

## Facts About 2009 City of Boulder Ballot Issues

The city has placed four ballot issues on the November 2009 ballot. The following is a factual summary of three of those issues: one revenue ballot issue and two multi-year bond obligation questions. This is presented in a question and answer format about the three items:

- **Section I** covers the proposed renewal of the .15% sales and use tax,
- **Section II** covers the proposal to convert the currently authorized Open Space Sales Tax Revenue bonds to Sales Tax Revenues bonds backed with a general obligation pledge (provides the backing from city property taxes only in the event the designated sales and use tax revenues are not sufficient for bond payments),
- **Section III** covers a proposal to authorize the city to enter into a multi-year financial obligation with not tax increase to fund ongoing old hire pension obligations for police officers and fire fighters hired before April 8, 1978.
- **Section IV** covers other information that may be of interest to voters either against or for the measures.

### Section I    **Renewal of the .15% sales and use tax**

- A.    One of the ballot issues is the renewal of the current .15% sales and use tax that expires December 31, 2012. What is it used for?

When originally passed by the voters in November of 1992, the tax was restricted by the voters for debt payments on bonds of up to \$5,500,000 to be used for improvements and facilities for softball fields, soccer fields and other parks and recreation capital improvements and facilities, and up to \$1.5 million for refurbishing municipal facilities. The revenues not needed for the bonds were restricted by the voters for the first five years with 48 percent to human services/youth opportunities, 20 percent to Parks and Recreation, 8 percent to environmental affairs, 4 percent to arts and culture, and the remainder to basic municipal services (the general fund). Beginning in 1999, the ballot language authorized the city council to dedicate the funds in order to “implement the intent and purpose of this ordinance.” The 2009 budget allocation is as follows:

**TABLE 1**

Department	2010 Budget	Comments
Housing & Human Services	\$1,800,000	Includes Human Services Fund (\$1.5M) and Youth Opportunity Fund (\$300K)
Parks & Recreation	300,000	Ball field Maintenance
Arts	300,000	Arts Programs
Office of Environmental Affairs (OEA)	300,000	Environmental Programs
General Fund	475,000	For general purposes
Debt Service	550,000	East Boulder Community Center & Municipal Facilities
<b>Total</b>	<b>\$3,725,000</b>	

Currently, over 47 percent of the tax provides funding for basic human services in the city.

B. What is the General Fund?

In local government accounting, budgeting, and financial reporting, operations that collect their own revenues must be reported separately. When this occurs, this separate accounting and budgeting process is called a fund. There are two specific situations where the operating revenues and associated expenses are uniquely accounted for in their own funds. Utility revenues such as water, sewer, and storm drainage/flood control fees are called enterprises and are accounted for as enterprise funds which are very similar to private business accounting.

Other funds must be created when voters pass a dedicated tax and earmark it for items stated on the ballot. These are called special revenue funds. Some of the special revenue funds in the city are: the .88% sales and use tax passed by the voters for Open Space and Mountain Parks, the .25% sales tax for Parks and Recreation, the .60% for Transportation. Of the amount that goes to Open Space and Mountain parks, 40% is permanent. For transportation, the .60% is permanent. Both were passed by the voters of the City of Boulder in 1967.

Any program or service offered by the city that does not have a specifically dedicated tax or fee will be accounted for in the General Fund. The General Fund also subsidizes all other funds that do not receive adequate revenues from the dedicated taxes they receive. Parks and recreation, housing and human services, and the library are examples of services that receive funding from the General Fund.

C. Does the General Fund have any sales and use taxes that do not expire?

Yes. The 1.00% that was passed by voters in 1964 and the 0.38% extension that was approved by voters in 2008 do not expire.

D. What is the break down of the current 3.41% that is charged as city sales and use tax?

Sales and use tax represents 37% of the city's total revenue. Sales tax is a transaction tax levied upon all sales, purchases, and leases of tangible personal property and taxable services sold or leased by persons engaged in business in the city and is collected by the vendor or lessor and remitted to the city. The 2009 sales and use tax rate consists of several components. The following is a list of the specific funds that have sales tax as a component of their revenue.

