Attachment #1

Tax and Fee Overview

Property Tax:
Definition: 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:
- More stable and reliable than other taxes
- Ensures all homeowners are equitably paying for services
- Difficult to evade or avoid
- More transparent

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

Revenue: 1 Mill = ~$1.25M/Year based on current assessed valuation

Sales Tax:
Definition: 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"
- Same percentage regardless of income, economic status, residency status, etc.
- Simplicity – citizens are not required to keep detailed records
- Difficult to evade or avoid
- Impartial – payable only by the consumer who buys taxable item

Cons:
- Uncertainty – varying demand of products, economic fluctuation, & external factors
- Regressive – larger burden for lower income households
- Adds to the perceived cost of goods and services

Revenue: .25% = ~$2.5M/Year

Lodging/Accommodations Tax:
Definition: 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

Revenue: 1% = ~$2M/Year

<u>Vacancy/Empty Homes Tax</u>

Definition: Tax on housing units that are not occupied for a minimum number of days per year, typically 6 months/180 days. Tax would be imposed as a flat rate per unit or on the basis of floor area or bedrooms. Tax cannot be imposed as a percentage of value.

Pros:
- Closes potential revenue/expense gap for homes that demand City services full time (e.g. fire protection) but only generate sales tax part-time
- Discourages underutilization of City housing stock
- Shifts a portion of tax burden to visitors

Cons:
- No Colorado jurisdiction has imposed a vacancy/empty home tax and these taxes have not been tested in Colorado courts
- Enforcement requires broad based tax return requirement that could be burdensome to property owners
- Equitable administration could create substantial auditing requirements
- Would have a disproportionate impact on nonresident property owners who would not be allowed to vote on the tax

Revenue: Depends on tax rate and definition of vacancy. A $3,000 flat rate per unit would generate $3,000,000 annually for every 1,000 vacant/empty housing units in the City.

<u>Lift Tax:</u>

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

Pros:
- Ski area lift ticket tax helps offset the financial impacts of ski area operations upon city services.
  - Ski area is exempt from collecting sales tax on tickets sales while other businesses are required to collect and remit 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 is complicated and not very transparent
- Often strains the relationship between the City and the ski area operator

Revenue: Depends upon tax rates and products taxed

Sin Tax:

Definition: 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

Special Districts:

Definition: Special Districts are authorized by Colorado Revised Statutes and are created for a variety of specific services or projects.

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" funds will be spent
- Adds another "layer" of government

Revenue: Depends upon tax structure and district boundaries

Impact Fees:

Definition: A development 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

Revenue: Depends upon scope and breadth of impact fee recovery

Stormwater Utility:

Definition: Assessments to properties to offset the cost for conveying storm drainage in a way that protects private property, roads and infrastructure, that minimizes flooding, and that preserves the health of its rivers and streams. 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 fee
- Substantial upfront administrative work
- Adds to the cost of development

Revenue: Set fees to align with cost of providing stormwater services