CPEC

EXECUTIVE REPORT

September 30, 2000

The Colorado Public Expenditure Council (CPEC) conducted this study of the impact of Amendment 21 under a contractual agreement with the Colorado Municipal Bond Dealers Association. CPEC, a non-partisan, non profit taxpayer organization, accepted the paid commission to conduct this research with the stipulation that all findings--positive, negative or neutral would be made available to the media and the general public.

Property Tax Impacts of Amendment 21 on a Sample of Local Governments

For this review, a sample of various government entities and school districts was chosen. A complete analysis was performed that involved reviewing each entity's tax bill, incorporating growth rates, and applying computations that reflect Amendment 21's tax cuts with regards to property taxes, which demonstrates the impact on the district's revenue amounts. These property tax cuts did not include a review of the property tax reduction the amendment calls for as a rebate from sales and use taxes on food and drink. The analysis contained in this report involves the impacts on the following sample of government entities:

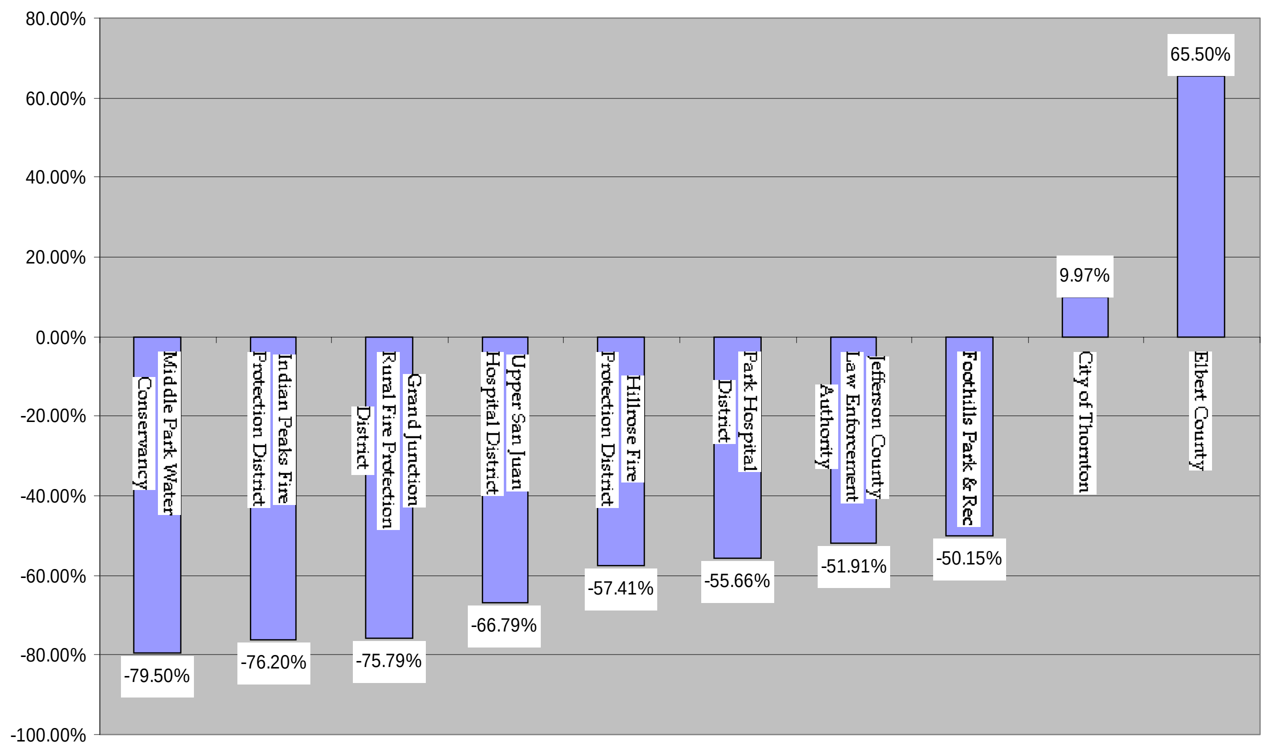
- 7 Special Districts (including 3 fire, 2 hospital, 1 water conservancy and 1 park and recreation)
- 1 City
- 2 County Operations (including 1 total county and 1 law enforcement authority)
- 4 School Districts

Sample districts were selected based on their geographic location and function. School districts included in the sample all had mill levy overrides approved by the area voters. The override revenue levels alone were analyzed for the school districts, not the overall school district funding. From this analysis, the following trends were identified:

