AGENDA ITEM # 2

REPORT OF THE
STEAMBOAT SPRINGS, COLORADO
TAX POLICY ADVISORY BOARD

Presented to City Council on January 17, 2012

SPECIAL THANKS

This list is certainly not all-inclusive, but there are several people who made presentations to the Board and who responded multiple times to requests for information.

Thanks to Deb Hinsvark of the City Financial Services Department who spent many hours educating the Board on details of the City Budget, attending meetings, responding to TPAB requests for background information and providing data sources and outside contacts for tax policy discussions.

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Thanks to Chris Diamond and Janet Fisher of the Steamboat Ski Corporation, Chuck Porter of the Local Marketing District, and to Sandy Evans Hall and Lynna Broyles of the Steamboat Springs Chamber Resort Association for information on tourism and marketing.

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Thanks to Scott Ford and Noreen Moore for the insights into economic and demographic changes compiled by Yampa Valley Data Partners.

And thanks to City Clerk Julie Franklin, Anja Tribble, Sabrina James, Kim White and many other City employees who assisted the Board and gave generously of their time.

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REPORT OF THE 2011 TAX POLICY ADVISORY BOARD

EXECUTIVE SUMMARY

The Tax Policy Advisory Board (TPAB), comprised of 12 citizens, was established in November 2010 and met weekly through October 2011 to review and assess the City's tax structure and revenues, and make recommendations for future taxation that are equitable to all taxpayer groups.

The TPAB operated independent of direction from City Council and staff, but was significantly aided by information and analysis provided by the City's Finance Director who attended many of the meetings. Members of the TPAB reviewed the City budget and related documents with City and County employees, and heard presentations from the Chamber Resort Association and several community and business representatives on a wide variety of tax related topics. All of the meetings were advertised and open to the public.

The 2005 TPAB report was reviewed and the current Board determined that most of the background information and explanations contained in that report are still applicable. The 2010-11 Board did not intend to reinvestigate or duplicate those sections of the report. Further, many of the conclusions and recommendations in the 2005 report are still applicable. Key topics were selected for review and where new data and conclusions differ from the content of the earlier report, they are identified and explained in detail in this new report.

The TPAB discussed the role of government and general versus dedicated taxes, and made some observations regarding overall City operations. The current Board did not investigate the various departments' expenses in detail as was selectively done in 2004-5.

Chapter 1 of this report discusses TPAB methodology and City historic data.

Chapter 2 discusses government services, dedicated versus general operating taxes, and the City's role in economic development.

Chapter 3 includes detailed analysis of property tax and sales tax, and discusses other taxes and sources of revenue. The TPAB spent more time examining property tax issues than any other topic.

Chapter 4 has a summary list of all TPAB conclusions and recommendations.

Key Findings:

Many of the recommendations of the 2005 TPAB report have been implemented, some more fully than others. We recommend that after full review of this report by Council and City staff, the

City Council conduct a public meeting to address the recommendations of the 2011 and the 2005 TPAB reports.

The City continues to budget conservatively and has exercised fiscal restraint through an extended recession. When revenues exceed the City budget projection, it is not clear to the public how the excess will be spent. TPAB recommends that the City of Steamboat Springs develop and implement a comprehensive multiyear plan for unfunded requirements, which is reviewed annually, for the utilization of unanticipated revenue.

While many criteria are used to evaluate performance at the departmental level, there are few metrics by which the City measures its overall performance. We suggest that metrics be developed and made public to compare our city government with others.

The City of Steamboat Springs has had sales tax as its primary source of revenue for over three decades. The trend line of Sales Tax Revenue shows steady growth from 1977 to 2008. There was a 2-year dip during the recession of 2009-10, but sales tax revenues are starting to increase again in 2011, and local economic indicators suggest that our economy will continue to improve. TPAB estimates that 45% of sales tax revenue comes from city residents and concludes that any substitution of a property tax for a sales tax will transfer more cost to the residents. **The TPAB recommends no change in the City tax structure.** Many property vs. sales tax substitution scenarios were examined and rejected by a majority of the TPAB members. In one case the Board is evenly split and a dissenting opinion in favor of a property tax in lieu of sales tax on groceries is included in Appendix A-1.

