



Council Ad Hoc Committee for Revue Evaluation (C.A.R.E.)

AGENDA Meeting 6

Date: April 20, 2020

Time: 10:00 am – 12:00 pm

Location: Zoom Meeting [Code to be Provided by email invitation]

The mission statement: Provide financial stability to reliably deliver services to our community that our citizens expect and deserve, while contributing as a regional leader and partner.

- 1. Review of Prior Progress** Don Overcash
Councilors shared each of their recommendations for future funding possibilities that would provide immediate, intermediate, and long term impacts.
- 2. Questions, Answers, Additional Information** Alan Krcmarik
Minutes from Meeting 5. (Attachment 1)
- 3. Today's Topic: Decision Matrix** (Attachment 2) Group
C.A.R.E. was formed to investigate revenue enhancements to address the anticipated General Fund shortfall in 2021 of approximately \$7.5M. This shortfall is expected to be exponentially larger due to the COVID-19 pandemic and resulting global economic crisis.
- 4. Outcome for Today** Group
Discussion to reach a Committee consensus on a recommendation to City Council on May 5, 2020.
- 5. Upfront Agreement for Next Session** Don Overcash
A meeting may be held on April 27th if the Committee feels it is necessary.



Attachment 1
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April 6, 2020

Council Ad Hoc Committee for Revenue Evaluation (C.A.R.E.)

Attendees: Council Members Overcash, Wright, Samson, and Molloy; and Mayor Marsh

City Staff: Steve Adams, City Manager; Rod Wensing, Deputy City Manager; Alan Krcmarik, Chief Financial Officer; Joyce Robinson, Accounting Manager; Matthew Elliott, Acting Budget Manager; Kent Fierstine, Sales Tax Manager; Justine Bruno, Assistant to the City Manager; Chloe Romero, Budget Analyst; Mark Miller, Fire Chief; Dan Coldiron, Chief Information Officer; Kelly Jones, Economic Development Director; Patti Garcia, City Clerk; and Beverly Walker, Sr. Financial and Business Analyst

Review of Progress at March 30th Meeting:

Alan Krcmarik addressed the questions at the end of the Minutes for the March 30th meeting:
1) Capital and Infrastructure pie chart – *He has concerns about other unfunded liabilities and major maintenance of facilities. He is working on a final number and pie chart for how much the annual contribution towards capital is.*

2) Market Analysis to compare Fort Collins population over other NoCo municipalities and the share of sales tax – *Comparing 8 municipalities, Fort Collins was 33.80% in population and had 34.40% of the sales tax. Fort Collins has a 3.95% sales tax rate, higher than Loveland's 3%.*

3) Experience tax, what type of venues – *Variations that he found included Event, Amusement, Entertainment, and Admissions Taxes or Fees. A new tax would require voter approval. To add a fee instead of a tax, he advised, the Legal Department would need to look into it.*

4) Can online sales tax be increased above the regular rate? *Currently, several states are looking into this. Loveland does apply sales tax to charges for delivery. Adding the cost of a delivery tax would require voter approval. To add a fee for delivery or road maintenance fee, he advised, the Legal Department would need to look into it as there may be issues with interstate commerce.*

5) How have population and sales tax increased over the last 25 years? *Since 2007 sales tax collections have not quite kept up with population growth and inflation (the Regional CPI-U). Looking back 25 years, sales & use tax did keep up with the two growth factors. Looking 50 years back, sales and use tax have not kept up. This is a partial explanation for the aging streets, utility lines, and other capital needs of the City.*

Today's Topic:

Councilor Overcash began the discussion to address the challenges of accomplishing the Mission Statement: **Provide financial stability to reliably deliver services to our community that our citizens expect and deserve, while contributing as a regional leader and partner.**

With a \$7M plus shortfall in 2021 and unfunded operations and maintenance needs, he shared his recommendation for a 10-year plan of increasing sale tax by 1% to fund Public



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Safety, Bricks & Concrete, and City Operations. This would be the first increase since 1984 and the new 4% rate would add \$18.6M per year (assuming the January 2020 baseline). Councilors Wright, Samson, Molloy, and Mayor Marsh shared their recommendations for future funding in the following categories.

