

CITY COUNCIL COMMUNICATION FORM

FROM: Kim Weber, Finance Director
THROUGH: Gary Suiter, City Manager
DATE: April 12, 2022
ITEM: Fiscal Sustainability: Potential Tax Measures

DIRECTION
 INFORMATION
 ORDINANCE
 MOTION
 RESOLUTION
 PROCLAMATION

I. REQUEST/ISSUE & BACKGROUND INFORMATION:

Background:

During the February 8, 2022 worksession, staff presented several taxing and fee options for Council to discuss and consider. City Council narrowed the options down to 3, including short-term rental (STR) tax, short-term rental (STR) fee, and repurposing the existing accommodation's tax ("2A"). Council scheduled a worksession to discuss a STR tax and a STR fee but directed staff to delay discussions on repurposing the accommodation's tax because the current ballot language remains in place through 2023.

On March 8, 2022, staff presented information regarding STR taxes and fees along with information on incentives for property owners to convert short-term rentals into long-term rentals. City Council was supportive of moving forward with a regulatory STR licensing fee intended to pay for administration and enforcement of the program. This will be implemented after City Council finalizes the required Ordinances surrounding STRs. City Council was also supportive of moving forward with a STR tax and requested tonight's meeting to discuss what rate they would propose to the voters and if the revenue from the tax would be for a specific purpose or left general to municipal purposes.

Short-Term Rental Tax:

Here are the questions that staff is seeking answers/direction from Council:

1. Does Council want to move forward with a STR tax in 2022?
2. If so, what rate do you want to propose to the voters?
3. Do you want the revenue to be restricted and for what purpose?
4. What additional information do you need?

Other Communities:

City Council requested additional information to compare to other communities with a similar tax that is being proposed. Staff is aware of 5 other communities that have recently passed a STR tax that excludes commercially assessed properties such as hotels. The rates range from 2% to 15% and the expected revenue ranges from \$480K - \$960K. A comparison table is available in Attachment 1. The information provided has been drawn from multiple sources including, surveys, town/city employees, websites and ordinances. These are estimates and should be utilized for reference only.

Restrictions:

City Council can choose to add language to the ballot that restricts the revenue from the tax. There does not need to be a nexus to the tax itself and can be multiple services or functions of the government. Because it is a tax that will be approved by the voters, it is not required to be restricted to anything except municipal purposes. Staff included options that have been discussed, however it is not limited to these options. Options referenced include affordable/attainable housing, infrastructure, and transportation. It is important to note that City staff does not have expertise in building affordable/attainable housing, therefore if housing is the recommended use of the funds, the specific direction will need to be addressed. Revenue can be partially or fully restricted as part of the ballot language.

Timeline:

Attachment #1 includes the timeline and deadlines to keep in mind as City Council moves forward with a potential ballot question.

II. SUMMARY AND ALTERNATIVES:

If City Council would like to move forward with a STR tax in 2022, the excise tax rate and the use of the anticipated revenue should be determined.

III. STAFF RECOMMENDATION:

To meet the appropriate timeline for ballot initiative, staff recommends City Council make final decisions on tax rate and restrictions by end of May.

IV. FISCAL IMPACT:

The fiscal impact varies depending on the rate of tax that is proposed. For reference purpose, it is estimated that a 1% STR tax would generate about \$1.09M. This is based on the City's current short-term rental sales tax collections on non-hotel type properties. This could also vary depending on regulations set forth by City Council surrounding STRs.

V. LEGAL ISSUES:

According to TABOR, any new taxes must be passed via an election held in November.

VI. CONFLICTS OR ENVIRONMENTAL ISSUES:

None noted.

VII. CONSISTENCY WITH COUNCIL GOALS AND POLICIES:

City Council Goal: Short-Term Rentals-Evaluate the possibility of a November 2022 ballot question for a short-term rental excise tax or a vacancy tax

ATTACHMENTS:

Attachment 1 - Short-term rental tax presentation