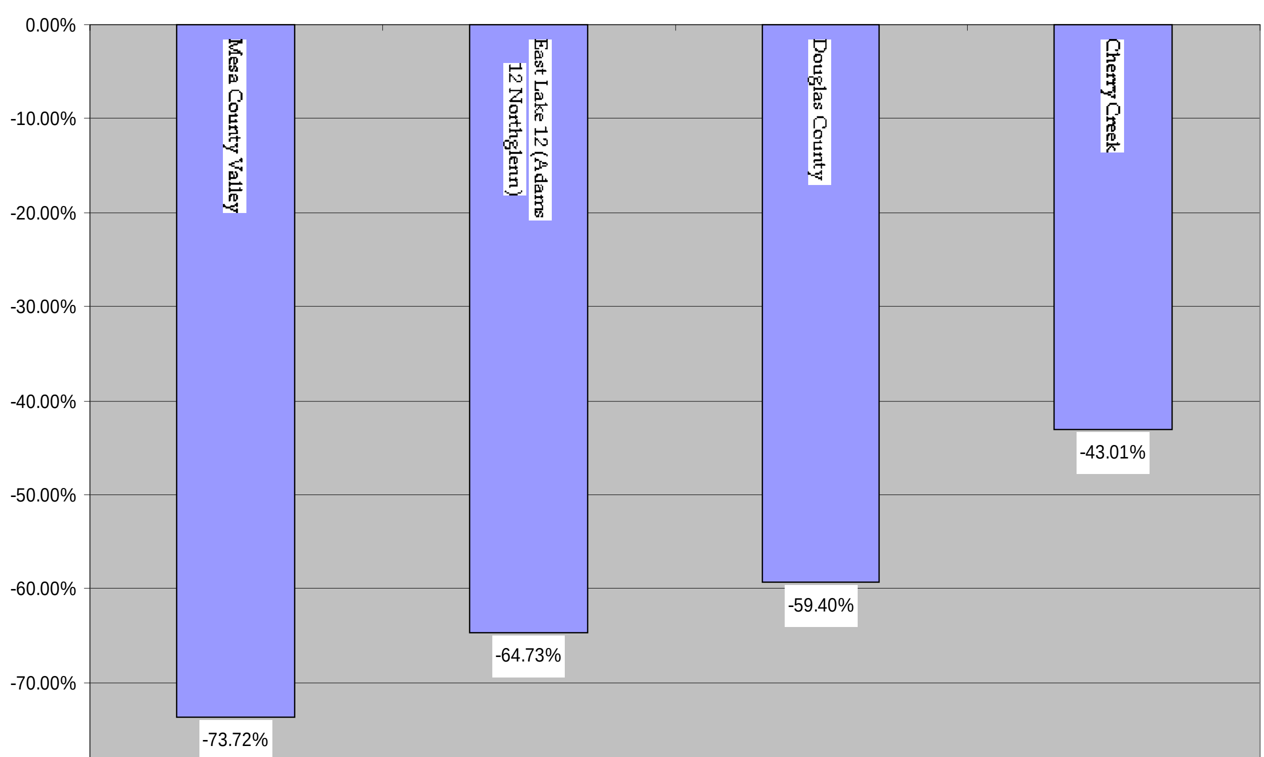
- ✓ Eleven out of the fourteen government entities will have at least a 50% reduction in property tax revenues by 2007. Specifically this included all the special districts, the law enforcement authority, and three of the school districts.
- ✓ Districts that have low mill levies lose over 45% of property tax revenues in the first year of Amendment 21 enactment.
- ✓ Two of the fire protection districts had relatively low growth rates and will see a 20% reduction in property tax revenues in the first year of Amendment 21. However, the Foothills Park and Recreation District also had a lower growth rate yet only had a five percent reduction in property tax revenues between 2001 and 2002.
- ✓ There will be a 50% reduction in district's property tax revenue levels from 2001 to 2007 for two of the special districts that have growth rates that fell into the middle of the spectrum.
- ✓ Districts that have higher mill levies and growth rates are minimally effected by Amendment 21. The county and city government organizations reviewed had high mill levies (30.40 and 10.21) and growth rates (24.83% and 22.57%). Consequently, these revenue levels increase from 2001 to 2007.
- ✓ By 2007, all school districts reviewed will have an average decline of 48% in mill levy override revenue under Amendment 21.

All of these outcomes show that revenue levels for some of the government entities will diminish unless mill levy increases are approved by the voters, which can be costly to the local governments. The charts on the next page show the percent decline in property tax revenue between 2001 and 2007 for each special district, county, city and school district included in the sample. This only includes the overall property tax reductions and does not include the sales and use tax rebate for food and drink. This model also assumes no mill levy increases.

Amendment 21 - Percent Change in Government Entity Revenue from 2001 - 2007



Amendment 21 - Percent Change in School District Override Revenue 2001 - 2007



CPEC
SPECIAL REPORT

September 30, 2000

Property Tax Impacts of Amendment 21 on a Sample of Local Governments

The Colorado Public Expenditure Council (CPEC) conducted this study of the impact of Amendment 21 under a contractual agreement with the Colorado Municipal Bond Dealers Association. CPEC, a non-partisan, non profit taxpayer organization, accepted the paid commission to conduct this research with the stipulation that all findings--positive, negative or neutral would be made available to the media and the general public.

Background

Ballot Initiative 205 (also known as TaxCut2000 and Amendment 21) seeks to amend the State Constitution and will be included on the ballot in the upcoming November 2000 election. The amendment, if passed, will create a new paragraph in Article X, Section 20, which is commonly referred to as the TABOR section of Colorado's Constitution. The amendment reads as follows:

> "(8)(d) A $25 tax cut, increased $25 yearly, shall lower each tax in each tax bill for each 2001 and later district: utility customer and occupation tax and franchise charge; vehicle sales, use, and ownership tax; yearly income tax; property tax; income and property tax equal to yearly revenue from sales and use taxes on food and drink other than tobacco and alcohol; and income tax equal to yearly revenue from estate taxes. (8)(d) tax cuts and state replacement of local revenue shall not lower state or local excess revenue, the state may limit local acts increasing replacement costs, joint income tax returns equal two tax bills, and attorney fees and costs to enforce (8)(d) shall always be paid to successful plaintiffs only."

This amendment does not include a "sunset" provision for these tax reductions that include a yearly increase of $25. There are a total of nine different types of taxes this amendment will impact. They include:

- Property tax (imposed by each taxing entity)
- Income tax
- Vehicle sales tax, use tax and ownership tax
- Utility customer and occupation tax
- Sales and use taxes imposed on food and drink
- Estate tax

This review will only examine the direct impacts of the property tax reduction, not including the sales tax rebate for food and non-alcoholic beverages sold at grocery stores and restaurants. This study incorporates a sample of special districts, a county, a city, and several school districts to determine the potential impact of TaxCut 2000. Based on the amendment's wording and interpretations by the state, each taxing entity that collects property tax revenue will reduce the amount levied by $25 the first year of enactment; thereafter, the reduction will increase $25 yearly, until the tax is eliminated or voters approve a mill levy increase. Thus, a property tax bill will not only be a $25 overall reduction but a $25 reduction for each taxing entity. For example, if a property's location includes eight taxing entities, the total property tax reduction would be $200 (8x$25) the first year and increased to $400 the second year (8x$50) and so on for each consecutive year.

Local governments collect 2001 property taxes in 2002, therefore the fiscal impact from the amendment will start effecting local government revenues in 2002. It is the opinion of the State's Office of Legislative Legal Services that the language of the amendment does not require the State to replace revenue lost by local governments as a result of these property tax reductions.[1] However, state backfilling as provided for by the School Finance Act will increase the State's burden for school funding if the amendment passes.

