



WORK SESSION AGENDA ITEM SUMMARY

City Council

STAFF

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SUBJECT FOR DISCUSSION

Sustainable Funding Discussion.

EXECUTIVE SUMMARY

The purpose of this work session is to discuss sustainable funding efforts to date and to seek Council directions for next steps.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. What questions does Council have regarding these efforts?
2. Does Council support continued efforts on funding for all four priority areas?
3. Is there any area Council would prioritize if there is a phased approach?

BACKGROUND / DISCUSSION

Over the past several years, masterplan developments and updates have identified clear funding needs in the areas of parks and recreation, transit, and housing. Along with these needs the criticality of advancing City climate action goals has also been identified as an area of need. Original estimated annual shortfalls ranged from six to twelve million per area.

When conversations were first initiated, funding needs included:

- Parks & Recreation - \$8 to \$12M annual shortfall (Parks & Recreation Master Plan)
- Transit - \$8M to \$10M annual shortfall (Transit Master Plan)
- Housing - \$8M to \$9.5M annual shortfall (Housing Strategic Plan)
- Climate - \$6M+ annual shortfall (Our Climate Future Plan)

Throughout 2022, staff has worked with the Council Finance Committee (CFC) to refine and better articulate the needs and what additional funding would accomplish. CFC discussions have also focused on potential funding mechanisms and the impacts and implications of various strategies.

Discussions and feedback to date have highlighted a desire to:

- Clearly define and articulate revenue needs and level of service considerations.
- Thoroughly research funding options including impacts and the context of existing and potential new tax measures (local and regionally.)
- Work to keep overall resident impact and tax burden as low as possible.
- Consider existing dedicated tax renewals and associated election timelines in a strategic manner.

These considerations were also supported by the full Council at the April 12, 2022, work session.

Funding Gaps

Since April, staff has engaged with CFC in June, September, and November to clarify funding needs. These efforts have resulted in updates to the funding gaps (see below) and more focused funding strategies.

- Transit from \$8-\$10 to \$14.7M
- Climate from \$6M to \$9.5M

With total annual shortfalls ranging from \$30-\$40 million discussions have focused on understanding priorities in each area and how additional money would be spent.

Parks and Recreation needs are in operations and maintenance and infrastructure replacement. Additional funding is needed to maintain existing assets and to stay current with community needs and trends. (https://www.fcgov.com/parks/files/fort-collins-parks-infrastructure-replacement-program-management-plan_compressed.pdf?1665426175)

Transit funding needs have been identified to build out the transit system to the 2040 vision. Shorter term needs would focus on capital investments and increased frequencies. Longer term funding would focus on local grant matches for larger projects. (Slide 13)

Fort Collins **Housing** goals call for increasing affordable housing stock to 10% total. Additional funding could be utilized in a variety of ways including expanding the competitive funding process and/or expanding and initiating City-led efforts. (Slide 14)

The **Climate Action** focus would be on reduction strategies identified in Our Climate Future Big Moves. (Attachment 1 and slides 15 & 16)

Potential Funding Options

The City, and most Colorado local governments, rely mostly on sales tax for revenue. When initiating the sustainable funding conversation all potential options were considered and discussed. Below is the full

list of potential funding options with revenue projections and anticipated impacted groups.

	Mechanism	Annual Revenue Projection	Impact to Residents
1	Special districts (Library District Mill Levy 3.0)	\$11M+	Business, Resident
2	Property tax (Library District Mill Levy 3.0)	\$11M+	Business, Resident
3	Large emitters fee	\$11M+	Business
4	¼-cent sales tax base rate increase	\$9M+	Resident, Visitor
5	¼-cent additional dedicated sales tax	\$9M+	Resident, Visitor
6	Repurpose ¼-cent dedicated tax	\$9M+	Resident, Visitor
7	Excise tax on specific goods	\$5M	Resident, Visitor
8	Business occupational privilege tax (\$4 monthly/\$48 annually)	\$4M+	Business
9	Tax on services (i.e., haircuts, vet service, financial services, etc.)	\$4M+	Business, Visitor
10	User Fees (parks, transit) (\$5 monthly/\$60 annually)	\$4M	Resident
11	Reconfigure capital expansion fees (Affordable housing)	\$2M	Business
12	Establish new capital expansion fees (Affordable housing)	\$2M	Business
13	Carbon Tax	\$2M	Business

