

CITY COUNCIL COMMUNICATION FORM

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

THROUGH: N/A

DATE: November 10, 2020

ITEM: Long Term Sustainable Funding.

DIRECTION
 INFORMATION
 ORDINANCE
 MOTION
 RESOLUTION
 PROCLAMATION

I. REQUEST/ISSUE & BACKGROUND INFORMATION:

In 1979, the voters of Steamboat Springs elected to eliminate the city property tax. The thinking at the time was to shift the majority of the tax burden to tourists by replacing the property tax with the 4% sales tax; by doing so, this action created additional dependency upon sales tax and consequently, tourism. Tourism is highly dependent upon marketing, weather, events, group sales, airline travel, and other economic factors beyond the city's control, which adds additional risk. Over time, this has created a financial model that is less stable, influenced by the external factors above, and is ultimately inconsistent with the City Council's vision statement to create "economic sustainability" for the long term.

This over-dependency upon sales tax manifests itself into the city's budget and subsequently, city services. It seems every time there is a "blip" in the economy, whether a market correction, recession, low-snow year, natural disaster, etc., there is an emergency response necessitated on the part of the city. The most recent and obvious example is the COVID pandemic. When the resort shut down in March of this year, the city went into full emergency mode by cutting all

budgets and services for the remainder of the year. This uncertainty will continue regardless of the outcome of the pandemic due to the continuing influence of the external factors that impact sales tax revenues.

All of this points to a clear need to diversify city revenue sources consistent with City Council's long-standing goal. Thus far, the community has taken a piecemeal approach, as evidenced by the modest mill levy approvals for housing, Fire/EMS, and school projects.

Staff has also been working with an informal citizen's group comprised of former members of Tax Planning Advisory Board (TPAB). They have provided insights and ideas that are reflected in this presentation. In addition, the Community Survey results should be available in late February to help inform City Council on their policy direction.

Please note that the numbers provided in this report are preliminary estimates or "order of magnitude ranges" and will vary depending upon the specific tax structure and rates decided by Council.

It is staff's hope that the City of Steamboat Springs takes bold steps to create financial stability for the long-term.

Problem Statement

The City is too reliant upon sales tax as a primary revenue source.

What the City needs:

- A stable funding source to support the city's General Fund for the long-term.
 - Predictable funding of "Central Governmental Services".
- A defense against over-dependency on tourism, economic fluctuations, and external factors.

City Council's Fiscal Sustainability Goals:

Previous years: *Develop a long-term fiscal sustainability plan for the City, which incorporates revenue diversification, cost recovery, asset performance for facilities, and community education and outreach.*

Current 2019-20 goal: *Sustainable Funding: Consider destination marketing funding; lift tax; Howelsen Hill; community support; mental health.*

What the City has done in recent years:

- 2016 Cost Recovery study.
- Fee schedules have been adjusted in accordance with Council's guiding philosophy, although most services remain subsidized.
- COVID Response:
 - Reduced city services and expenditures

- Employee furloughs and layoffs
- Postponement/reduction of capital projects
- Use of Unassigned Reserves (rainy day funds)
- Fire/EMS 2 mill property tax approved for operations and capital.
- 2018-2021 Sidewalks Assessments

It should be noted the city has had several failed tax initiatives over the years.

Proposed Definition of City Services

“Central Governmental Services”:

- Police
- Fire/EMS
- Public Works (Streets, Transit, Airport, Engineering)
- Planning
- Municipal Court
- Administrative Services (Financial services, City Clerk, Administration, Human Resources, Procurement, IT, etc.)

“Non-Central Governmental Services”:

- Affordable Housing
- Parks, Open Space, and Trails
- Recreation Programs and Facilities
- Community Support
- Destination Marketing
- Howelsen Hill Operations
- Educational Programs
- Economic Development
- Special Events
- Other

Non-central governmental services could be subject to the fluctuations of the sales tax revenue source and the tourism sector of the local economy.

II. SUMMARY AND ALTERNATIVES:

Staff is providing City Council with multiple options and has put together a menu of these options along with pros and cons. Staff respectfully requests Council narrow these options to the top two or three, prior to year-end, so that a specific strategy can be defined no later than February or March 2021 for an anticipated 2021 election. While not all the alternatives would require a general election, any of the alternatives for tax increases would require voter approval, per the TABOR Amendment. Any proposed tax increase will require significant lead time to ensure ample public outreach and education.

Property Tax

A property tax is a tax levied on "real property" (e.g., land and buildings). It is calculated by multiplying the "assessed" value of a property times a mill levy.

Pros:

- The property tax is a more stable and reliable revenue source than most other taxes.
- Ensures second homeowners are paying for the services they receive.
- It is very difficult to avoid or evade.
- More transparent.