Some tax measures 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 demographics and economy of Steamboat Springs is and should be encouraged to become more diverse by attracting businesses that are not dependent on tourism. The City should expand the quality of its infrastructure and amenities in such a fashion as to attract tax payers, including location neutral businesses, which will contribute to a more sustainable and stable tax base.

Respectfully submitted,

Jack Dysart Co-chair	Ken Solomon Co-chair

CHAPTER 1

INTRODUCTION
AND
CITY FINANCIAL OVERVIEW

SECTION I – ORGANIZATION

Currently the City of Steamboat Springs does not have a property tax; 75% of its General Fund revenues come from retail sales tax.

A Tax Policy Advisory Board (TPAB) was originally convened by City Council in March of 2004 and issued its report in February of 2005. A Board was convened again in November 2010 to re-assess the City's sources of revenue and tax policies in light of changes in the local and national economy. The Board is made up of 12 volunteer citizens with backgrounds in public administration, accounting, banking, medicine and business. Ten members are residents of the City of Steamboat Springs and two are Routt County residents.

The Board members are:

Adam Beaupre	Burt Cohen	Jack Dysart
Laurie Good	James Henry	Paul Hughes
Bob Larson*	Bill Moser	Edward Miklus
Bud Romberg	Jennifer Schubert-Akin*	Kenneth Solomon

*County resident

Meetings were held weekly at 4:00 p.m. on Wednesdays in Centennial Hall from November 2010 through November 2011. Ken Solomon and Jack Dysart, both Steamboat Springs residents, were elected as co-chairmen. Public comment was solicited at each meeting. A Tax Policy section was established on the City web site, on which the TPAB agenda and minutes are posted.

MISSION STATEMENT

"The Tax Policy Advisory Board's mission is to evaluate the community's current tax structure by analyzing current taxation, finances and demographics and researching all possible revenue sources in order to recommend a fair and balanced taxation policy which is equitable to all taxpayer groups and provides funds to the City to provide to the citizens and visitors to Steamboat Springs quality facilities, services and programs for a diverse, vibrant and healthy community."

This mission statement adopted by the TPAB is the same as adopted by the previous TPAB in 2003 with only one word changed. It was unanimously agreed that our primary purpose, in line with our Mission Statement, is to analyze sources of revenue for the City, and that it is not implicit that we will recommend an increase (or decrease) in revenue to the City. There was general agreement that the TPAB would like to hear presentations about current tax proposals, but that our primary purpose was to examine City revenues and not to focus on funding to meet specific needs.

INDEPENDENCE

The TPAB was established to make this evaluation independently: there was no charge by City Council for the Board to propose an increase or decrease in any particular tax, or to increase or decrease total revenues. The task of the Board was to evaluate current and potential revenue sources to the City of Steamboat Springs, taking into consideration projected growth, changing demographics and corresponding changes in demand for City services. In its analyses, the Board considered what impact a change in tax policy would have on various demographic segments.

METHODOLOGY

Early on, as the TPAB was defining its role, Paul Hughes and other members submitted questions for consideration during the course of TPAB investigations, including:

- What taxes does the city collect now?
- What other taxes could the city collect, under state law?
- How much in various taxes has the city collected over the past 10 years?
- Are there noticeable trends?
- Who pays these taxes?
- If we don't know, can we find out?
- In each category, what does each 1% of tax bring in (10-yr average)?
- What is the city's total assessed valuation (TAV), by category?
- What has been the trend of that TAV over the past 10 years?
- What would each mill of property tax produce, by category?
- Who would collect a property tax?
- What would collection cost?
- How would the Gallagher Amendment affect a property tax?
- What does Colorado law allow for property tax offsets, rebates, etc.?
- What combination of sales and property taxes would be most revenue-neutral for residents but more progressive overall?
- If a good tax policy needs to be understandable, productive, collectable, and progressive, what would it mean for Steamboat Springs' tax structure to be

1. Understandable?
2. Productive?
3. Collectable?
4. Progressive?

- How often should the city's tax system be re-evaluated?
- What do people want to know about the taxes they pay?

