

CITY COUNCIL COMMUNICATION FORM

FROM: Gary Suiter, City Manager
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THROUGH: N/A

DATE: February 2, 2021

ITEM: Lift Tax Discussion.

<input checked="" type="checkbox"/>	DIRECTION
<input checked="" type="checkbox"/>	INFORMATION
<input type="checkbox"/>	ORDINANCE
<input type="checkbox"/>	MOTION
<input type="checkbox"/>	RESOLUTION
<input type="checkbox"/>	PROCLAMATION

I. REQUEST/ISSUE & BACKGROUND INFORMATION:

Background

The concept of a tax on ski area lift tickets has been on City Council's radar for some time, in the context of Council's fiscal sustainability goal. This report will provide City Council with information that we were able to gather from previous presentations, web research, contact with other resorts, and a survey through the Colorado Association of Ski Towns (CAST). There are still many unknowns and if the city moves forward with this concept, it will most likely involve a negotiation with Steamboat Ski and Resort Corporation (SSRC).

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.* This overdependency on sales tax makes the city and its services subject to external factors beyond the city's control such as tourism, weather, wildfires, special events, retail sales, airline travel, pandemics, and economic recession.

Summaries of "Lift Tax" or Direct Contributions

Definition

The closest formal definition of a "lift tax" is an entertainment tax, which is technically an excise tax. Excise taxes are legislated taxes on specific goods or services that must be paid by businesses, usually increasing prices for consumers indirectly.

An entertainment tax also sometimes referred to as an "amusement tax", is any tax levied on any form of commercial entertainment, such as movie tickets, exhibitions, sport events and more. The specific rules are subject to local authorities, as is their collection (Wikipedia).

The closest definition of "lift tax" is the one from Breckenridge, cited below.

Breckenridge

In 2016, the Town of Breckenridge sponsored a ballot question asking for a 4.5% tax on lift tickets. They hired a marketing company to help with the effort, knowing they were challenging Vail Resorts (VR) on this effort. VR hired their own polling company and realized they were going to lose the tax at the polls, so they came to the table with an offer at the 11th hour. They offered the guaranteed 3.5 million a year, growing each year based on the CPI (they are at almost \$4 million/year now). VR wanted the question to go to the voters to tax a lift ticket from only Breckenridge, collect the tax from the guests and then pay the Town. If they go over the \$3.5M, the Town gets the extra, and some of it may offset for the next year if they are short. That is happening from 2019-2020 they collected over and that will help cover the shortage this year due to COVID. A copy of the agreement is included as Attachment 2. Negotiation was pretty straight forward for the Town, as they knew they were in the driver's seat. There was a bit of tension created with the Council and the Mayor during negotiations, but in the long run many folks believe it was a fair deal and it kept the city out of Court (possibly for years with VR), due to their stated objection to the tax.

Definition of a taxable lift ticket: A lift ticket purchased for use only at a local ski area and only during the annual period between November 1 and the following April 30. (Ord. 6, Series 2016; and. Ord. 4, Series 2017). The amount of the tax hereby levied is four and one-half percent (4.5%) of the actual purchase price of each taxable lift ticket, whether purchased within the town or

elsewhere; provided that a tax derived from calculations resulting in a fraction of a cent being a part of the tax shall be increased or rounded to the next whole cent. (Ord. 6, Series 2016)

Immediately upon receipt or collection, the designated revenues are credited to the Parking and Transportation Fund and used to cover the direct and indirect costs of operating the town's public transit system and providing public parking within the town. (Ord. 6, Series 2016)

The lift tax imposed by the ordinance does not apply to:

1. Season passes
2. Any lift ticket not specifically sold to provide the right of entry solely to a local ski area (including by way of example, any lift ticket which provides the right of way entry to one or more ski areas located outside of the town as well as a local ski area)
3. Any passes or lift tickets sold for summer activities

Snowmass Village

This contribution was negotiated in 1994 with the expansion of Burnt Mountain to the ski area; therefore, this is not considered a tax. It is a required annual contribution from the Aspen Skiing Company (ASC) that was negotiated as part of the Burnt Mountain Agreement. The contribution essentially goes to offset Transit costs. According to the Town Manager, this accounts for only about 25% of their total transit budget.

For the 2019/2020 ski season, the Town received \$2.368428 per skier visit; there were 592,843 skier visits, so the Town received \$1,404,106.

The \$2.37 is adjusted each year by the Denver/Boulder CPI plus a flat 2%. So, if the Denver/Boulder CPI is 1.45%, the \$2.37 would be adjusted by 1.45% +2.0% for a total increase of 3.45%.

Vail

A 4% Lift Tax is collected by the resort and remitted to the town. The lift tax was first imposed by ordinance in 1966 as an occupation and business tax on places of business operating a ski lift or ski tow. This was the same time a similar 2% occupation and business tax was imposed on lodges, restaurants, liquor stores and retailers. In May of 1992, the name of the tax was changed to Ski Area Lift Ticket Admissions Tax and the rate increased to 4%. A May 22, 1992 letter from Vail Associates (VA) acknowledged the existing 2% tax and a voluntary 2% payment being made by the resort at that time. VA supported the increase in the tax to 4% based on their understanding the tax would support transportation systems. The ordinance enacting the tax, however, does not restrict the use of funds collected from the tax or reference transportation in any way.

Vail Resorts also contributes \$10,000 in marketing support to the winter air service to Vail-Eagle Airport.