Sample Information and Selection Criteria

The analysis contained in this report involves the impacts on the following sample of government entities:

- 7 Special Districts (including 3 fire, 2 hospital, 1 water conservancy and 1 park and recreation)
- 1 City
- 2 County Operations (including 1 total county and 1 law enforcement authority)
- 4 School Districts

[1] *An Analysis of the 2000 Statewide Ballot Proposals*, Legislative Council # 475-0

The sample districts were selected based on their geographic location and their function. The samples include representation from the Denver metropolitan area, northern Colorado, Eastern Plains, the southwest corner of the state, southern Front Range, Central Mountain region and the Western Slope. The school districts included in the sample all had mill levy override elections that required voter approval. The intent of the school district sample was to determine not what the impact on the overall school district's property tax revenue would be, but instead what the impact would be on the override amounts alone. The first table below shows the special districts, city, and counties selected for the sample, the mill levy, and the 1999 assessed values. The second table lists the school district information and reflects the mill levy override dollar values approved by the voters and the mill levies applicable to obtain these override amounts.

Table 1- Sample District Information

District	County	Mill Levy	Assessed Valuation
Middle Park Water Conservancy	Grand & Summit	0.093	$1,256,006,450
Upper San Juan Hospital District	Archuleta & Hinsdale	1.854	$147,255,350
Park Hospital District	Larimer	2.845	$194,154,900
Indian Peaks Fire Protection District	Boulder	3.112	$6,526,020
Jefferson County Law Enforcement Authority	Jefferson	3.223	$1,996,904,720
Foothills Park & Rec	Jefferson	4.079	$1,100,195,990
Hillrose Fire Protection District	Morgan & Washington	6.719	$9,324,560
Grand Junction Rural Fire Protection District #4	Mesa	7.596	$142,117,650
City of Thornton	Adams	10.21	$469,421,820
Elbert County	Elbert	30.4	$158,445,850

Source: 1999 Division of Property Taxation Annual Report

School District	County	Mill Levy Override	Override Amount
Douglas County	Douglas & Elbert	6.065	$11,713,000
Cherry Creek	Arapahoe	9.026	$20,763,000
East Lake 12 (Adams 12 Northglenn)	Adams	5.869	$5,400,000
Mesa County Valley	Mesa	3.633	$2,664,850
		Total	$40,540,850

Source: 1999 Division of Property Taxation Annual Report

Sample Analysis Process

In analyzing the impact this amendment will have on each district, a review of every tax bill associated with the government entity was completed. This analysis was completed by utilizing a database created by a company called TY Pickett. This company was contracted by the state for the purpose of creating the "1999 Detailed Assessment Abstract – State of Colorado" database to use for estimating impacts proposed law changes would have on personal property tax regulations. A comparison between the district's assessed values on property tax revenue obtained from the Pickett database to the Division of Property Taxation's annual report was performed to ensure the integrity of the data. Average growth rates were determined based on four previous re-assessment cycles and the assessed values reported by county assessors. Finally, computations were applied that incorporated these growth rates during re-assessment years and calculated the dollar impact on the sample district's revenue for six years under the TaxCut 2000 scenario.

The average growth rate for Colorado as a whole was 17.43%. The average growth rate for the districts included in the sample was almost 17%. Table 2 on the next page illustrates the specific growth rates applied to the district computations during re-assessment years and the number of tax bills reviewed.

Table 2 - Sample District Growth Rates

Special District	# of Tax Bills Analyzed	Growth Rate
Grand Junction Rural Fire Protection District	12,836	5.79%
Hillrose Fire Protection District	1,534	8.67%
Foothills Park & Rec	58,611	11.79%
Jefferson County Law Enforcement Authority	80,380	12.30%
Indian Peaks Fire Protection District	854	14.81%
Park Hospital District	9,875	18.94%
City of Thornton	28,821	22.57%
Upper San Juan Hospital District	16,204	24.78%
Elbert County	12,774	24.83%
Middle Park Water Conservancy	53,824	24.85%
Total Bills & Average Growth Rate	275,713	16.93%

Source: 1999 Detailed Assessment Abstract Sate of Colorado and CPEC Compilation

Growth rates were not applied to the sample school districts since these mill levy overrides are maximum amounts approved by the voters with no allowance for growth, unless another election is conducted. Thus, this table of school districts only shows the number of tax bills reviewed for each school district.

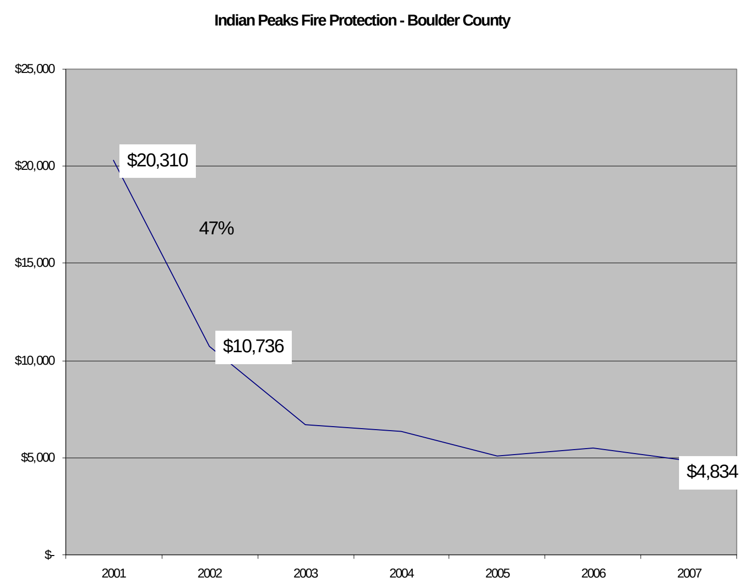
Table 3 - Tax Bills Analyzed for School District

School District	# of Tax Bills Analyzed
Mesa County Valley	57,692
Douglas County	81,874
Cherry Creek	81,401
East Lake 12 (Adams 12 Northglenn)	56,891
Total Tax Bills	277,858