The approach taken by the Board consisted of the following steps:

- Define the role of the TPAB, create a Mission Statement and agree on rules for quorums and voting
- Review Steamboat Springs current and historical budgets
- Review the 2005 report of the TPAB
- Adopt some guidelines to insure consistency in building models for analysis
- Review all current sources of income and identify and analyze alternate sources
- Prepare revenue-neutral case studies to assess impact of changes to City revenue structure
- Assess changes occurring in the community and future financial needs of the City
- Draft tax policy recommendations
- Submit final report with recommendations to City Council.

The Board adopted guidelines for use in developing case studies:

- For analysis purposes, consider investment properties and second homes in the same category, distinct from primary residences. (In some analyses, second homes were grouped with city residences.)

- If any TPAB analysis includes a rebate or homestead "tax floor" scenario, it should treat fractional ownership shares proportionately, and not allow the whole "floor" dollar amount to each owner

- If a CPI figure is used for analysis or forecasts it was concluded that we should use the same index that state law applies for allowable changes in government spending. (Information on CPI is included in Appendix C-4.)

- Agreed that all analyses done by Board members, and requiring use of property ownership and tax data, would use the same data sets taken from County Assessor's data files.

SECTION II – HISTORICAL INFORMATION AND FINANCIAL OVERVIEW

Each member of the TPAB was given a copy of the 2005 TPAB report, and a copy of the City of Steamboat Springs Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2009. The City Finance Director explained the organization of the CAFR, reviewed the information in detail, and answered all questions from the TPAB members.

This section of the committee's report outlines the information reviewed, observations and assessments of the City financial operations and a series of recommendations to the City.

City Council, the City Manager and the Department of Finance manage the City of Steamboat Springs financial operations. Every year the City prepares an extensive budget which is adopted by City Council and which serves to provide the detailed spending plan for the City. The City also has an independent audit of its finances every year. Since the TPAB report of 2005, there have been several changes to the City CAFR with the addition of more business units. Many of the interfund transfers have been eliminated from the report, thus making the actual City revenues and expenditures easier to view.

In 2009 the City's total spending for ongoing operations was $21,794,750, an additional $6,219,202 was spent for capital projects, and $11,296,447 was spent by the Redevelopment Authority. The City's principal revenue source for operations is sales taxes and, to a much lesser extent, charges for services and revenue from other governments. Capital projects are financed by a combination of operating surpluses, building use and excise taxes, and by grants and gifts as well as borrowing for a portion of major projects.

After reviewing the 2005 TPAB report, one of the first questions asked was “How many of the earlier recommendations were addressed and how many were implemented?” City staff members indicate that most of the 2005 recommendations have been implemented at least to some degree, subject to varying interpretations of the intent of those recommendations. The list of 2005 recommendations and the City staff response is shown in Appendix D-10. The issue here is one of public review of each of the recommendations, and implementation or explanation by the City for actions taken or not taken.

It is recommended that the City Council conduct a public meeting to address the recommendations of the 2011 and the 2005 Tax Policy Advisory Board reports.

In both Fiscal Year 2009 and 2010 the City of Steamboat Springs realized a substantial surplus over its budgeted revenue. It appears that the City has no organized multiyear plan for utilization of unanticipated surplus revenue that would address both short and long term needs that are unable to be met through the annual budget process. It is recognized that the current City Council cannot legally bind future councils to specific new spending, however this does not preclude having a prioritized unfunded requirements list, in addition to the Capital Improvement Plan.

TPAB recommends that the City of Steamboat Springs develop and implement a comprehensive multiyear plan, which is reviewed annually, for the utilization of unanticipated revenue. Such plan should be made known to the public.