The Lift Tax is not restricted but is intended to support Vail's free bus service. The 2020 revised revenue estimate is \$4.2 M, which is down from a projected \$5.3 M, due to Covid.

Steamboat Springs

The City of Steamboat Springs entered into a letter of agreement in 1994 (Attachment 3) specifying an amount to be paid to the city in exchange for sales taxes collected on the mountain (which is not a part of the city). The more recent history of collections is included as Attachment 4. One can see the revenue contributions vary from year to year. These funds go directly into the city's General Fund.

Lift Tax Calculations and Estimated Revenues:

- 900,000 – 1.1M estimated skier days
- Assume 50% are lift tickets and 50% passes (various Ikon and Season passes)
- \$4 tax / lift ticket / day
- Revenue = \$1.8M-\$2.05M
- Loss of Ski Corp voluntary contribution = \$330,000-\$380,000
- Net Revenue = \$1.47M-\$1.67M

These estimates are very preliminary and subject to change.

CAST Survey

Per City Council's request, a brief informal survey was sent to members of the Colorado Association of Ski Towns (CAST). The results of that survey are included as Attachment 5. You will note that four of the respondents receive direct financial support from the ski area operator, while others receive some level of indirect support. Those receiving direct support are Aspen, Vail, Breckenridge, and Winter Park. Aspen's contribution of \$2.5M goes directly to RFTA to fund free shuttle services between the mountains. Winter Park receives \$300k per year for 10 years for the Town to take over transit services. Winter Park shares the same ownership as SSRC.

Lift Tax Pros and Cons

Pros:

- Shifts a portion of tax burden to visitors but locals may pay, as well.
- Could provide a permanent revenue source to offset costs of transporting skiers, riders, and workers to and from the mountain through the winter.

Cons:

- Raises prices- will cause the price of lift tickets to increase

- Uncertainty- revenue generated from sales tax is uncertain due to varying demand for products, economic fluctuations, and other external factors.
- Could be difficult to track, given the popularity of the Ikon passes and availability on the internet.
- Could have long-term negative impacts in the city's relationship with SSRC

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:

What tax rate is appropriate?

City Council needs to consider the amount of tax being requested and the level of stability that it would provide in future years. Current estimate is based upon a 4% tax on Steamboat lift tickets.

Should the tax be dedicated?

Instead of the tax going to the General Fund to support all government services the tax could be dedicated to specific functions, such as enhanced transit or other guest services.

Pros:

- The specificity can be viewed favorably by the voters
- SSRC may see a direct linkage if funds are dedicated to services that benefit their winter operations
- 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

Transit Implications

City Council asked for specific information on bus service to the Gondola Transit Center, [passenger count per bus stop](#), as well as suggestions for [enhancements and possible future budget/service cuts](#). That information is summarized below, and the reports are embedded to minimize packet size.

It is a wealth of information and staff suggests we schedule another work session if Council wishes to discuss the alternatives in more detail.

For quick reference, here are the three action items requested:

1. Provide ridership data for the GTC.
 - There was a [comprehensive data collection](#) project funded by the URA during the 2018-2019 winter season. This [project](#) represents the best-vetted and most relevant data available.
2. What enhancements would we prioritize if we had more funding?
 - Recruitment and retention
 - Return to prior service levels and strategic expansion
 - Maintain fleet and facilities
 - The strategic expansion priorities include:
 - ExpreSST
 - Winter Peak Orange and Green Lines
 - Summer Peak- Lincoln Shuttle

Staff does not believe that in-town gondolas or passenger trains are financially feasible.

3. What cuts would we prioritize if funding were to decrease?
 - Eliminate the Blue Line
 - Further reduce or eliminate the Night Line
 - Eliminate service on Sundays

II. SUMMARY AND ALTERNATIVES:

Option 1: Direct staff to proceed with draft ordinance authorizing lift tax.

Option 2: Do not proceed with lift tax.

Option 3: Engage SSRC to develop options that benefit both parties for the long term.

III. STAFF RECOMMENDATION:

Staff recommends Option 3: Engage SSRC to develop options that benefit both parties. For example, the city's goal is to attain more financial stability, and offset more of the costs that provide direct benefit to the ski area. SSRC has indicated support if we can agree to services/programs that enhance the ski area operation and the guest experience for the long-term. Staff believes there will be multiple opportunities to negotiate further with SSRC as they develop and invest in mountain improvements.

Staff would not recommend putting both a lift ticket tax and property tax on the ballot simultaneously. A lift ticket tax would very likely undermine any chances of the electorate approving a property tax.

Staff suggests Council review the Community Survey results in March for further guidance.

IV. FISCAL IMPACT:

A 4% tax on lift tickets sold by SSRC could generate an estimated \$1.8M - \$2M less ~ \$365K in SSRC voluntary contributions.

V. LEGAL ISSUES:

A lift (excise) tax will require approval by the electorate.

VI. CONFLICTS OR ENVIRONMENTAL ISSUES:

Not Applicable.

VII. CONSISTENCY WITH COUNCIL GOALS AND POLICIES:

This effort is consistent with City Council's current fiscal sustainability goal. It is also consistent with City Council's vision statement to ensure "economic sustainability" for the long-term.

ATTACHMENTS:

- Attachment 1: Power Point Presentation.
- Attachment 2: Town of Breckenridge Agreement.
- Attachment 3: 1994 SSRC Letter.
- Attachment 4: SSRC Ski Corp Contributions.
- Attachment 5: CAST Survey Results.