<u>Fund</u>	<u>Rate</u>	<u>Start Date</u>	<u>Expiration Date</u>
General	1.00%	1/1/1964	None
General	0.38%	1/1/1988	None
General (designated)	0.15%	1/1/1993	12/31/2012
*General	0.15%	1/1/2005	12/31/2024
Open Space	0.40%	1/1/1967	None
Open Space	0.33%	1/1/1990	12/31/2018
Open Space	0.15%	1/1/2004	12/31/2019

Transportation	0.60%	1/1/1967	None
Parks	<u>0.25%</u>	1/1/1996	12/31/2015
Total for 2008	<u>3.41%</u>		

\* Prior to 2005 this tax was designated for public safety purposes. It was changed by the voters in 2004.

E. Why is this .15% being put on the ballot as a request to make it a permanent tax?

On January 15, 2008 the Blue Ribbon Commission (BRC) on Revenue Stabilization (information about the Commission can be found in section IV) presented their report to the City Council. The BRC projected revenue and expenditures for nine city of Boulder funds from 2006 through 2030. This analysis indicated that Boulder's revenues are expected to grow at 3% a year over this planning horizon while expenditures for providing the current services will grow at 4%. The one percent difference each year, projected over 24 years, results in a \$75 million shortfall assuming all General Fund-related sales taxes are renewed during this period. If the expiring taxes are not renewed the estimation is the gap will be \$100 million.

The BRC found that the principle reasons for the growth differential are the decreasing productivity of sales tax revenue and the above average inflation rate of government inputs. Specifically, the BRC found that sales tax productivity will continue to decrease due to a flat inflation rate associated with durable goods, durable goods diminishing as a percentage of personal consumption, changing demographics leading to fewer purchases of sales tax eligible products, and continuing increases in e-commerce. Conversely, the cost of municipal inputs will outpace revenue growth due to inflation rates associated with energy (to operate offices, recreation centers, libraries and fleets), building materials (oil for streets, cement for sidewalks), and personnel (salaries, pensions, health care). These diverging trend lines result in the expanding gap.

The BRC has identified the renewal of existing sales taxes as the top priority for revenue stabilization in Boulder. There are five sales taxes set to expire during this planning horizon that account for approximately 30% of the city's sales tax rate. Combined, this would be a loss of \$25 million dollars a year in 2009 dollars; to put this amount in perspective, this equates to more than the entire fire and library department budgets combined. The BRC identified the most pressing concern as the expiration of the 0.15% in 2012 since it funds many services in the general fund and other funds. The General Fund pays for core services such as public safety and administration, but also provides very significant transfers to parks & recreation, library, housing & human services, code enforcement, and other programs with no dedicated funding source.

F. What is the financial significance of this tax?

If the .15% sales and use tax renewal is approved by the voters, it would not generate any new or incremental revenue for the General Fund. It would continue current revenues for the General Fund and funds subsidized by the General Fund after Dec.31, 2012.

This tax funds a myriad of city services. It represents 4.4% of the total city of Boulder's 3.41% sales and use tax rate. Table 1 above provides an outline of the services funded with this tax.

The Blue Ribbon Commission I (BRC I) recommendation is that tax ballot issues should not designate specifically how the taxes collected will be used and that the tax should not sunset unless the tax is to be used for specific capital projects. It is also proposed that the tax not sunset since it provides funding for many essential ongoing programs in the city. This aligns with the ballot items approved by voters in November 2008 which extended indefinitely the .38% sales/use tax and eliminated the remaining TABOR restrictions on property tax. Both these measures were approved with no specific earmarking or restrictions.

Due to the impact that the elimination of this tax would have on some departments and services, the reductions cannot all be implemented on January 1, 2013. This is especially true of the arts, office of environmental affairs, parks and recreation and general fund programs funded by this tax.

The Department of Housing and Human Services appropriates and spends its funds a year in arrears. Therefore, if the tax is not renewed, the programs would have to end on December 31, 2013. However, due to the severity of the cutbacks that will be required in current programs, reductions should be identified during the budget process for 2011 and the transition to no ongoing funding should occur during 2012. This would provide the users of the programs with sufficient notification of the elimination of the services.

