

CITY COUNCIL COMMUNICATION FORM

FROM: Gary Suiter, City Manager
Kim Weber, Finance Director

THROUGH: N/A

DATE: March 16, 2021

ITEM: Fiscal Sustainability-Comprehensive Review of Options and Direction.

DIRECTION
 INFORMATION
 ORDINANCE
 MOTION
 RESOLUTION
 PROCLAMATION

I. REQUEST/ISSUE & BACKGROUND INFORMATION:

Background

Following is a summary of previous work session on this topic:

November 10, 2020

Staff presented City Council with multiple options to address Council's goal of fiscal sustainability. Options included property tax, sales tax, lodging or accommodations tax, "lift" tax, "sin" tax, timeshare tax, paid parking, impact fees, forming a stormwater utility, and establishing new special districts.

Following discussion and deliberation, City Council directed staff to proceed with a more detailed evaluation of two options: property tax and lodging (accommodations) tax.

December 8, 2020

City Council discussed in more detail the two options above. Staff provided research from other comparable communities along with a spreadsheet showing types of tax, tax rates, restricted uses, and diversity of revenue sources. Council provided consensus direction to proceed with a property tax on the November 2021 ballot, direction to explore sales tax "offsets" to a

potential property tax, and direction to postpone any changes to the current 2A lodging tax.

January 12, 2021

City Council further discussed property tax and sales tax, including several "offset" scenarios. The offset scenarios included an overall sales tax reduction, a sales tax reduction on utilities, and a sales tax reduction on groceries, with the intention of offsetting a potential property tax increase. City Council indicated a preference to move forward with a "revenue positive" property tax (5 mill max) without any potential offsets and there was not strong Council support for dedicating the property tax for a specific purpose.

February 2, 2021

City Council had a lengthy discussion regarding a possible lift ticket tax. Several revenue scenarios were presented along with community comparisons. Council appointed a subcommittee to negotiate with Steamboat Ski and Resort Corporation (SSRC) with the intent of avoiding a lift tax ballot question. An update on those discussions will be presented on March 16th.

February 16, 2021

City Council further discussed a potential property tax and indicated a preference to reduce the overall 5 mill levy proposed tax. There was also expressed opposition to any property tax ballot question in November from some Council members. Council asked staff to return with more detail on the community comparisons, a review of all the potential revenue sources that have been discussed, more detail on the funding needs of the city, and various mill levy scenarios for potential bonded indebtedness.

March 9, 2021

Council heard a multi-faceted proposal from the Steamboat Chamber to include a 2 mill property tax dedicated to Howelsen Park complex, a time-share tax dedicated to the air program, and a re-purposing of the current 2A lodging tax for destination marketing/management. City Council was generally receptive to the proposal and interested in discussing further.

Fiscal Sustainability Goal

Following is the City Council's current Fiscal Sustainability Goal from the December 2020 retreat: *Fiscal Sustainability: Focus on diversification of city revenues; regular monitoring of city revenues and expenses; maintenance of quality of life including attainable housing; economic development, including broadband infrastructure, business retention, expansion and recruitment, and dedicated funding mechanisms.*

Problem Statement

City Council has agreed to the following problem statement: *The city is too reliant upon sales tax a primary revenue source.*

Expectations for levels of service continue to increase as the city grows and continuing the current track of service reductions will only lead to the inevitable – either improve our revenue picture or negatively impact the quality of life that we all enjoy.

Topics

Today's presentation will include:

- Another look at the community comparisons, including the addition of several communities along the I-70 corridor
- A review of all the potential revenue sources discussed to date
- A presentation and more detail on the funding needs of the city
- Several property tax scenarios for potential bonding

Key Questions:

Staff respectfully asks City Council to provide direction on the following key questions:

1. *Do you want to move forward with a property tax in 2021?*
2. *Do you want to move forward with one of the bonding scenarios?*
3. *Does Council wish to explore the Chamber's proposal further?*
4. *Next steps?*
 - *Provide staff direction and revise timeline*

Community Comparisons

Attachment 2 shows a more comprehensive picture of other community's financial structures. You will note the number of communities that have additional sources of revenue such as real estate transfer taxes, excise taxes, lift taxes, occupation taxes, sin taxes, etc. This approach is consistent with City Council's overall goal of diversifying the city's revenue sources. Unfortunately, Steamboat Springs "missed the boat" for implementing a real estate transfer tax, as it is now prohibited by the state constitution.