Immediate recommendations providing impact-2021-2030:

- Utilize the “Gateway to Estes Park”, have a campground on the west side of town, since Estes Park campgrounds are too full and have a shuttle to and from Estes Park that runs several times a day
- Look into selling assets, such as water rights on Hwy 402 property
- Marketing campaign for tourism, identifying Loveland as an art community, and Shop Local
- Add more art events, venues, outlets to sell art, and advertise in Estes Park
- Encourage retail businesses along main thoroughfares to work together to add a Public Improvement Fee (PIF) to help maintain their curbs and streets and create walkable areas
- Focus on non-essential spending
- Loans or grants for small businesses that are “creative” during the pandemic
- Look at lowering CEFs for Attached Dwelling Units to stimulate development
- Sales tax increase on the 2021 election* (with revenues to start in 2022 if approved).

Intermediate recommendations providing impact- 2023-2030

- Look for unique retail opportunities in small businesses
- Broadband for everyone, how to provide to low income households and promote that to technology-based employers
- Seat tax* for events to supplement for infrastructure maintenance
- Increase lodging tax*
- Sell properties that aren’t owned by the utilities, for example, the old water treatment plant owned by facilities would benefit the general fund

Longer term recommendations providing impact -2025-2030

- Bring in big retailers, such as an IKEA, an Apple store, or a Top Golf driving range
- Have a campaign to raise property taxes*, focusing on the “no growth” proponents, sales and property taxes are so much lower than other states, people are moving here

Overall there was consensus on the need for a communication plan. Citizens need to understand all that the City provides. If faced with a choice of reduced services or an increase in taxes, which would they choose and what does the committee recommend?

There was not consensus on asking citizens to vote on a sales tax increase this year due to the pandemic, but all are willing to look at options.

*Denotes voter approval for a tax increase.



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Councilor Overcash ended the meeting with, “What are we willing to do to fulfill our mission statement? Challenges are before us we can’t avoid, a sales tax increase is warranted and required. This is the time citizens are looking for leadership, and what the future is going to look like for Loveland.”

Outcome for Today:

Staff will update the revenue chart model to illustrate varying rates for sales and use tax options:

- Increase in sales tax in varying percentages: half percent, three quarter percent, and one percent.
- Elimination of a sales tax on food for home consumption and an increase to non-food and other food consumption.
- Sales tax on food for home consumption lowered to 2% and others increased by varying percentages.

Upfront Agreement for Next Session on April 20, 2020:

Develop a draft of recommendations for City Council.



Council Ad hoc Committee for Revenue Evaluation C.A.R.E.

4/20/2020 Meeting

Decision Matrix Exercise
Prepared by: Don Overcash
4/13/2020

Exercise Goal:

- Assist the C.A.R.E. team in determining which recommendations to bring to full City Council on May 5, 2020.
- Reaching toward strong Committee consensus on a recommendation to the full City Council on May 5, 2020
- C.A.R.E. Mission Statement:
 - **Provide financial stability to reliably deliver services to our community that our citizens expect and deserve, while contributing as a regional leader and partner.**
- All of our discussions have been based on the 2020 Budget with no adjustments for the COVID-19 pandemic.

Review: General Fund Shortfall

- To balance the 2020 budget,
 - \$3.5m (5%) General Fund was cut by departments through reductions in hour of operations, programs and services.
 - \$900,000 in revenue enhances were added.
 - And \$4.9 million was transferred into the General Fund from one-time sources.
- C.A.R.E. was formed to investigate revenue enhancements to address the anticipated roughly \$7.5M General Fund projected shortfall in 2021 budget.