Cons:

- There is often a misunderstanding of the relationship between the actual value, assessed value, and mill levy.
- Due to the Gallagher Amendment, commercial properties pay a much higher property tax rate than residential properties.
- May increase cost of housing and commercial lease rates.

Revenue:

- 1 Mill = ~\$730K/year.

Sales Tax

A sales tax is levied on the sale of goods and services that is usually calculated as a percentage of the purchase price and collected by the seller.

Pros:

- Shifts a portion of tax burden to visitors but everyone contributes to the "pot".
- Simplicity-other tax forms and structures can be very complex, such as income tax. Sales tax is the same for everyone and citizens are not required to keep detailed records.
- Difficult to evade-many people hide their income to avoid paying income tax, while sales tax is added to the price of the goods at the point of sale, thereby making it more difficult to evade.
- Impartial-sales taxes are impartial in nature, payable only by the consumers who buy taxable items, whether everyday needs or luxury items.

Cons:

- Uncertainty-revenue generated from sales tax is uncertain due to varying demand for products, economic fluctuations, and other external factors.
- Regressive-sales taxes are regressive in nature because it is easier for a wealthy person to pay the price no matter how high it is. At the same time, it can become a burden on a person/family with lower income.
- Raises prices-sales tax can cause an increase in the perceived price of a product for a variety of reasons.

Revenues:

- 1% = ~\$6.5M/year.

Lodging (Accommodations) Tax

A lodging or accommodations tax is a sales tax levied by a city against the room rental rate of local hotels, motels, bed and breakfasts, and similar lodging enterprises.

Pros:

- Shifts a portion of tax burden to visitors.
- Appealing to local voters.
- Often utilized to support marketing efforts.

Cons:

- Lodging industry often voices concern that they will see a reduction in overnight guests.
- Subject to external factors.
- Adds to the cost of lodging and accommodations.

Revenues:

- 1% = ~\$1.1M/year.

"Lift" Tax

A "lift" tax is a tax on admission to a ski area, collected by the ski area operator and related to the sale of the lift ticket.

Pros:

- A ski area lift ticket tax helps offset the financial impacts of ski area operations upon city services.
 - Ski area is exempt from sales tax on tickets sales while other businesses are required to pay sales tax on their goods and services.
- Revenues could be utilized to help fund City transit service which is used by many ski area visitors.

Cons:

- Ski areas state they do not want visitors to pay for services they may not utilize.
- Administration and revenue calculation are complicated and not very transparent.
- Often strains the relationship between the City and the ski area operator.

Revenues:

- Depends upon tax rate and products taxed.

"Sin" Tax

A "sin" tax is an excise tax specifically levied on certain goods deemed harmful to society and individuals e.g., alcohol, tobacco, and drugs.

Pros:

- Increasing a sin tax is often more popular than increasing other taxes.
- Tax revenues can be used to help change behavior and improve public health.
- Revenues can offset the "costs" to society from harmful addictions and resulting medical problems.
- Additional taxation on these products can reduce consumption.

Cons:

- Critics argue it is a regressive tax, burdening the poor.
- Can be perceived as taxing the physically and mentally dependent.
- Sin taxes have been linked to smuggling and black markets of the taxed products.
- The government may become too reliant on the revenue from the tax, thereby encouraging "sinful" behavior.

Revenues:

- Depends upon tax rate and products taxed.

Transient Occupancy (Timeshare) Tax

A transient occupancy tax would be a tax on the transient use of real estate or essentially, a tax on short-term lodging. It would be like a lodging tax in some ways but different in that the tax would be based on the transient or short-term occupancy of real estate and not whether how much consideration is paid for the privilege of occupancy. This tax is based on the transient or short-term occupancy of real estate and not how much consideration is paid for the privilege of occupancy.

Pros:

- It would make our tax system more equitable. Currently, many or most timeshare and other transient occupancy transactions are untaxed yet create similar or yet even identical demands for city services compared to taxable lodging transactions.
- Would not fall directly on local residents and may be more likely to receive approval of the electorate than other revenue measures.

Cons:

- Inconsistent with a well-developed belief among timeshare owners that "ownership" of a vacation unit means not paying taxes on its use. The same would be true of other non-timeshare related transient occupancy transactions, e.g. use of a second home by a non-resident.

- There would very likely be organized opposition. The timeshare industry and its trade group the American Resort Development Association (ARDA) are actively opposed to transient occupancy taxes and other taxes on timeshare transactions.

Revenues:

- Depends upon tax rate and products taxed.