Source: 1999 Detailed Assessment Abstract Sate of Colorado and CPEC Compilation

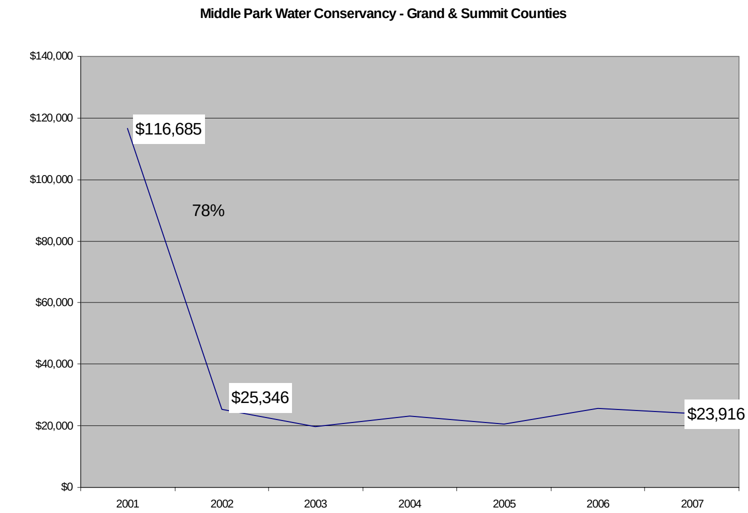
Eight of the ten government entities reviewed will have at least a 50% reduction in property tax revenues by 2007

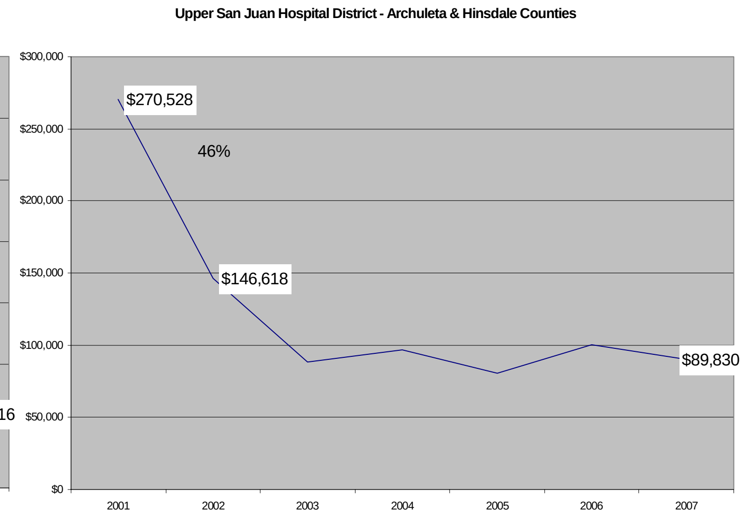
All the districts included in the sample, except Elbert County and the City of Thornton, will experience a reduction in property tax revenue by 2007 exceeding 50% of the revenue received in 2001. The Middle Park Water Conservancy, Indian Peaks Fire Protection, and Grand Junction Rural Fire Protection Districts each will lose greater than 76% of their annual revenue obtained through property taxes by the sixth year the tax reduction is in place. Without state replacement, these local governments will have to ask voters to approve mill levy increases to maintain adequate revenue levels.



Districts that have low mill levies lose over 45% of property tax revenues in the first year of Amendment 21 enactment

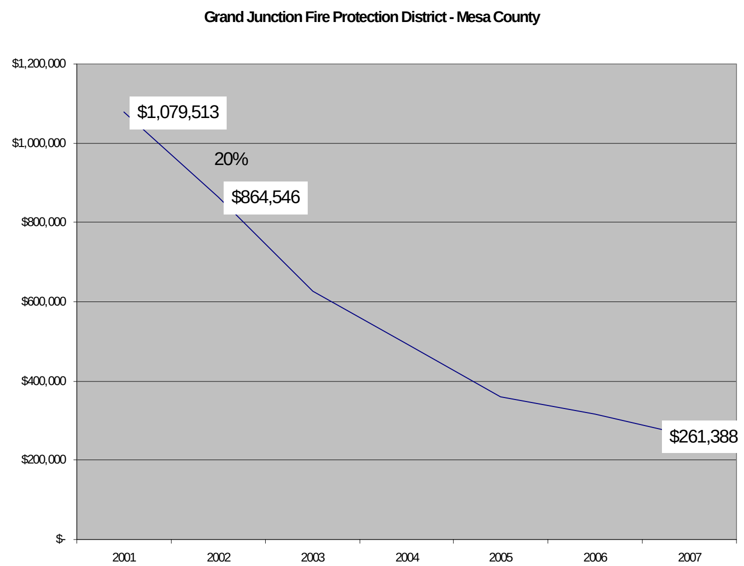
The Middle Park Water Conservancy and the Upper San Juan Hospital District each had relatively low mill levies compared to the other sample districts. The first year impact of Amendment 21 for each of these districts resulted in a direct reduction of property tax revenue greater than 45%, then revenue losses level off for the following five years.