Review: General Fund Shortfall Impact on Capital Improvement Plan (CIP)

- CIP investment going forward is at risk of falling further behind as General Fund revenue is not keeping up with CIP needs.
- Current 10-year CIP list totals \$71.6 million (Attachment #3-C.A.R.E. Meeting #4)
- Current Horizon Projects List totals \$391.4 million. (Attachment #3-C.A.R.E. Meeting #4)

Potential General Fund Revenue Sources

(Attachment #3-C.A.R.E. Meeting #4)

| Potential Sources | Potential Impact on 2021 |
|---|---|
| Sales & Use Tax | High: Estimate a 1 cent increase = \$21M |
| Adding the Consumer Use Tax | Low: Adding @ 4 cent increase = \$2.7M |
| Property Tax | Medium: Adding 4 mills = \$4.7M |
| Lodging Tax (currently use is for tourism) | Low: Adding 3 cents = \$1.1M |
| Admissions Tax | Low: Adding 5% = \$3M |
| Tax Policy Changes to Update Definitions for Online Sales, Telecom and Right of Way | Low < \$1.2M |
| Occupational Privilege (Head Tax) | Medium: Adding \$10 = \$5M |

Estimated Impact Potential:
 High > \$8M
 Medium \$4-\$8M
 Low < \$4M

Potential General Fund Revenue Sources

- Several additional revenue sources can contribute to the overall goal of increasing General Fund health, an increase in **Sales and Use Tax** has the greatest potential for significant impact.
- Getting any tax issue approved is challenging. Loveland has not had an increase in Sales and Use Tax since 1984. While the other sources can be included in a longer-term strategy, the issue at present is imminent and requires significant additional funding that only a Sales & Use Tax increase can accomplish.

Decision Matrix: Pick One

| Action to Decide | Decision | Resulting Outcome |
|---|-----------------|--|
| Recommend Council places a sales tax question on 2020 ballot. | Yes | Council recommends a sales tax ballot question to impact 2021 revenue. |
| | No | Council directs City Manager to immediately begin developing 2021 budget working with the fiscal contingency plan and the assumption of no additional revenue above January 2020 baseline. |

Decision Matrix: Assuming Council Commits to Ballot Question—Pick One

| Action | Decision- Can Only Pick One | Resulting Outcome |
|---|--------------------------------|--|
| Recommend Council raises revenue to meet the City's "business as usual" needs | | Council supports a sales tax increase without addressing the growing list of CIP needs. |
| Council elects to address "business as usual" needs and commits to a 10-year city investment strategy | | Council develops and supports a 10-year investment strategy with sufficient general revenue to allow for additional capital investment, including projects from Horizon list (for example: fire stations). |

Sales & Use Tax Scenarios: Based on January 2020 Estimate of \$1.67B Net Taxable Sales with Growth Rates Applied (in the FMP adjusted by AK)

Attachment 2

| Scenario #1 | Current | Proposed | 2021 Increase versus 01/2020 Forecast (millions) | Total for 10 Years 2021-2030 (millions) |
|--|---------|----------|--|---|
| Sales Tax Base Rate Applied on All Taxable Items | 3% | 3.25% | \$6.5 | \$93.3 |
| | 3% | 3.5% | \$11.4 | \$152.6 |
| | 3% | 3.75% | \$16.3 | \$211.9 |
| | 3% | 4.0% | \$21.1 | \$271.2 |

Sales & Use Tax Scenarios: Based on January 2020 Estimate of \$1.67B Net Taxable Sales with Growth Rates Applied

| Scenario #2 | Current | Proposed | 2021 Increase versus 01/2020 Forecast (millions) | Total for 10 Years 2021-2030 (millions) |
|--|----------|-------------|--|---|
| Sales Tax Base Rate No Increase on Grocery Food for Home Consumption | 3% 3% | 3.25% 3% | \$5.8 | \$84.6 |
| | 3% 3% | 3.5% 3% | \$10.0 | \$135.4 |
| | 3% 3% | 3.75% 3% | \$14.1 | \$186.0 |
| | 3% 3% | 4.0% 3% | \$18.3 | \$236.8 |

