Attachment #5.

Tax Policy Presentation
Steamboat Springs Parks Dept.
Friday, January 8, 2016

1. Summary of tax options available in Colorado (ref Chapter 3 of 2005 TPAB report)

a. **Sales taxes are the largest source of revenue for the City of Steamboat Springs.** The total sales tax collected by the City in 2014 was $20,397,976.
Miscellaneous retail is the largest component, followed by lodging, restaurants, groceries, utilities, sporting goods, and alcoholic beverages. (Groceries are included in the miscellaneous industry in the CAFR.)
By definition, sales tax is inherently regressive in that poorer residents pay a higher percentage of their income in taxes than wealthy residents, especially when the tax is applied to basic needs such as groceries, clothing, and utilities. Despite this, sales tax is widely accepted. Steamboat Springs voters approved a higher sales tax to get rid of a property tax in 1972.
Nationally, the Colorado sales tax system is unusual. In most states, local sales taxes are "state collected, locally shared" by the state (as are statutory jurisdictions in Colorado). "Local collection" routinely results in increased revenue at the municipal level, even when rates & base remains constant. Accordingly, local collection is a major motivation for adopting home rule. The costs of collection, administration, and auditing are also born at the local level.

The following are the current sales tax rates in Steamboat Springs:

2.9% State tax
1% County tax
4% City tax
.5% City tax approved by voters and set aside for educational purposes[1]
.25% Air service tax
8.65% Total Sales Tax
Note: no state or county tax is applied to groceries purchased for home consumption.

Utilities. Sales tax on utilities is one of the most stable and predictable sources of revenue. Utility sales tax is applied to:

Electricity
Natural Gas
Cable TV
Local Telephone service

Sales tax is not applied to long distance carrier telephone service, satellite TV service, or water and sewer.

Sales tax on services. Currently there is no sales tax on services. The TPAB study in 2003 reported that in only three states is sales tax on services a significant contributor to revenue. "In 1960, 41 percent of U.S. consumption dollars were spent on services provided by attorneys, accountants, landscapers, pool-

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[1] This is a Fiduciary Fund passed by voters in Referendum C, General election ballot, November 1993

cleaners, and the like. By 2000, this percentage had risen to 58 percent."[2] Sales tax revenue in Steamboat Springs will continue to grow, but as consumer demand shifts from manufactured goods to services, will it keep up with increasing city service costs? The TPAB consensus then was that tax on services would be very unpopular and difficult to implement, particularly for small service providers. Sales tax on services is one of most significant potential sources of revenue. Services are not exportable and therefore are less susceptible to "leakage" than retail commodities. TPAB recommended the City to monitor long-term local trends in consumer spending.

An example of progressive sales tax: Water

The City does not tax water, but were it to do so it would be, in effect, a progressive form of taxation when applied to an incremental water use rate structure. Incremental rates are often used as an instrument of social policy, for example a higher rate per gallon for water consumption above a baseline amount is used to inspire conservation during a drought. Multiple rate charges transfer some of the overall cost of the service from low volume users to high volume users. With an incremental rate structure, any tax that attaches to the total utility bill (as opposed to a tax per unit of consumption) will also shift toward high volume users.

b. **Accommodations tax**: Revenue generated in 2014: $832,006 In SS it is a 1% tax on lodging dedicated to amenities that would attract tourists. Formerly dedicated to the Haymaker golf course development and now to Yampa Street improvements and to bike trails.
Many Colorado cities impose their sales tax or an equivalent rate on accommodations, and a small percentage of them have additional rates ranging from 0.7 to 8 percent in addition to their sales tax rates.
In 2004 a Local Marketing District was created that added another 2% accommodation tax within the District. The revenue is dedicated to the air service guarantee program.

c. **Franchise fees (utilities).** Revenue generated in 2014: $1,384,116

The Franchise fee charged on cable TV, gas, and electric utilities is used to cover the cost of maintaining city property that is used by utilities, but to the consumer it is the same as an additional 3% sales tax. The Franchise Fee is actually an ad valorem excise tax on utilities, but combined with the state, county and City sales tax, businesses and residents pay a total of 11.65% tax on utilities, making the combined tax the most regressive tax affecting residents and businesses. A 1% tax on electricity is dedicated to under-grounding the utilities. Franchise fee revenue is a stable source of income and the majority is paid by local businesses.

