

HB18-1119: An Economic Analysis

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House Bill “Highway Building and Maintenance Funding,” or HB18-1119, guarantees tax revenue for the state highway fund and changes the financing strategy for high-priority federal aid transportation projects. The bill’s premise revolves around providing and maintaining an important public good for residents of Colorado that contributes to the welfare of the citizens and the efficient transportation of resources within the state. However, in doing so, HB18-1119 repeals sections of SB17-267 that more effectively address the needs of Colorado at a lower cost. Therefore, this bill has little economic justification.

HB18-1119 in summary allocates 7.5% of the state sales tax revenue to be credited to the state highway fund without raising taxes. Due to the bill not raising taxes and the state earning an annual \$2.98 billion in sales and use tax, approximately \$223.5 million will go towards the state highway fund and will be removed from other budgets not specified in the bill.¹ The most significant difference in state highway funds between these two bills is that HB18-1119 guarantees funds whereas SB17-267 simply allocates residuals.

In establishing a framework to fund high-priority federal aid transportation projects, the bill calls for a ballot measure that would approve funding of these projects through transportation revenue anticipation notes (TRANs). If the Colorado General Assembly passes HB18-1119, but the public does not go on to pass the ballot measure, the state sales tax revenue allocation would remain in place. However, the current law, SB17-267, would not be repealed, and the specified highway projects would not be funded with TRANs.

Transportation revenue anticipation notes are a form of short-term debt in which government uses securities to finance a project that will eventually have enough income to repay

¹ Annual Report 2017 (p. 48, Rep.). (2017). CO: Colorado Department of Revenue.

creditors.² Along with developing the TRANs financial plan, HB18-1119 establishes an additional sense of urgency in the funding for prioritized state highway projects. The bill calls for the executive director of the department of transportation to issue at least one-third of the TRANs within a year of the declaration of the vote. The executive director would then be required to issue two-thirds of the TRANs within two years, issuing all of the TRANs within three years total. The intention of this change of financing is fast-tracking the start of high-priority highway projects by requiring the financing of every project to be accounted for within three years. Finally, this debt structure would likely be shorter than the SB17-267 financing structure.

In establishing this financing, the bill repeals a section of SB17-267, also referred to as “Sustainability of Rural Colorado,” that instead requires the state treasurer to execute lease-purchase agreements in order to fund high-priority federal aid transportation projects. SB17-267 required the state to “sell and lease back state-owned facilities for twenty years to generate \$1.88 billion to fund transportation projects throughout the state.” The current law – which was signed May of 2017 – designates remaining proceeds from the lease-purchase agreements to go towards the state highway fund, with 25% of these proceeds going towards projects in rural counties and 10% of these proceeds going towards transit-related capital improvements.

Public goods are defined as being both nonrival – meaning that one individual’s use of the good does not restrict another’s usage – and nonexcludable – meaning that one individual cannot prevent another from consuming the good.³ Colorado’s state highways function as pure public goods when they are not heavily trafficked. When they are congested, the highways are rivalrous because too many vehicles occupying the roads can prevent others from using them. In this case,

² Miller, G. (1996). *Handbook of Debt Management*. New York: M. Dekker.

³ Rosen, H. S., & Gayer, T. (2010). *Public Finance*. New York: McGraw-Hill/Higher Education.

however, it is the government's responsibility to minimize this congestion to maintain the efficiency of the public good. Any state or federal government's role is to create efficiency through policy involving public goods when they exist in the market, so the funding of state highways is well within the duty of a government aiming to create an efficient system.

Moreover, Colorado residents are in need of well-maintained and efficient roadways because of the increasing state population; an increasing population means an increasing usage of roads and more congestion on highways. In 2016, "more than one in 10 Colorado households that filed a tax return in 2014 lived in another county or state the year before," according to the Denver Post. The newspaper notes that this rate exceeded every other state.⁴ As of 2013, people living around Denver were reported to be just as reliant on driving as commuters in any other city, with "three-quarters of people in the metro area at large still commute by driving alone".⁵ Generally, an increase in population while maintain similar levels of road usage means that highway usage increases and are in need of more maintenance and expansion to compensate.