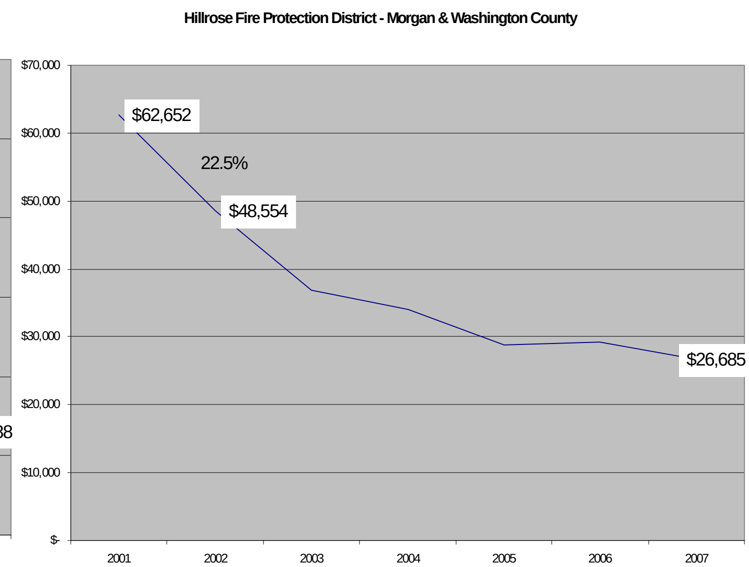




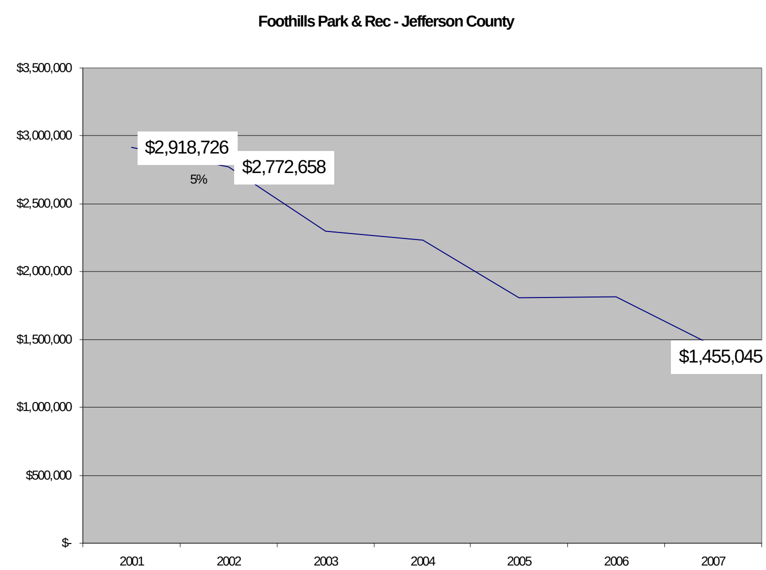
Two districts that have low growth rates have close to a 20% reduction in property tax revenues in the first year of Amendment 21

The Grand Junction Rural Fire Protection District, with a growth rate of six percent, would have a 20% decrease in revenues after the first year if Amendment 21 becomes law. The Hillrose Fire Protection District, which also had a low growth rate, would have a 23% reduction in property tax revenue by 2002 if the tax reductions were applied.



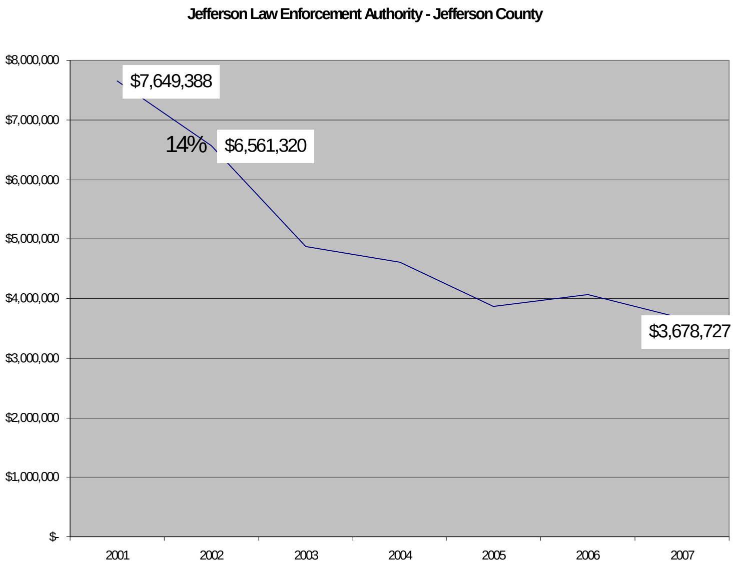


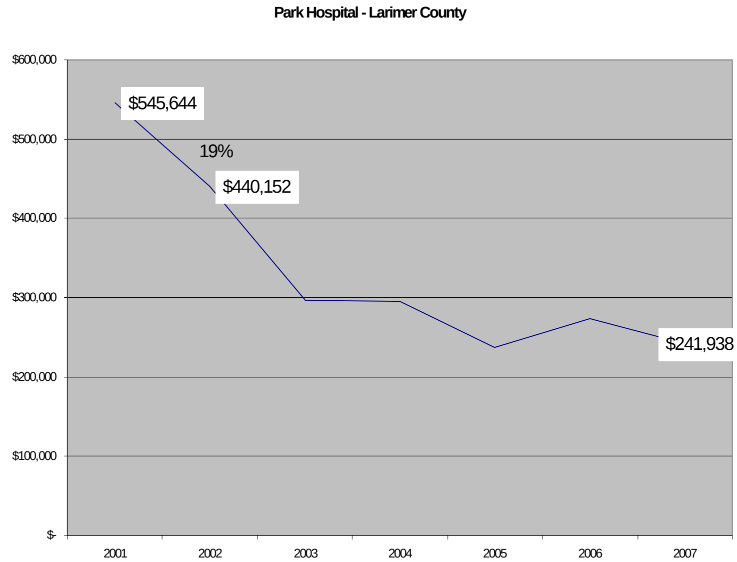
The Foothills Park and Recreation District also had a lower growth rate yet only had a five percent reduction in property tax revenues in the first year of the tax reduction. This could be the result of a higher commercial assessed value in Jefferson County compared to Mesa, Morgan, and Washington counties, the counties that Hillrose and Grand Junction Rural Fire Protection represent. All of the districts with low growth rates have a smooth decline through 2007 with no plateau.