CITY ENTERPRISES AND COMPONENT UNITS

Since the 2005 TPAB report, the City has added several funds to its financial statements. The former major proprietary funds (enterprise funds) were the Haymaker Golf Course, the Bob Adams Airport and the Utility District for water and wastewater. Added in 2007 is the Employee Housing Fund, which is responsible for the operations of the Iron Horse Inn. Four other business type activities are broken out in the City budget for increased visibility of operating revenues and expenditures. These activities are reported collectively as Non-major Proprietary Funds in the CAFR:

- Howelsen Hill Ski Area Fund
- Howelsen Hill Ice Arena Fund
- Tennis Center Fund
- Rehder Building Fund (long term occupancy by the Steamboat Art Museum)

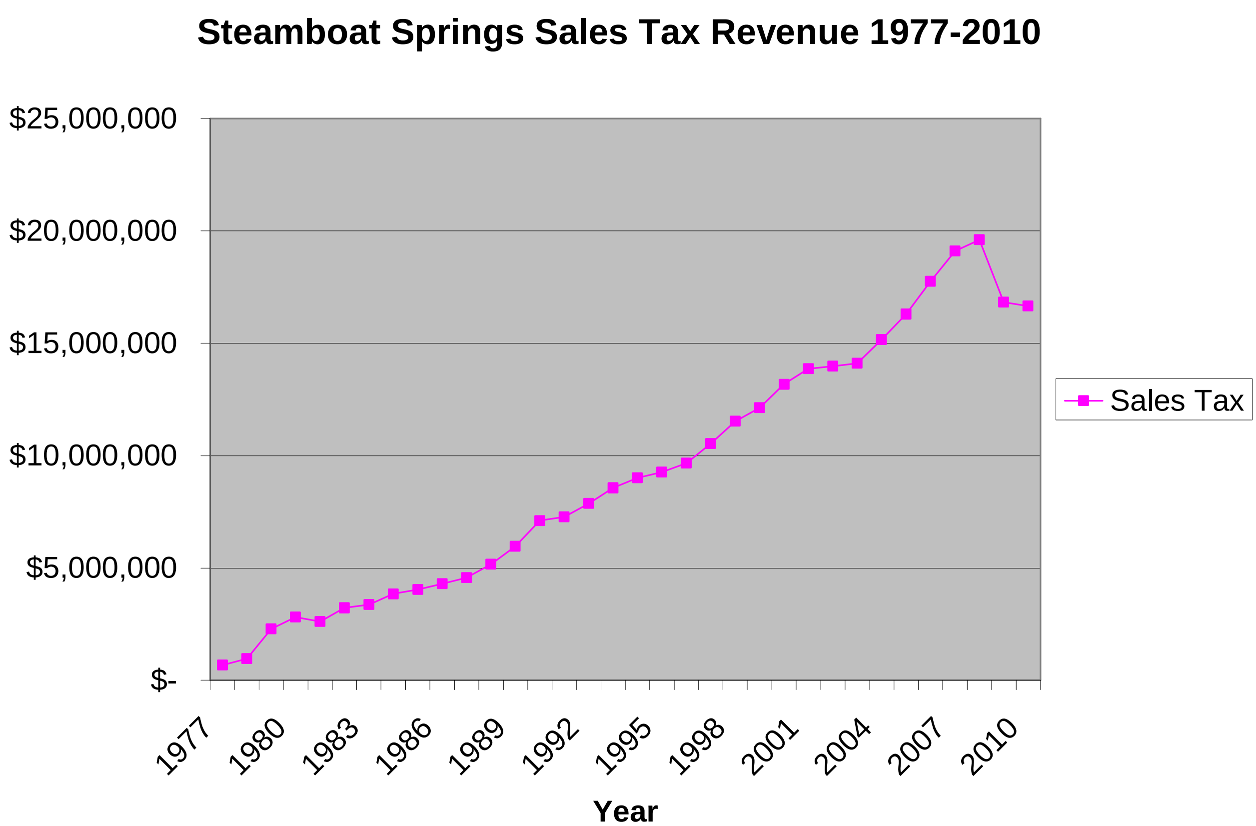
The City also has financial responsibility for two separate legal entities, referred to as component units. The Steamboat Springs Redevelopment Authority serves the ski area base and is governed by a board whose members are the elected City Council. The Redevelopment Authority is a blended component unit, which although legally separate, is substantially part of City operations.