Naturally, Colorado residents could benefit from better maintained and more efficient highways; however, this bill does not adequately provide this improvement because of its relatively narrow scope. The recipient highways from the funding allocated in HB18-1119 are limited to "specified high-priority highway projects." The number of high-priority highway projects are extremely limited because they are determined solely by the Chairman of the White

⁴ Svaldi, A. (2016, April 21). Colorado has more people on the move than any other state. Retrieved February 10, 2018, from <https://www.denverpost.com/2016/04/14/colorado-has-more-people-on-the-move-than-any-other-state/>

⁵ Jaffe, E. (2013, March 26). After Decades of Sprawl, Density Comes to Denver. Retrieved February 6, 2018.

House Council on Environmental Quality.^{6,7} In an executive order intended to expedite environmental reviews for high-priority infrastructure project, President Trump assigned this chairman as the only individual responsible for determining whether a project qualifies as “high-priority.” Naturally, each state will only be granted a limited number of “high-priority” projects, and even fewer highway projects. Therefore, the funds that HB18-1119 proposes allocating would only touch a small number of projects, meaning that the scope of the bill is much smaller than simply constructing and maintaining highways around the state.

While the scope of HB18-1119 is deceptively small, SB17-267 already does a more adequate job of addressing the state’s needs. Previous Colorado Department of Transportation Executive Director Shailen Bhatt commented that the hardest part of creating better state highway infrastructure is a combination of funding and time. SB17-267 already has established funding towards high-priority highway projects, so additional funding for those roads is superfluous. In fact, SB17-267 allocates \$1.88 billion towards these projects compared to the \$3.5 billion maximum that HB18-1119 recommends. Bhatt estimated that two projects likely to be deemed high-priority – a 17-mile stretch between Castle Rock and Monument and the bottom of Floyd Hill on Interstate 70 – would both be approximately \$400-\$500 million.⁸ While this need for funding is significant, \$1.88 billion should cover these costs and a couple of other large-scale projects.

The proposed 7.5% of state sales taxes that would go towards the state highway fund is not a justifiable use of tax dollars because funding is already going towards this fund in current law

⁶ Governor asks CDOT to establish 'high priority' project list to submit to feds. (2017, February 02). Retrieved February 10, 2018, from <https://coloradopolitics.com/governor-asks-cdot-to-establish-high-priority-project-list-to-submit-to-feds/>

⁷ Exec. Order No. 13766, 3 C.F.R. (2017).

⁸ Governor asks CDOT to establish 'high priority' project list to submit to feds. (2017, February 02). Retrieved February 10, 2018, from <https://coloradopolitics.com/governor-asks-cdot-to-establish-high-priority-project-list-to-submit-to-feds/>

SB17-267. Moreover, SB17-267 attempts to address a variety of transportation needs for the state, rather than exclusively addressing high-priority highway projects. Section 12 of the bill passed last year states that proceeds that do not go towards the high-priority projects will go towards the state highway fund, addressing a greater spread of needs. The granting of funding through SB17-267 towards the transit system will also benefit city residents. Despite a heavy investment in transit networks, Denver still “struggles with transit gaps.”⁹ There is naturally room for growth and improvement in the state’s transit system that SB17-267 accounts for, which HB18-1119 does not.

The impact of the new structure of financing is another concerning feature of this proposed policy. While current law SB17-267, which grants up to \$1.88 billion in lease-purchase agreements for high-priority federal aid transportation projects, HB18-1119 grants \$3.5 billion as a maximum principal amount of TRANs with a maximum repayment cost of \$5 billion. The bill justifies this increase in maximum allowance by stating that the structure of TRANs are that the projects themselves should generate enough revenue to pay back in full. However, the bill problematically fails to specify in detail how the projects will pay back the TRANs, or short-term debt.

While it is encouraging that the state legislature is prioritizing highway infrastructure, HB18-1119 is simply too limited in scope to justify its increase in funding and the unnecessary tax dollar redistribution that it proposes. It is well within the duty of the state government to provide its citizens with the public good of well-maintained roads to boost economic efficiency. However, this bill does not execute this duty in an economically viable or sound way. As a result, HB18-1119 should not be considered a policy that will have positive economic impact.

⁹ Murray, J. (2016, July 29). RTD's rail system is having its biggest year, but Denver is still a city with many transit gaps. Retrieved February 10, 2018, from <https://www.denverpost.com/2016/07/31/rtd-rail-system-denver-gaps/>