Districts with growth rates that fell into the middle of the range saw greater than a 50% decline in revenues by 2007

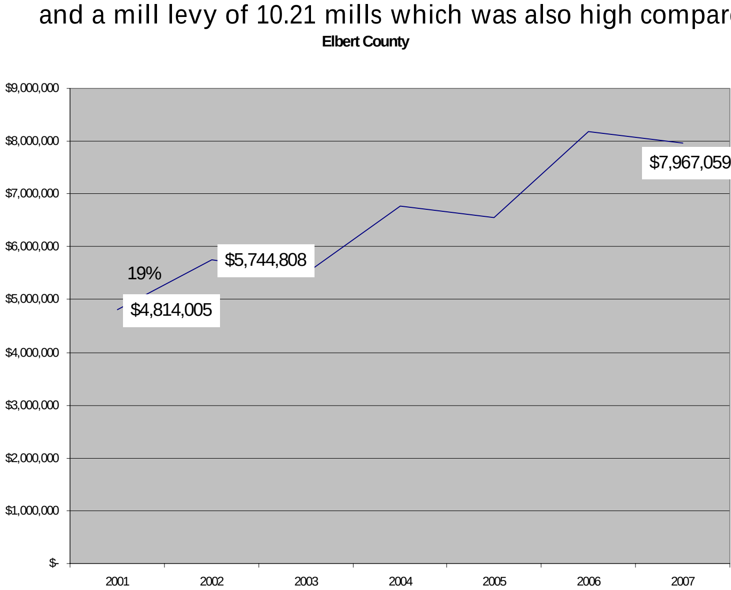
The Jefferson County Law Enforcement Authority (growth rate=12%) and Park Hospital District's (growth rate=19%) growth rates were ranked in the middle of the government entities reviewed. Each of these districts will have a decline greater than 50% in revenue after the first six years of this referendum. This 50% reduction in revenue from property taxes, as with all of these projections, would be felt only if mill levy increases are not approved by voters.

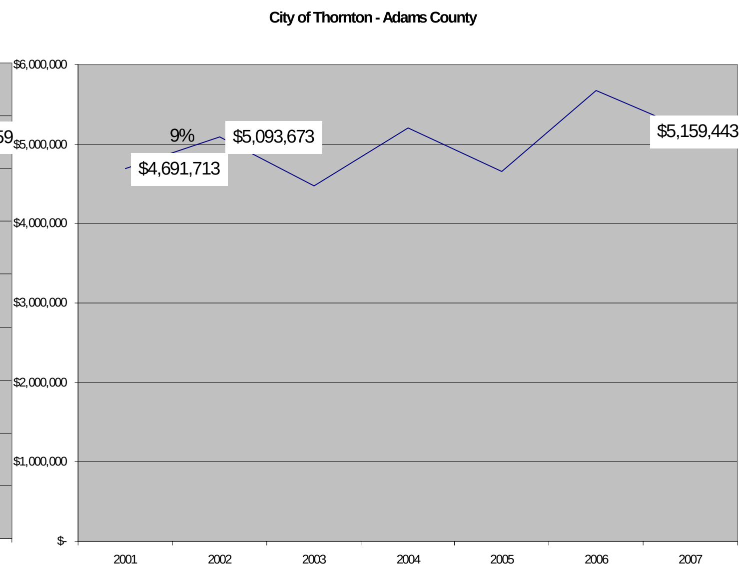




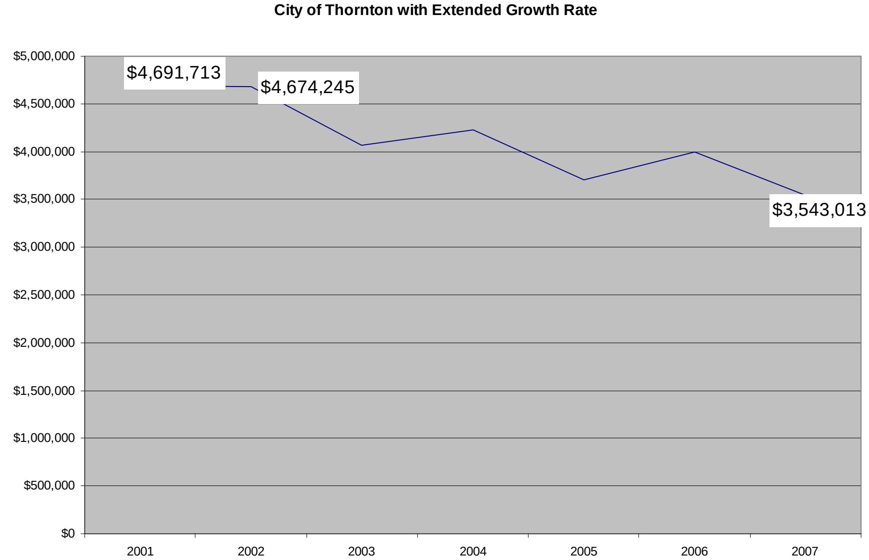
Districts with higher mill levies and growth rates were minimally effected

Two of the government entities reviewed had increases in the revenue amounts between 2001 and 2002. This was mainly due to the level of growth applied to the analysis. These two entities included the City of Thornton and Elbert County. It should be noted that the growth rate for Elbert County was 24.83% and the mill levy was the highest of all the entities included in the sample at 30.40 mills. The City of Thornton had a growth rate of 22.57% and a mill levy of 10.21 mills which was also high compared to the other districts reviewed.





During the 1980s, Colorado's growth was lower compared to growth in the 1990s. For the City of Thornton, an extended growth rate was calculated over the last six re-assessment cycles. This extended growth rate was reduced to 14% for the City of Thornton. The graph incorporating the extended growth rate shows a decrease in city revenue if the lower growth rate is utilized. Future growth trends have a dramatic impact on the outcome of local government revenue streams and how Amendment 21 will effect these revenue levels.

