise under TABOR, the debt and debt service payments associated with the fund would not be included in the limitation or tax reduction requirements mentioned above. In that case, the City would report \$465,154 in non-enterprise related debt, leaving \$10,980,354 of the limitation available for future issuance.

#### **STAFF REFERENCE:**

If Councilmembers have any comments or questions, you may contact Shawn Cordsen at [scordsen@northglenn.org](mailto:scordsen@northglenn.org) or at 303-450-8719.

## ESTIMATED IMPACT OF PROPOSITION 101, AMENDMENT 60 AND AMENDMENT 61

**Instructions:** Fill in the information highlighted in yellow from your 2009 actual or 2010 budgeted revenues. Many of these amounts will require identification of specific sections of your sales and use tax collections and property tax projections. Some of this information may not be readily available if you do not collect your own sales and use tax revenues. Information highlighted in blue may be available from other sources, such as County records. However, if it is not available, the formulas will use a default ratio based upon analysis of actual ratios for the city of Boulder.

### PROPOSITION 101

VEHICLE TAX/FEE:	2009 or 2010 Base Revenues	2011	2012	2013	2014
<i>The change in Specific Ownership taxes will be phased in over a four-year period</i>					
Specific ownership taxes decreased in four equal steps to \$2 for new vehicles & \$1 per used vehicles					
Specific Ownership Revenues (Motor Vehicle Fees distributed by Counties)	\$ 225,088	\$ 54,584	\$ 109,168	\$ 163,752	\$ 218,335
Estimated total % reduction in SOT collections, default is 97%	97.0%				
Total \$ reduction in SOT collections	\$ 218,335				
Annual reduction to phase-in	\$ 54,584				
Remaining amt after phase-in	\$ 6,753				

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	2009 or 2010 Base Revenues	2011	2012	2013	2014
<i>The change in FASTER and HUTF collections will be implemented in full force beginning January 1, 2011</i>					
All registration, license & title fees combined to \$10 yearly per vehicle					
FASTER Revenues	\$ 175,000	175,000	175,000	175,000	175,000
Other impacts to HUTF revenue distributions, if known	\$ 138,729	138,729	138,729	138,729	138,729
Financial impact is subject to state changes since funding is distributed from the Highway Users Transportation Fund to local governments. At this point, amount shown reflects the elimination of all FASTER revenues for local governments.					



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	2009 or 2010 Base Revenues	2011	2012	2013	2014
<i>The change in Sales Taxes will be phased in over a four-year period</i>					
Exemption on collection of state/local taxes on first \$10,000 of vehicle value.					
Sales and Use Taxes - New Vehicle Sales (Remitted by Counties)	\$ 863,253	89,894	179,788	269,682	359,575
Enter Current Sales Tax Rate	4.0000%				
2011 Rate on First \$10,000	3.0000%				
2012 Rate on First \$10,000	2.0000%				
2013 Rate on First \$10,000	1.0000%				
2014 Rate on First \$10,000	0.0000%				
Purchase Price of New Vehicles, if available	\$ 17,139				
Purchase Price of New Vehicles over \$10,000, if available	\$ 7,139				
Ratio of Price Over \$10,000 to Total Purchase Price, Default 50%	41.6535%				
<p>County Treasurer may be able to provide a monthly listing of sales taxes collected on new car sales. Calculate by individual vehicle the amount of the purchase price that exceeded \$10,000. Enter the totals of total purchase price and the purchase price exceeding \$10,000 above. The formula will use this to determine the percentage of purchase price that was greater than \$10,000 as a basis for future projection. If purchase price information is not available, the default rate of 50% will be used.</p>					



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	2009 or 2010 Base Revenues	2011	2012	2013	2014
<b>TELECOMMUNICATION TAX:</b>					

*The change in Sales & Use tax collections will be implemented in full force beginning January 1, 2011*

Elimination of sales/use taxes on telecommunication services

Sales Tax Revenue - telecommunication services (telephone, cable, cell phone, etc.)

\$	1,556,750	1,556,750	1,556,750	1,556,750	1,556,750
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Enter amount of 2009 sales/use tax (or 2010 estimated revenue) generated by telecommunication services. Information should be obtained from sales and use tax collection divisions.

*The change in Occupation taxes/fees collections will be implemented in full force beginning January 1, 2011*

Elimination of franchise fees on telecommunication services

Franchise fee revenue - telephone and cable

\$	1,117,418	1,117,418	1,117,418	1,117,418	1,117,418
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Franchise fees may or may not be impacted by Proposition 101. This may depend in part on how the individual franchise agreements are worded and future court determinations. This elimination has been contemplated within this template for your consideration of the potential impact. Use your discretion about whether to include franchise fees within the calculation.



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### AMENDMENT 61

#### 10% LIMITATION OF DEBT

Except for enterprises, the borrowing limit total of all borrowings issued will not exceed 10% of the assessed taxable value of the real property in the jurisdiction. This limit is not just for the amount of bonds. It is a limit that applies to all kinds of debt and borrowing and the 10% limit is of assessed real property. Therefore, it does not include the personal property portion of assessed valuation (which can be obtained from the abstract of assessment for your entity). The amount of personal property varies widely for each local government entity.

Total assessed valuation	\$ 239,829,910
Less assessed valuation that is not for real property	\$ 14,537,680
Assessed valuation on real property	\$ 225,292,230
10% of assessed value on real property	\$ 22,529,223
Total amount of all borrowing outstanding at this time (do not include enterprises)	\$ 11,083,715
Difference over (under) maximum 10% limit	\$ (11,445,508)