Special Districts

Special Districts are authorized by Colorado Revised Statutes and are created for a variety of specific services or projects. Steamboat Springs has a history of failed attempts to form special districts including the following:

- o Parks and Recreation District (failed 2016-2017)
- o Fire District Consolidation (failed 2018-2019)
- o Tourism Improvement District (postponed 2019-2020)
- o Downtown Business Improvement District (failed 3 times)

Pros:

- Provides funding for specific governmental services and projects.
- Can be tailored to a community's needs/interests.
- Provides revenue relief for the city's general fund.

Cons:

- Requires approval from the electorate.
- Public may request specifics on how the "freed up" city funds will be spent.
- Adds another "layer" of government.

Revenues:

- Depends upon tax structure and district boundaries.

Paid Parking

Paid parking is parking in a designated parking space during fixed hours for a set fee.

Pros:

- Provides dedicated revenue source for expanded parking services and/or transit.
- Incentivizes the use of alternative forms of transportation.
- Disincentivizes employees from occupying premium parking spaces.
- Encourages greater parking turnover, which in turn creates greater parking supply.

Cons:

- Increased cost for visitors to areas with paid parking.

- Perception of reduced visitation and reduction in merchant revenue.
- Could push drivers to park in non-paid parking areas, such as residential neighborhoods.

Revenues:

- Depends upon project boundaries and amount charged.

Impact Fees

An impact fee is a form of exaction that is assessed by local government upon new development in order to cover the capital cost of primarily off-site infrastructure (capital facilities) necessary to serve the new development.

Pros:

- Help communities pay for the infrastructure required to support new development.
- New development arguably “pays its own way”.
- Adds predictability to the development process.

Cons:

- Increases the costs of new development.
- Increase in cost is typically passed on to the buyers, thus making homes less affordable.
- Impact fees are an unstable source of funding since they depend directly on new housing development.
- The City currently imposes a 1.2% excise tax on new development, which was originally negotiated as an alternative to impact fees.

Revenues:

- Depends upon scope and breadth of impact fee recovery.

Stormwater Utility

A stormwater utility is an assessment to properties to offset the cost for conveying storm drainage in a way that protects private property, roads and infrastructure, minimizes flooding, and preserves the health of its rivers and streams.

Drainage and stormwater used to be a fairly straightforward and low-cost service to provide; historically, the general fund has been able to fund this service. As our community increases in size and density and as state and federal clean water regulations intensify, the cost of providing drainage and stormwater services is outpacing the growth in general fund revenues, rendering the current financial model unsustainable.

Local jurisdictions have the authority to establish stormwater user fees by ordinance as long as the revenue is segregated and dedicated to accomplishing

the stated mission of the utility. Fee calculations can be based upon a flat fee or upon lot size, zoning, or imperviousness.

Pros:

- Provides funding for otherwise unfunded state and federal mandates.
- This is a user-based fee and created by ordinance.
- A stormwater "user fee" is not defined as a "tax" in Colorado.
- Creates a sustainable financial model.

Cons:

- Can be difficult for residents to see the benefit or the direct correlation of service to fees.
- Substantial up-front administrative work.
- Adds to the cost of development.

Revenues:

- \$1.2M-\$1.4M/year.

Offset Options

It has been suggested that sales tax on groceries and utilities be reduced or eliminated in order to make a property tax initiative more attractive to the voters. Below are some very preliminary estimates for this option:

Eliminate sales tax on utilities

- Utilities sales tax = ~\$2M

Eliminate sales tax on food for home consumption (groceries)

- Groceries sales tax = ~\$3.5M

Pros:

- These are regressive taxes which makes them more impactful on lower income households.

Cons:

- Eliminating taxes on utilities and groceries makes the City's revenue more reliant on tourism and less stable during economic downturns.

III. STAFF RECOMMENDATION:

Staff recommends revenue sources that are more evenly distributed throughout the community. Therefore, staff supports a property tax with a sufficient mill levy to offset a significant portion of central governmental services described above. This will help ensure the continuity and consistency of city services for the long-term. A table is included in the PowerPoint presentation (Attachment 1-Slide #23) demonstrating various mill levies and associated revenues.

Staff also recommends formation of a Stormwater Utility to provide financial relief to the General Fund, while protecting our most valued natural resource, water.

We look forward to Council providing direction on the top two or three choices of revenue options and providing direction as to additional information needed.

IV. FISCAL IMPACT:

To be determined based upon further study of Council's selection of revenue options.

V. LEGAL ISSUES:

None at this time. Legal department will provide guidance based upon Council's selection of revenue options.

VI. CONFLICTS OR ENVIRONMENTAL ISSUES:

N/A

VII. CONSISTENCY WITH COUNCIL GOALS AND POLICIES:

Fiscal sustainability has been a priority goal of City Council for several years.

ATTACHMENTS:

Attachment 1: PowerPoint Presentation.