The Steamboat Springs Local Marketing District (LMD) is a discretely presented component unit whose board members may be appointed or removed by the City Council. The LMD collects dedicated funds from accommodations taxes, and from a .25% sales tax approved by voters in November 2011 and which goes into effect in January 2012. The LMD contracts with the Steamboat Ski and Resort Corporation to cost share and manage the airline seat guarantee program and related marketing to increase winter tourist commercial air access to Steamboat Springs.

SALES TAX: THE MAJOR REVENUE SOURCE

Typically about 70% of the City's General Fund revenue comes from retail sales tax ($16,833,849 in 2009). This far exceeds the total of the charges for services of all the business type activities

The City of Steamboat Springs has operated under the current system of sales tax funding since 1978, and sales tax has been its primary source of revenue for decades. The trend line of Sales Tax Revenue, shown below, shows steady growth over a long period of time, beginning in 1977 and continuing through 2008. While there was a 2-year dip during the recession of 2009-10, sales tax revenues are already increasing in 2011.



A number of factors indicate that sales tax revenue will continue its steady growth:

- Gross retail sales rebounded in 2011 and are trending upward.
- The City sales tax increase approved by Steamboat Springs' voters in November 2011, which will be dedicated to the airline funding program, should serve to bolster winter tourism.

- Northwest Colorado has an abundance of natural energy resources. The recent increase in oil and gas exploration in Routt County will lead to increased economic activity and a resulting increase in sales tax revenue.

- The 4th Quarter 2011 Regional Economic Forecast, prepared by Yampa Valley Data Partners, includes two key factors which indicate that the growth in sales tax revenue will continue its upward trend:

  - Routt County is diversifying its income and employment sources. In addition to tourism and agriculture, Routt County is experiencing strong growth in "Location Neutral Businesses (LNBs)." The economic slowdown that is forecasted to occur nationally will be tempered in Routt County, due to this diversification.

  - The Consumer Confidence Index for households with annual incomes in excess of $150,000 continues to increase. This household segment is one of the core customer demographics of Steamboat Ski and Resort Corporation.

The TPAB in 2005 attempted, based on a variety of information and analyses, to identify the historical portion of sales taxes paid by visitors (nonresidents). These estimates ranged from 45% to almost 70% of sales taxes being paid by non-residents. The consensus then was that 55% is a reasonable approximation. (County residents were included as residents for that analysis).

The 2011 TPAB undertook to validate and further break down the percentages for purposes of analyzing the effects of tax shifts on various segments of the population. The TPAB estimated that 45% of sales tax collected by the City is paid by city residents. A more detailed discussion appears in Chapter 3, Section II under the sub-heading "Analysis of Property Tax vs. Sales Tax".

RECOMMENDATIONS

The City operates a number of enterprise funds such as Howelsen Ski Hill, Tennis Fund, Ice Arena and Employee Housing Fund. The aforementioned funds 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.

The Comprehensive Annual Financial Report of the City of Steamboat Springs (Annual Audit) contains no audit synopsis, management letter or audit recommendations. According to city officials, audit recommendations are given verbally and in private. It is acknowledged by members of the TPAB that the City follows GAAP accounting standards, but it is thought that an open discussion of the audit by Council will improve transparency in local government.

The TPAB recommends that the auditor of The Comprehensive Annual Financial Report of The City of Steamboat Springs make a presentation to City Council in a regularly scheduled public meeting after the audit is complete.

CHAPTER 2

THE ROLE OF GOVERNMENT

THE ROLE OF GOVERNMENT

SECTION I – GOVERNEMENT SERVICES

The "Report of the Steamboat Springs, Colorado Tax Policy Advisory Board" presented to the City Council on February 1, 2005, in Section III – City Tax Policy Recommendations, item 11 stated "The City should establish a policy that states and describes the governmental and community role that is embraced by the City Council. A Hierarchy of need should be established, which recognizes the following:

Primary. That the City provides a high level of generally recognized governmental services. (This includes basic services such as police, fire, roads, utilities etc.) This would define "essential services".