d. **Admission Tax** – Lift Ticket And Special Events Revenue generated in 2014: $0

Steamboat currently has no admissions or entertainment tax. An admission tax is imposed on the charge for admission to places or events open to the public, and can be applied to tickets sold for entertainment, athletic, convention, seminar or theater events, as well as ski lift tickets. It is usually expressed as a percentage of such charge and is collected when a ticket is sold. Some cities apply their sales tax to admission fees while others impose a separate rate or a flat fee admissions tax. The 2011 TPAB report included rough estimates of revenue from various forms of entertainment including ski lift tickets. A 4% sales tax on all types of events including ski, golf, hockey, tennis, arts, museums, rodeo and

[2] Barrett, Greene, Mariani, and Sostek. February 2003. "The way we tax, a 50 state report" from Governing magazine.

Howelson Hill might generate $1,750,000 annually. The Ski Corp attended TPAB meetings and suggested that a lift ticket tax would diminish our competitiveness. An offsetting factor: the facilities on the ski mountain are located outside of the city limits, but the Ski Corps does voluntarily collect and remit a City sales tax at those facilities, which in 2014 was $276,452.

e. **Other sources of revenue**: Other non-tax sources of funds include
Intergovernmental transfers 2014: $2,669,784
Charges for services. 2014 $2,716,643
Fines and forfeits 2014: $224,704
Miscellaneous fees, contributions, investment income, voluntary assessments, and licenses and permits are all current sources of city revenue. Individually they are not major sources of income, but they total over $1,000,000 per year, mostly in the miscellaneous category.

f. **Property Tax - Residential And Commercial**

Colorado properties must be reassessed every two years by the county assessor of the county in which they are located. **Market values** are determined using only three methods of appraisal: cost, market, and income. However, the actual value of residential real property is determined by the cost and market approaches to appraisal only, and the value of agricultural land is determined by the income approach to appraisal only (this is the earning or productive capacity of the land, capitalized at a rate prescribed by law).

The **assessment rate** is the percentage of the property's assessed value that is taxed. For example, the assessment rate for nonresidential property is fixed at 29%. That means that of the total market value of the property, 29% is subject to taxation. This is the **assessed value**.

A **mil levy** is a property tax rate based on dollars per thousand of **assessed** value. For example, a mil levy of 50 means $50 of tax per $1 ,000 in assessed value. Mill levies are levied by a taxing district such as a school district on property owners in the district. By law, each taxing district must set a single mil levy that applies uniformly to all property within the district.

Property tax = (market value of property) X (assessment rate) X (mil levy)
For example, in order to calculate the residential property tax on a $100,000 home, the market value of the property is multiplied by the assessment rate and the mill levy. By multiplying the value of the home ($100,000) by the residential assessment rate (7.96), we get the assessment value ($7,960), or the amount of value subject to taxation. This amount multiplied by the mil levy equals total tax liability. Using a mill levy rate of 100 mills for this example, the total tax burden for a $100,000 home would be $796.

2. TABOR restrictions

Article X, Section 20 of the Colorado Constitution was adopted by a vote of the people on November 3, 1992. TABOR limits the annual rate of growth in property tax revenue for local governments (except school districts) to the rate of inflation plus the net change in the actual value of local real property due to additions and deletions from the tax rolls and construction and destruction of improvements to real property. It requires Voter approval for any new tax, any tax rate increase, any mill levy increase over the prior year, any increase in the assessment ratio for a class of property, any extension of an expiring tax, or any tax policy change that causes a net tax revenue increase. The electorate's approval is also required for the creation of most financial obligations that extend beyond the current fiscal year unless government sets aside enough money to fund the obligation in all years that payments are due.

Federal grants are exempt from TABOR, and Enterprises run by governments are exempt from the provision of TABOR. An example is the Steamboat Springs Airport which is an enterprise, operated like a separate business, whose revenues and expenses are mostly determined by the market for aviation services and substantial capital funding from the FAA.