Also of note are the number of communities that have a separate fire district, thereby eliminating the need to fund fire and EMS services from the General Fund, competing with all of the other municipal needs. These separate special districts are typically supported by a property tax.

Staff has included a slide in the presentation showing where the City of Steamboat Springs ranks as it relates to total sales tax and municipal property tax in comparison to other resort-oriented communities.

Potential Revenue Sources

At our last work session, City Council requested an overview of all the potential revenue sources discussed over the last four months. Of all the various revenue sources discussed, the ones "leading the pack" appear to be:

- Property tax
- Negotiated contribution from SSRC or lift tax (to offset Steamboat Springs Transit transportation costs)
- Timeshare tax
- Lodging tax
- Stormwater utility fee

Staff respectfully requests that City Council "narrow the field" from the above options. If Council wishes to put other options on the table, staff will need to know that immediately, if an election is required.

Present and Future Funding Needs of the City

Discussing the future funding needs of the city is a bit more complex, as there are varying degrees of need, unexpected emergencies, and general cost estimates that could be significantly impacted by external factors.

As such, we believe the best way to proceed is to use our documented approach to capital improvements under the City's Capital Improvements Plan (CIP), and using deferred maintenance estimates.

The list of unfunded capital improvement requests is provided as Attachment 3, which reflects a total of approximately \$122 Million.

The city continues to face challenges to adequately fund the annual increasing costs of operating and maintenance in many of our departments. Following is a list of budget shortfalls and increasing costs that the city faces on an annual basis:

- Facilities maintenance (underfunded by ~\$400K/year)
- Pavement maintenance (underfunded by ~\$500K/year)
- Stormwater Treatment (underfunded by ~\$100K/year)
- Transportation
 - Diminishing grant funds (increased competitiveness and uncertainty of state/federal allocations)
 - Housing needs for drivers and supervisors
 - Escalating labor and operational costs
 - Increased service expectations
- Public Safety
 - Increased enforcement expectations (River Rangers, Community Service Officers, Animal Control Officers)
 - Staffing for new downtown Fire Station

- Information Technology
 - Rising costs of hardware and software
 - Increased cyber security costs
 - Increased reliance on technology (remote working/virtual meetings, etc.)
- Parks and Recreation
 - Increased public reliance upon facilities, programs, and services

Attachment 3 shows the unbudgeted facilities deferred maintenance items for 2021, totaling about \$3.8 million.

In order to present a balanced budget, staff and Council have had to reduce expenses and services of approximately \$2,000,000 from the General Fund budget on an annual basis, since 2018. This inability to fund certain services tends to exacerbate the revenue-funding gap, particularly with items like deferred maintenance in facilities and the street paving program, as the funding need increases each year. Diversification of revenue sources would help to stabilize ebbs and flows of sales tax and provide greater predictability with respect to funding sources.

Bonding Scenarios

At our last work session, Council requested staff develop several bonded debt scenarios for either capital projects or deferred maintenance (similar to what the School District did). Kim Weber, Finance Director, put together several scenarios reflecting different mill levies (1-5 mils), related principal amounts, and annual debt service payments. This data is shown in the attached PowerPoint presentation (Attachment 1)

Following are some pros and cons of municipal bond financing:

Pros:

- Gives the city the ability to finance capital that may not otherwise be funded
- Mill levy secures the debt and goes away after debt matures
- Spreads the cost of capital improvements to future generations

Cons:

- Does not address on-going service level and operational challenges
- Does not address revenue diversification

Deferred maintenance is a continuing city-wide challenge, and a one-time debt issuance may help in the near term, but may not be practical as a long-term solution.

Other Considerations

There are other considerations that City Council must evaluate when placing tax questions on the ballot. Following are some of those considerations/questions:

Should the tax be dedicated to specific government functions?