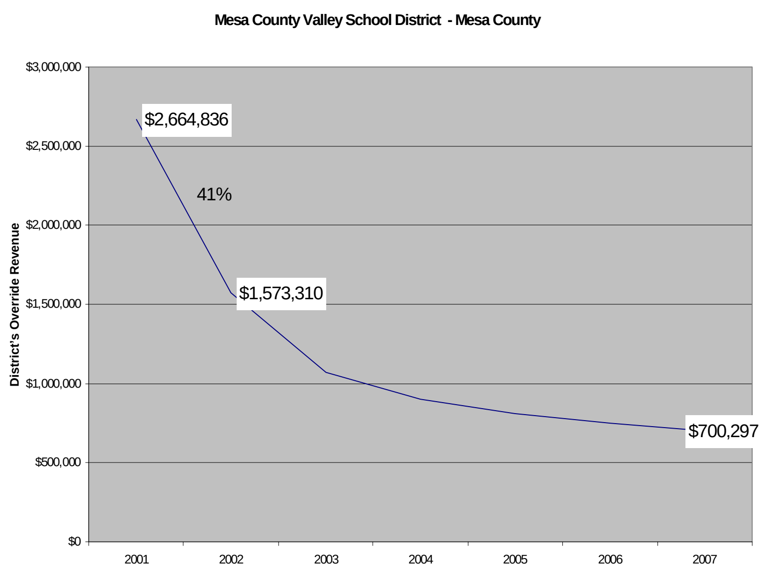


Results of School District Review

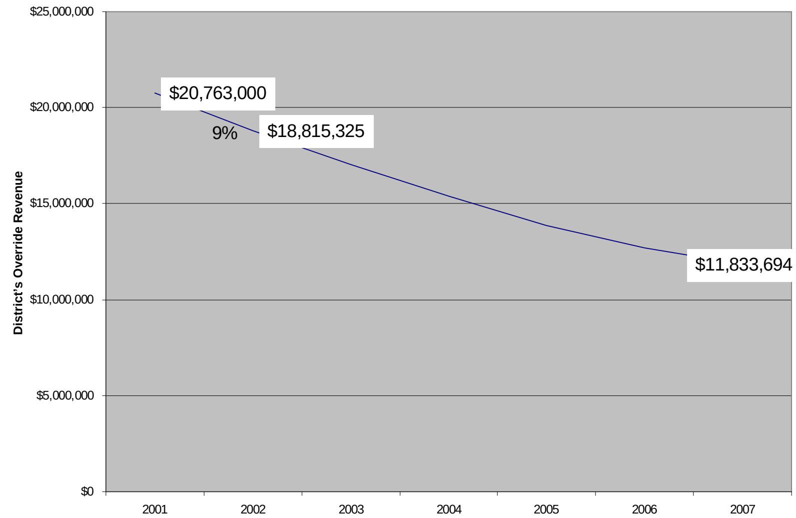
As noted earlier, four school districts were reviewed and each of these districts has had a mill levy override approved by the voters. Initial revenue figures may differ slightly due to the large volume of tax bills analyzed. A two percent margin of error was incorpoated to ensure data accuracy. If data integrity testing resulted in a difference greater then two percent, the district was excluded from the sample. The highest mill levy override amount was the Cherry Creek School District with an override of $20.7 million and the lowest was Mesa County Valley at $2.6 million. The 277,858 tax bills associated with these school districts were reviewed to determine Amendment 21's impact on the amount of override revenues through 2007. Because these revenue amounts are approved by the voters, they are maximum amounts and therefore there was no need to incorporate growth rates into these computations.

The western slope school district will have a 41% decline in override revenue in the first year of TaxCut2000 and a 74% decline by 2007

By 2002, the Mesa County Valley School District's mill levy override revenue will drop almost 41% from $2.6 million in 2001 to $1.5 million in 2002. By 2007 this mill levy override revenue is reduced to just over $700 thousand.

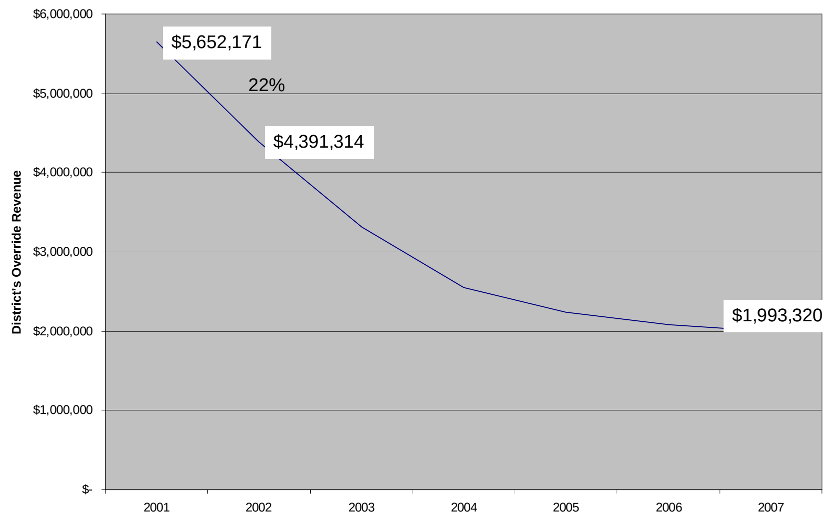


Cherry Creek School District - Arapahoe County



If the referendum is approved, the Cherry Creek School District will only have a 9% decline in override revenue after the first year but by the sixth year the revenue from mill levy overrides will be reduced by 43% to $11.8 million.

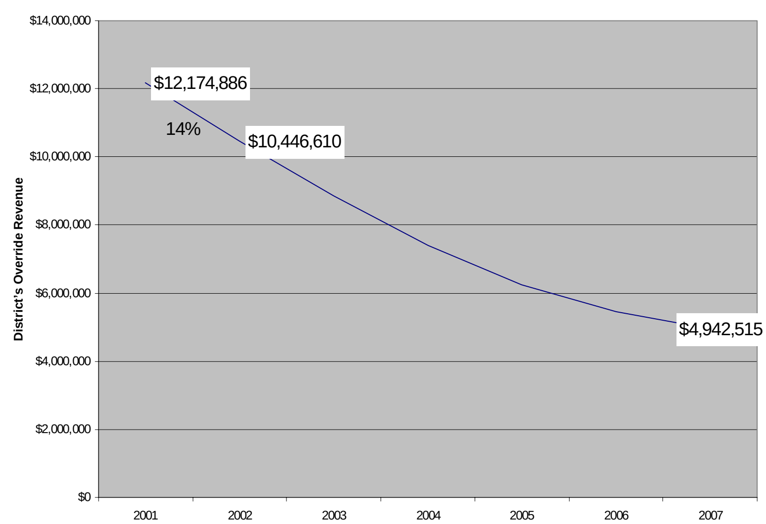
Northglenn Adams 12 SD - Adams County



By 2007 all school districts reviewed will have an average decline of 48% in mill levy override revenue if TaxCut 2000 is in place

Adams 12 Northglenn School District will have the second greatest decline of the four districts in the sample, with override revenue reduced by almost 65% by 2007 if Amendment 21 is written into law.