Voters may elect to opt out of some TABOR restrictions, and on November 4, 1997, in the General Municipal Election, voters approved a measure to permit the City of Steamboat Springs to “collect, retain and expend the full proceeds of the City’s sales and use tax, accommodations tax, non-federal grants and all other revenues, notwithstanding any state restriction on fiscal year spending, including without limitation the restrictions of Article X, Section 20 of the Colorado Constitution, from the 1997 fiscal year and thereafter”.

3. Gallagher Amendment and its long term effects

In the late 1970's, homeowners concerned about skyrocketing residential property taxes pressured the state legislature to address the problem. Nine members from the General Assembly were appointed to study the problem and recommend solutions. The passage of the Gallagher Amendment by the voters of Colorado in 1982 was the culmination of the panel's effort to find a workable solution.

In 1982, residential property was responsible for 45% of the state's total property value, and commercial property was responsible for 55% of the state's total property value. The authors of the Gallagher Amendment believed that the overall property tax burden should continue to reflect this split. With the passage of the Gallagher Amendment, the 45/55 split was set in stone.

In 1982, the first year of Gallagher, the residential property assessment rate was 21% and the non-residential property assessment rate was 29%. The Amendment also mandates that the assessment rate for commercial property be fixed at 29% forever. The residential rate, on the other hand, is to be annually adjusted to hold the 45/55 split constant.

The amendment also exempted certain property from taxation. These exemptions included: household furnishings and personal effects not used for the production of income; inventories of merchandise and material and supplies held for business consumption or for sale; livestock; agricultural and livestock products; and agricultural equipment used on a farm or ranch in the production of agricultural products

Then, the rapid escalation in residential property values, combined with the growth boom of the 1990's, led to the 45% share of property tax collected from residential properties being dispersed across more and more residences that were worth more and more money. Something had to give in order to maintain the 45/55 split. In Colorado, in order to maintain the 45/55 split, the residential property assessment rate has dropped from 21% in 1982 to the current level of 7.96%. Commercial property, which now accounts for only 25% of total property value in the state, is still responsible for 55% of the state's total property tax burden.

Today any new property tax will have about four times the dollar impact on a business that it does on a residence. The TPAB tested many different formulas and rebate schemes to see if we could level the

impacts, and found that it is nearly impossible to do so except in very narrowly defined situations and at low mil levies. There is no legal way to circumvent the state law on this matter.
The long term unintended consequence of the 1982 fixed rates created a disparity that unjustly penalizes commercial properties and discourages new business development in Colorado.

The "ratchet" effect of TABOR on Gallagher
Traditionally mill levies were allowed to float to counteract cyclical economic cycles and help protect local government's primary revenue source. However, TABOR has been interpreted by many as preventing mil levies from increasing without a vote of the people. As a result, if the assessed value of a property declines, as happened in some areas of Colorado in 2002, the mil levy can no longer counteract the effect that reduced values have on the amount of property tax collected. In addition, if overall property values located in a jurisdiction go up so fast that the tax revenue would outpace TABOR's allowable revenue limit, the jurisdiction may need to lower the mil levy. In this case, TABOR prevents the jurisdiction from raising the mil levy to its previous levels without a vote. As a result, the collision between TABOR and Gallagher has led to a structural ratcheting down effect on funding for local governments.

4. Summary of findings of the TPAB 2005 and 2011 reports
Both committees concluded that the current structure of funding, depending primarily on sales tax revenue in a resort economy, has worked over time and will continue to do so. The city managed its financial affairs effectively during a period of rapid growth in the community that necessitated significant expansion of services, infrastructure and amenities, and it reacted pragmatically to a downturn after 2008 and with significant adjustments to City staffing and other expenses.

The first TPAB was organized in late 2003, met weekly through 2004, and presented a report to City council in 2005. The board recommended no change to the City revenue structure, except to exercise caution in the area of grant solicitation. Most of the 23 recommendations from that report were implemented, though to varying degrees of commitment by the City.

One recommendation, that the City should maintain a hierarchy for consideration of future tax increases should the need arise, included a key element that still needs attention. That is to review and prioritize all capital and expense budgets.