Instead of the tax going to the General Fund to support all government services the tax could be dedicated to specific functions, such as Fire, Police, or Parks and Recreation.

Pros:

- The specificity can be viewed favorably by the voters
- Creates greater accountability and transparency with respect to spending allocation and priorities
- Provides direction for spending to future City Councils

Cons:

- Can limit options for spending for future City Councils
- Limits flexibility for changing economic conditions
- Policy makers and citizens may disagree on priorities and how the funds should be allocated

Proposed Definition of City Services

City staff suggests designating a property tax to fund only "Central Governmental Services", as described below.

"Central Governmental Services":

- Police
- Fire/EMS
- Public Works (streets, engineering, airport)
- Planning
- Municipal Court
- Facilities Maintenance
- Administrative Services (financial services, city clerk, administration, human resources, procurement, IT, etc.)

"Non-Central Governmental Services":

- Transit (SST)
- Affordable housing
- Parks, open space & trails
- Recreation programs and facilities
- Community support
- Destination marketing
- Howelsen Hill operations

- Educational programs
- Economic development
- Special events
- Other

Non-central governmental services would then remain subject to the fluctuations of the sales tax revenue source and consequently the tourism sector of the local economy.

Should the tax be finite or permanent?

The property tax could sunset after a designated amount of time (i.e., 10 years) or could not have any sunset date.

Pros:

- Creates accountability in the eyes of the taxpayer, requiring policy makers to demonstrate results and justify the tax when facing expiration
- Perceived as a definitive tax with a sunset versus an indefinite tax
- Finite taxes can be more popular with voters

Cons:

- The tax could be eliminated by voters in future years, creating financial difficulty for city government if not replaced by another revenue source
- Requires future elections which can be costly and adds uncertainty
- Would typically require an accompanying campaign, spearheaded by a citizen's committee, which can be difficult to initiate and organize
- Future city councils could allow the tax to expire, adversely affecting city services

II. SUMMARY AND ALTERNATIVES:

City Council has several possibilities moving forward:

1. Move forward with a property tax question on the 2021 ballot and dedicate to Central Governmental Services, deferred maintenance, or other purpose such as Howelsen Park Complex (Chamber Proposal).
2. Consider General Obligation Bonds (debt) for larger capital projects in the future.
3. Consider supporting the multi-faceted proposal by the Chamber and the business community (2 mil property tax, time-share tax, and re-purposing existing 1% lodging tax).
4. Continue to diversify revenue sources using other options without going to an election (stormwater utility fees, impact fees, paid parking, negotiated agreements, etc.).

III. STAFF RECOMMENDATION:

Staff recommends Option 1, moving forward with a property tax on the 2021 ballot, dedicated to programs within Central Governmental Services, consistent with the Community Survey results.

Staff also supports the re-purposing of the 1% 2A trails accommodations tax for permanent funding of the Steamboat Chamber. This is consistent with our original recommendation made last year.

Staff recommends a future work session to further evaluate the possibility of a time-share tax on the November ballot.

Taken together, these recommendations are generally consistent with the Chamber's proposal.

IV. FISCAL IMPACT:

One mil of property tax generates approximately \$730,000 per year, based on current assessed valuation.

One percent of sales tax generates approximately \$7,000,000 per year.

One percent of lodging tax generates approximately \$1,100,000 per year.

Time share tax revenues would depend upon the methodology and rate.

V. LEGAL ISSUES:

All scenarios will require approval by the electorate, except for the stormwater utility fees, paid parking, negotiated agreements, and impact fees.

VI. CONFLICTS OR ENVIRONMENTAL ISSUES:

N/A

VII. CONSISTENCY WITH COUNCIL GOALS AND POLICIES:

This effort is consistent with City Council's current fiscal sustainability goal.

ATTACHMENTS:

Attachment 1: Presentation.

Attachment 2: Comparable Cities Table.

Attachment 3: 2021 Unfunded Capital Projects.

Attachment 4: Unbudgeted Facilities Deferred Maintenance List.