G. How much is .15% sales tax on a purchase?

For each \$100 spent on a taxable item, it is 15 cents.

H. What is the impact if the ballot item is not approved by the voters?

The city will not collect the .15% sales and use tax after December 31, 2012.

I. What is the impact if the ballot item is approved by the voters?

The city would continue to collect the .15% sales tax beyond December 31, 2012.

**Arguments For the Proposal**

Approval of the renewal of the .15% sales and use tax is consistent with the recommendations of the Blue Ribbon Commission to stabilize the City's revenues so that the City can continue to provide services desired by its residents.

Without the renewal of the .15% sales and use tax, several programs and services offered by the City would be significantly reduced or eliminated which would impact most severely those with lower incomes dependent on City programs and services.

Even with the renewal, the City's sales tax rate is commensurate with those of neighboring cities, and lower than several.

### **Arguments Against the Proposal**

Boulder provides too many services and programs for residents and some should be reduced or eliminated.

Sales tax is a regressive tax.

If the City's sales tax became lower than neighboring cities, more people would shop in Boulder.

### **Section II Convert the currently authorized Open Space Sales Tax Revenue bonds to Sales Tax Revenues bonds backed with a general obligation pledge.**

#### **A. What is the significance of this ballot issue?**

This ballot issue is not a request to authorize the sale of additional open space bonds. The voters have already authorized the issuance of these bonds. This item was put on the ballot to determine if the voters are interested in restructuring the bonds due to various financial considerations.

Five previous open space bond issues in the amount of \$80,325,000 have been issued as sales and use tax bonds with a general obligation pledge. These types of bonds are called double barreled bonds because they are backed first by the sales tax dedicated to the Open Space Fund, and if these amounts ever fall short the city council can raise the mill levy and dedicate it to pay the bonds. The general obligation pledge has never been needed since the city began issuing open space bonds because sales and use tax collections have been sufficient. The remaining authorized bonds that can be issued for open space are revenue bonds in the amount of approximately \$33.5 million. These bonds were authorized by the voters in the 1994 revenue bond ballot issue. When the ballot question passed it was challenged under the new state constitutional amendment, often referred to the Taxpayer Bill of Rights (TABOR), in court and eventually the Colorado Supreme Court determined that the language in the ballot question authorized the revenue bonds, but not the general obligation backing. When compared to revenue bonds, general obligation bonds:

- Have lower interest rates. In this case it is estimated the savings would range from \$2.7 to \$4.1 million dependent on whether the bonds were issued for 20 or 30 years.
- Rating agencies give higher ratings to general obligation backed bonds than revenue bonds due to the double types of revenues pledged to pay the bonds. This was proven in the recent refunding of outstanding open space bonds where one issue had the general obligation pledge and the other did not.
- They do not require a 10% reserve requirement like revenue bonds. This was also proven in the latest bond refunding and would free up approximately \$3.35 million that would not have to be held in reserves for the length of time the bonds would be outstanding.
- When issued would not be impacted by the expiration of the .33 and .15 percent Open Space dedicated sales and use taxes that expire in 2018 and 2019 respectively. In the absence of a general obligation backed bond, it could be difficult to issue the

authorized revenue bonds since repayment will extend beyond the expiration of these two taxes.

Due to ballot language requirements under TABOR, the bonds will state that they could create a property tax increase. This verbiage is necessary due to the results of the litigation that occurred when the bonds were authorized. In addition, the general obligation pledge would further assure potential bond holders that the expiration of the designated .33 and .15 percent sales and use taxes in 2018 and 2019 will not impede the payment of principal and interest on the bonds. If the voters do not pass the ballot item, the city still has the authorization to issue sales and use tax revenue bonds.

### **Arguments For the Proposal**

Issuing the approved Open Space bonds with a general obligation pledge will be significantly cheaper in interest rates and costs; as a result, the city will have more money available to spend on city services.