The second TPAB (2010-11) again recommended no change to the tax structure, but in a limited case the board was evenly divided that an equal value substitution of a property tax for a tax on groceries would be a benefit to the City. The change in perspective is due primarily to changing demographics in the local area.

Another recommendation that has not been implemented is a firm policy regarding tax measures that are brought to City Council for ballot submission without adequate time for public input between first submission and second reading. TPAB recommends that any ballot issue to be referred by City Council be submitted to City Council for first reading at least 160 days prior to the election. (This is a change from the 180 day recommendation in the 2005 report.)

The City operates a number of enterprise funds such as Howelsen Ski Hill, Airport, Tennis Fund, Ice Arena and Employee Housing Fund. They routinely operate at a deficit. It is recommended that the city review the operation of these funds with the prime objective of making them self-sufficient, to minimize the need to use taxpayer supplemental dollars.

5. Illustration of the revenue smoothing effect of a property tax in lieu of a stable utility sales tax. In 2014, 2.97 mils is equivalent revenue. Effect on residential property or commercial property worth $500k is neutral.

6. Demonstrate how an approximately revenue neutral parks and rec district funded by property tax with reduction in selected sales taxes compares to existing general fund support with sales tax.

   The city Parks and Rec department expenses for 2014 were $4,536,633
   The 2014 Assessed value of all property in Steamboat Springs was $593,854,980
   A 7.637 mil levy would generate the same revenue. Eliminating sales tax on utilities and groceries would offset about that amount.

   A new Parks District with the boundaries of RE-2 would require a mil levy of 5.678 to generate the same revenue, and the difference is paid by property owners outside of the city limits, but who regularly use the city amenities.

7. Growth of City project backlog (parked projects) compared to growth in revenue
   The total of unfunded capital projects included in the 2014 budget as presented, in addition to the police and fire stations, is over $55 million. The list of parked projects in the 2015 budget has grown to $103 million. The list grows much faster than the City funding and the projects are listed in three tiers, but with no real evaluation of need. Some of the items are deferred maintenance that perhaps should be addressed sooner than later.

   The 2008 Economic Development Plan reported that, "the community as a whole should give careful consideration to reinstating property tax." While both the 2005 and 2011 TPAB reports concluded that the City's existing tax system is adequate, the 2011 report did show that had a property tax been implemented ten years ago, the City would be in a better financial position today, and would have a less volatile flow of revenue The tools already exist to conduct an in-depth examination of what property tax rates of various levels, combined with some or all of existing sales taxes, would raise, and what the effects would be on the entire range of residences, businesses and open land owners. Such an examination, with all of the "what-ifs," could show residents how they might best maintain the high quality of life that brought them here.

   Happily, the City sits atop a vast reservoir of potential revenue: its untapped taxable property value. The County Assessor's figures from 2010 show City residential land and structures valued at about six billion dollars, and commercial land and structures valued at about 900 million dollars. Of the total residential value, 62% is owned by non-residents. This means that there is roughly $3.7 billion of second-home residential value. That sector is clearly able to pay its fair share of the City services bill, but as yet has not been asked to do so. In fact, the 2008 Economic Development Plan estimated that second homes contribute just 6% of the total City sales tax revenues. People who live in Routt County outside the City actually contribute three times more in City sales taxes than people who own second homes inside the City.

   If all of the taxable property within the City – residential and commercial – were made available for a property tax, the result could be a reliable, stable and predictable revenue source without unfairly burdening anyone. The 2011 TPAB received an opinion that the City could provide an up-front tax credit that would make a property tax even more protective of smaller businesses and residence owners in the lower income categories. City Council and staff could, for the first time, calculate a mix of sales, use, and property taxes that would constitute a fair and productive tax burden.

The issue of fiscal sustainability is arguably the most important challenge facing the City today. Rather than assigning it to another committee, City Council should take up the issue itself in work sessions and give it the attention required for such a critical public policy matter.

8. Not discussed on this summary are:
   Building Use Tax (on construction materials outside City limits)
   Excise Tax (1.2% of estimated construction cost)
   Occupation Tax (business tax)
   Vehicle Use tax
   Redevelopment tax increment funding
   Non-tax sources of revenue, fines, charges for services, misc. fees and licenses