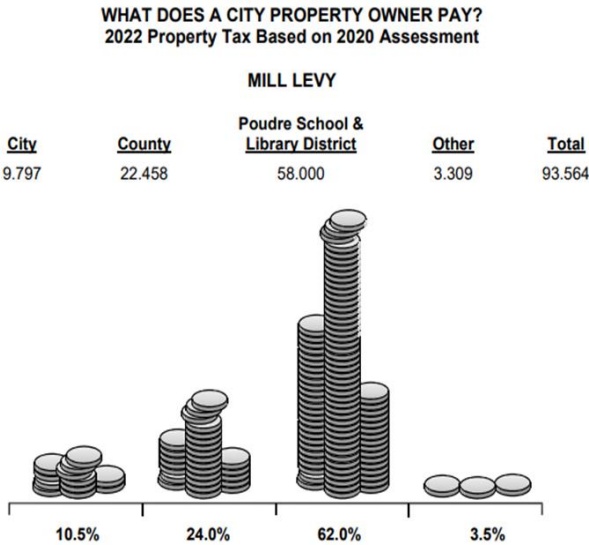
Through CFC discussion and analysis, sales tax, property tax and excise taxes emerged as the most feasible mechanisms. The table below demonstrates the potential revenue gain along with estimated annual impact to residents. Capital expansion fees are listed and is something staff will pursue during the Fee Study in 2023.

Category	Funding Mechanism	Annual Revenue Estimate	Household Impact
Sales Tax	¼-Cent Sales Tax (dedicated, ongoing or repurpose)	\$9M+	<ul style="list-style-type: none"> \$30.67 average per year for a resident Sales tax on food would remain at 2.25% Visitors also impacted
Property Tax	1 Mill Property Tax	\$3.5M	<ul style="list-style-type: none"> Residential annual increase of \$21.45 Commercial annual increase of \$87.00
	2 Mill Property Tax	\$7M+	<ul style="list-style-type: none"> Residential annual increase of \$42.90 Commercial annual increase of \$174.00
	3 Mill Property Tax	\$11M+	<ul style="list-style-type: none"> Residential annual increase of \$64.35 Commercial annual increase of \$261.00
	4 Mill Property Tax	\$14.5M+	<ul style="list-style-type: none"> Residential annual increase of \$85.80 Commercial annual increase of \$348.00
	5 Mill Property Tax	\$18M+	<ul style="list-style-type: none"> Residential annual increase of \$107.25 Commercial annual increase of \$435.00
Excise Tax	5% Tax on Specific Goods	\$5M	<ul style="list-style-type: none"> \$5 per \$100 purchase in Fort Collins Visitors also impacted
Capital Expansion Fee	Reconfigure/Broaden Application	\$2M	<ul style="list-style-type: none"> Net neutral for residential and commercial permit fees

Sales Tax: Sales tax has been the most traditional revenue source for the City. Our base rate is currently 2.85%. There are four dedicated ¼ cent taxes. These taxes are paid on any purchase made within the city. Requires voter approval. (Groceries taxed at 2.25%).

Property Tax: Since 1992, the City has collected 9.797 mils of property tax which equates to 10.5% of a Fort Collins property owners total annual property tax. Below is the breakdown of what a Fort Collins property owner pays in property tax.

Poudre Fire Authority gets 67% of the City’s portion (approx. 6 of the City’s 9 mills) of property tax amount through an intergovernmental agreement. Requires voter approval.



Excise Tax: An excise tax is an additional tax on a specific product. Fort Collins does not currently have any excise taxes. These taxes are typically seen on luxury goods, sugar sweetened beverages, or as “sin” taxes on tobacco, marijuana, and alcohol.