### **Arguments Against the Proposal**

Issuing General Obligation Bonds means that there could be an increased mil levy on property in Boulder.

## **Section III Increase the debt which may be issued by the city to fund ongoing old hire pension obligations for police officers and fire fighters hired before April 8, 1978, with no tax increase.**

### **A. What is the significance of this ballot issue?**

This request for incurring a multi-year obligation of payments is required by TABOR. The ballot issue does not ask for a tax increase to pay for the multi-year obligation payments because the city already makes annual payments. This proposal would provide an alternative funding method to level out annual payments that must be made by the city of Boulder.

One of the key issues brought forward by the finance department in the past year is the funding status of the Old Hire Fire and Police pension plans. The funding for these plans has been an ongoing problem for many years. There are no active firefighters remaining in the Old Hire Fire plan. There is one active police officer in the Old Hire Police plan. The two plans provide retirement benefits for 104 former employees or beneficiaries. The funding was making good progress until the major economic downturn in 2001. The plans went from being 100% funded in 2000, to a low of 70% funded in 2003, and had recovered to being nearly 80% funded in 2007. The recipients received two cost of living increases from 2000 to 2006. The plan was again making good progress until the financial markets underwent the recent major downturn in 2008 and 2009. To meet the requirements of state law to keep both plans actuarially sound (before the most recent downturn), the city currently contributes a total of \$771,000 annually.

Due to the market downturn the plans are now between 50 to 60% funded. Since there is only one active member left, the individual will not be able to contribute to making up this gap. If the financial markets do not improve significantly in the next six months, it is estimated the city will have to contribute an additional \$400,000 to \$550,000

annually to keep the plans on a track of actuarial soundness. These increased amounts would not provide for any cost of living increases. Based on current projections other services in the city would have to be reduced or eliminated to cover the increased contributions.

When used properly and with financial prudence, Pension Obligation Bonds have been used to address unfunded liability issues. The proceeds of the bonds are invested in the financial markets and the earnings on the investments are paid to the pension recipient. The payments currently being paid into the pension plans are used to make the bond payments. Since the city does not receive the direct benefit of the bonds, the Internal Revenue Service classifies such bonds as taxable bonds. Therefore, the interest rates paid on the bonds is higher than regular municipal bonds. They can also carry a high degree of risk if not used properly. They should only be issued when interest rates for borrowing are low and the stock market is also low. That is the environment that is currently occurring. TABOR only allows municipalities to ask voters for permission to incur multi-year obligations via the ballot in November. If the voters approve the Pension Obligation Bonds and the investment markets changed significantly by the time the bonds could be issued, staff would not issue the bonds until market conditions were proper for such issuance.

#### **Arguments For the Proposal**

Approving the issue allows the City to meet its Old Hire Pension Obligations without impacting current government operations and at less cost.

#### **Arguments Against the Proposal**

The City should operate on a pay-as-you-go system rather than borrowing money.

### **Section IV Information Regarding the Blue Ribbon Commission Referred to in other Sections**

#### **A. What is the Blue Ribbon Commission (BRC)?**

In 2001, a national recession began and directly affected the local economy. As the local economy began to improve in late 2004, the City Council felt that the volatility of sales and use tax (the primary source of funding for city services) combined with the sharp escalation in the cost of providing services was creating further instability in the city's funding streams. Additional factors impacting the revenues of the city were the closure of the Crossroads Mall, additional competition on the city's boundaries and the opening of a new mall in Broomfield. In response to these concerns, the City Council appointed a Blue Ribbon Commission (BRC) on Revenue Stabilization to examine the city's revenue structure and to incorporate a long-range approach to addressing financial challenges. The commission completed their work and presented their report to the city council on January 15, 2008.

#### **B. What did the Blue Ribbon Commission do?**

A copy of the Blue Ribbon Commission report can be found at the following location if desired:[http://www.bouldercolorado.gov/index.php?option=com\\_content&task=view&id=8556&Itemid=2421](http://www.bouldercolorado.gov/index.php?option=com_content&task=view&id=8556&Itemid=2421)