Sales & Use Tax Scenarios: Based on January 2020 Estimate of \$1.67B Net Taxable Sales with Growth Rates Applied

Attachment 2

| Scenario #3 | Current | Proposed | 2021 Increase versus 01/2020 Forecast (millions) | Total for 10 Years 2021-2030 (millions) |
|--|----------|-------------|--|---|
| Sales Tax Base Rate No TAX on Grocery Food for Home Consumption | 3% 3% | 3.25% 0% | (\$2.5) | (\$18.6) |
| | 3% 3% | 3.5% 0% | \$1.6 | \$32.1 |
| | 3% 3% | 3.75% 0% | \$5.8 | \$82.8 |
| | 3% 3% | 4.0% 0% | \$9.9 | \$133.5 |
| | 3% 3% | 4.5% 0% | \$14.1 | \$184.2 |

Sales & Use Tax Comparison with 4% as Proposed Rate

| Scenario | Current | Proposed | 2021 Increase versus 01/2020 Forecast (millions) | Total for 10 Years 2021-2030 (millions) |
|--|----------|----------|--|---|
| Sales Tax Base Rate Applied on All Taxable Items | 3% 3% | 4% | \$21.1 | \$271.2 |
| Sales Tax Base Rate No Increase on Grocery Food for Home Consumption | 3% 3% | 4% 3% | \$18.3 | \$236.8 |
| Sales Tax Base Rate No TAX on Grocery Food for Home Consumption | 3% 3% | 4% 0% | \$9.9 | \$133.5 |
| | | | | |

Sales Tax Impact Increase On Household

| Scenario | Sales Tax Scenarios | Sales Tax Paid | | Net Impact of an Increase | |
|--|---------------------|---|---|---|--|
| Current Sales Tax Base Rate Rate on Food for Home Applied on All Taxable Items | 3% 3% 3% | \$485/yr. \$ 92/yr. \$577/yr. | \$9.30/wk. \$1.77/wk. \$11.10/wk. | | |
| Sales Tax Base Rate Rate on Food for Home Applied on All Taxable Items | 4% 4% 4% | \$647/yr. \$123/yr. \$770/yr. | \$12.40/wk. \$2.36/wk. \$14.70/wk. | \$162/yr. \$31/yr. \$193/yr. | \$3.10/wk. \$0.59/wk. \$3.60/wk. |
| Sales Tax Base Rate No Increase on Food HC Blended Rate | 4% 3% 3.84% | \$647/yr. \$ 92/yr. \$739/yr. | \$12.40/wk. \$1.77/wk. \$14.17/wk. | \$162/yr. \$0.00/yr. \$162/yr. | \$3.10/wk. \$0.00/wk. \$3.07/wk. |
| Sales Tax Base Rate No TAX on Food for HC Blended Rate | 4% 0% 3.50% | \$647/yr. \$0.00/yr. \$647/yr. | \$12.40/wk. \$0.00/wk. \$12.40/wk. | \$162/yr. -\$92/yr. \$70/yr. | \$3.10/wk. -\$1.77/wk. \$1.33/wk. |

Assumptions for calculations:

- Median household income in Loveland = \$64,209
- Estimated 30% of household income spent on goods subject to sales tax
- Estimated 16% of the goods subject to sales tax are grocery food for home consumption

Data sources for these estimates are from the Census Bureau and the Bureau of Labor Statistics and City of Loveland Sales Tax data.

The Ask

- There are other revenue sources and strategies, including growing our way out of this, but they are for a separate discussion.
- How we get to the next step of citizen approval will be based on the recommendations to the entire City Council and preferably unanimous Council support.
- On April 20, Please come prepared with your recommendation— meaning a recommendation regarding a Sales & Use Tax adjustment for 2021. The ballot measure would be this November.