Douglas County School District - Douglas and Elbert County



Douglas County School District, comprised largely of Douglas and minimally of Elbert County had a total of 81,874 tax bills reviewed. The override revenue followed a fairly smooth decline for the first seven years from $12.1 million down to $4.9 million by 2007.

Cherry Creek and Douglas County revenue levels for overrides in the first year TaxCut 2000 is in place are not as drastic as the other districts reviewed. However, by year six these revenues are severely reduced by the initiative. All the districts reviewed will experience a minimum of a 43% decline in override revenues by 2007 with an average decline of 55%. It is important to note that the voters have already approved additional funding in the amount of $40.5 million for these school districts. Therefore, Amendment 21 will essentially reverse the voice of the voters with respect to mill levy overrides for school districts.

Transportation Project Impacts

Many of the state's highway and transportation projects are funded through what is known as the Senate Bill 97-1 (SB 97-1) monies. These funds are transferred from the state's general fund to the Department of Transportation for projects identified as the "7th Pot" programs. Analysis performed by Legislative Council concluded that these funds would not be available if Amendment 21 passes.[2] Last fiscal year the SB 97-1 monies totaled $197.2 million, which were applied to 25 projects.[3]

7th Pot projects are approved by the Transportation Commission and include a public hearing forum. The Statewide Transportation Improvement Program (STIP) was reviewed to determine the 7th Pot Programs and the funding for these programs that are scheduled to continue after fiscal year 2002. It is reasonable to assume that if Amendment 21 is approved, funding for all 7th Pot projects will be dissolved. Although some federal funds are applied to the 7th Pot, these funds would only be sufficient to cover bond debt and no new projects.[3] Prior to formal cutting of any highway projects, a vote by the Transportation Commission and the necessary public hearings would be required. The table below shows the 7th Pot projects that are currently scheduled to include funding past fiscal year 2002. Therefore, these projects will most likely not be completed if Amendment 21 is enacted.

Table 4 - 7th Pot Projects With Funding Scheduled Past Fiscal Year 2002 (In thousands)

Project Location	County	Current Funding Amounts	Budget Requests 2002 to 2010
I-25/ US 36/ SH270	Adams	$63,794	$ 49,654
I-225/ Parker Rd.	Arapahoe	$31,252	$ 14,874
East I-70 Tower Rd. to Kansas	Arapahoe	$75,739	$ 20,340
South US 287, Campo to Hugo (Region 1)	Baca	$13,779	$ 53,394
South US 287, Campo to Hugo (Region 2)	Cheyenne	$54,114	$ 62,570
US 40 N. City Limit of Winter Park to South of Berthoud Pass	Clear Creek	$42,118	$ 24,862
Southeast MIS: I-25 Broadway to Lincoln Ave.	Denver	$130,732	$ 449,596
I-25 North Corridor MIS Denver to Fort Collins	Denver	$15,417	$ 100,599
I-25 Corridor MIS: Denver to Colorado Springs (Region 1)	Douglas	$52,038	$ 66,612
1-25 S. Academy to Briargate	El Paso	$106,431	$ 149,985
Powers Blvd. Colorado Springs	El Paso	$13,755	$ 187,345
I-25 Corridor MIS: Denver to Colorado Springs (Region 2)	El Paso	$0	$ 96,000
I-70 MIS: DIA to Eagle County Airport Region 1	Jefferson	$32,110	$ 117,000
US 550 New Mexico State Line to Durango	La Plata	$20,685	$ 27,134
US 160 Jct. SH 3 to Florida River	La Plata	$12,908	$ 36,061
US 287 Broomfield to Loveland	Larimer	$32,748	$ 36,365
US 50, Grand Junction to Delta	Mesa	$21,792	$ 46,807
US 160 Wolf Creek Pass	Mineral	$4,150	$ 47,159
North I-25 SH 7 to SH 66	Weld	$39,489	$ 26,000
Total		$763,051	$ 1,612,357

Source: Department of Transportation report *Strategic Projects ("7th Pot") In Constant FY 2000 Dollars*

Conclusions

Growth rates have an extreme influence on the outcomes of how Amendment 21 impacts special district, school district, and city, and county property tax revenue. Districts will have the option under this amendment to go to the voters and request mill levy increases to revive falling revenue streams. However, this is costly to the local governments and in today's environment with voter apathy at an all- time high, it may be difficult to get such a levy increased. Consequently, services currently enjoyed by the citizens may be reduced or even eliminated.

It was apparent in this review that government entities with higher mill levies are less severely impacted by Amendment 21's property tax reductions. Although, if growth levels slow down even the larger districts will experience reductions in property tax revenues. In turn, the state's burden in funding K-12 education will increase dramatically under the provisions of Amendment 21.

Finally, the state's transportation projects will also be severely impacted by Amendment 21. A total of 19 projects that have already been approved by the Transportation Commission will most likely be canceled as a result of reductions in funding. These 19 projects are commonly referred to as the 7th Pot projects however; the Department has also identified other projects that are susceptible to Amendment 21 cuts.

[2] Table 2 *General Fund Overview Includes Capital Continuation and TABOR #205* Legisaltive Council
[3] Colorado Department of Transportation Staff Interview

A D D E N D U M

- This research report includes an analysis of the sample government entity revenue levels. Expenses of these entities were not reviewed in this research project.

- Additionally, the State imposed limits on revenue growth required by TABOR and other revenue constraints were not incorporated in the calculations.

- Growth levels of the Consumer Price Index combined with population growth may impact the cost of services a government entity provides. Spending growth, triggered by population increases, may be greater than allowable revenue growth under State imposed limitations. The research performed for this report did not factor in current government revenue limitations.