For consideration in these discussions, staff has estimated excise tax revenue using a 5% tax on marijuana. Numerous other municipalities across Colorado have an additional excise tax on marijuana and have not experienced negative impacts. Police Services has found that “gray/black” market marijuana activity in Fort Collins is focused on transport out of state, not on sales and availability to residents or minors. Police Services is reporting an uptick in underage sales of tobacco.

Staff is also researching excise tax mechanisms to generate revenue and change behavior in natural gas use. This includes options for implementing either a methane excise tax or a usage fee.

Any excise tax would require voter approval.

Funding Scenarios

Achieving additional funding will likely be a phased effort that lessens the funding gaps incrementally over time. Knowing this, and through CFC conversations, demonstration scenarios target pursuing new revenue in a \$25M range.

The scenarios presented are not intended to be final or recommended options. They are intended to demonstrate the flexibility and variable means and ways to add additional revenue to cover the identified gaps.

The two scenarios include anticipated impacts to a household of three and range from \$156 annually to \$107 annually. The models focus on property tax, sales tax and excise tax.

Staff has also calculated the impact to 3-person households at both 50 and 80% AMI and found the lowest impact to be 0.14% of total annual income to 0.32% at the high end.

Scenario A:

4.1% sales tax/estimated \$156 annual cost to a 3-person household.

Category	Funding Mechanism	Annual Revenue Estimate	Stakeholder Impact
Sales Tax	New ¼-Cent Sales Tax	\$9M+	<ul style="list-style-type: none"> \$30.67 average per year for a resident Sales tax on food would remain at 2.25%
Property Tax	3 Mill Property Tax	\$11M+	<ul style="list-style-type: none"> Residential annual increase of \$64.35 Commercial annual increase of \$261.00
Excise Tax	5% Tax on Retail Marijuana	\$5M	<ul style="list-style-type: none"> \$5 per \$100 purchase in Fort Collins Visitors also impacted
Total	Sales Tax 4.1%	\$25M+	<ul style="list-style-type: none"> \$156 net annual increase per household* + impact of excise tax

*Assumes a family of three

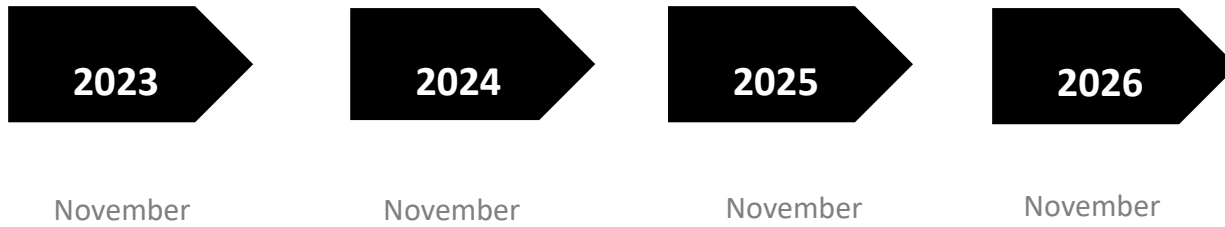
Scenario B:

3.85% sales tax (no increase). Higher property tax and impact to homeowners.

Category	Funding Mechanism	Annual Revenue Estimate	Stakeholder Impact
Property Tax	5 Mill Property Tax	\$18M+	<ul style="list-style-type: none"> Residential annual increase of \$107.25 Commercial annual increase of \$435.00
Excise Tax	5% Tax on Retail Marijuana	\$5M	<ul style="list-style-type: none"> \$5 per \$100 purchase in Fort Collins Visitors also impacted
Total	Sales Tax 3.85%	\$23M+	<ul style="list-style-type: none"> \$107.25 net annual increase per household + impact of excise tax

Election Timeline Considerations

Per the recent ballot initiative, City elections will now be in November. Tabor initiatives cannot be considered during special elections.



Street Maintenance and Community Capital Taxes expire December 31, 2025. November 2024 and April 2025 would have been traditional elections to target for renewal.

NEXT STEPS

Based on Council direction, staff will continue to work with Council Finance Committee to establish preferred funding mechanisms and how to direct funding, election timelines, and an engagement plan.

ATTACHMENTS

1. Climate CFC Summary
2. Presentation