Secondary. That the City has expanded upon traditional "parks and recreation" services to acquire and protect open space and to provide an alpine ski area, Nordic ski areas, rodeo grounds, a golf course, a tennis center, baseball and soccer fields for the community and visitors and other amenities.

Tertiary. That the City provides funding and sometimes staff support to community organizations, in support of community values such as the arts, the performing arts, the tourist business, the airline support program, urban renewal, historic preservation, and others."

The TPAB agrees with the grouping from the earlier report with one exception. The majority of members concluded that the City has a higher level of responsibility to promote a viable economic environment, and that this role ranks in importance with the secondary services and recreational amenities. A more detailed discussion of economic development is found in Section III below.

At the individual employee and the Department levels there are many defined measures of performance. At the level of City Council and of City Management as a whole, there are comparisons that can be made with other cities and measurable goals that can be used to evaluate performance. The City does not have a formal method or defined criteria to evaluate effectiveness at the highest levels.

It is recommended that the City of Steamboat Springs develop and implement an evaluative schema with specific metrics and benchmarks to objectively judge its efforts in meeting obligations including governmental efficiency and effectiveness to the citizens of The City of Steamboat Springs. Examples would include but not be limited to per capita comparative statistics with like communities such as operating expenses, tax burden, number of police and fire personnel, full time equivalent staff (FTE), and contracted services. Other metrics could include a salary/benefits schedule, retirement packages and services provided to the citizens' vis-à-vis other like cities. Goal setting should be more formal and structured with specific assessment strategies for the completion or non-completion of those goals. All such evaluative/assessment results should be made known to the public.

SECTION II - DEDICATED VS. GENERAL OPERATING TAXES

Colorado's decentralized local government tax system results in state taxes that rank among the lowest in the country while its local government taxes rank among the highest.[1]

The definition of a "general fund" is the "main operating accounts of a nonprofit entity such as a government or government agency" according to Barron's Business Dictionary.

Generally "essential services" should be funded by the general fund, but "essential services" has not been defined. More importantly, "essential services" has a differing definition for many people.

As to what services should be provided from general operating funds, it was noted that many of the city-funded amenities that attract tourists also appeal to those who might consider starting or moving a business here.

Services currently funded by the General Fund

- General Government; Financial Administration, Accounting, Revenue Collections and Intergovernmental services

- Transportation Services; Administration, Regional Bus Service, Local Bus Service, and partial support for the airport and air service

- Public Works; Administration, Engineering, Streets, Snow Removal, Pavement Maintenance, Traffic Control, Storm Water Management and General Street Services.

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[1] Colorado Legislative Council Research Publication No. 590; Fiscal Stability Commission Report to the Colorado General Assembly; December 2009

- Public Safety Services; Police Services, Administration, Records Management, Patrol
 Services, Investigations, Animal Control and Code Enforcement

- Fire Prevention, Administration, Fire Safety and Education, Fire Suppression, Emergency Medical Services

- Legal & Municipal Court;

- Parks, Open Space and Recreation; Administration, Recreation Programs, Parks, Trails, Open Space, Howelsen Hill Ski Area, Howelsen Hill Ice Arena

- Planning Services, Administration, Development Review/Current Planning, Future Planning, Code Enforcement, Historic Preservation

- Community support

DEDICATED TAXES

A number of taxes collected in Steamboat Springs are dedicated either by ordinance, contract or tradition:

a. Sales Tax – General Fund
b. Vehicle Use Tax – General Fund
c. Excise Tax – Capital Projects Fund
d. Building Use Tax – Capital Projects Fund
e. 1% Accommodation Tax – Golf Course Fund
f. 2% LMD Accommodation Tax – Local Marketing District Fund
g. Franchise Fees – General Fund (25% received from YVEA goes to Capital Projects fund for Utility Undergrounding)
h. SSRA Sales Tax – Steamboat Springs Redevelopment Authority Fund
i. SSRA Property Tax – Steamboat Springs Redevelopment Authority Fund
j. .25% sales tax – airline seat revenue guarantee program to be administered by the LMD.

The TPAB heard presentations of proposed ballot issues, including the proposed fire Protection District and the funding for the Airline Seat Guarantee program. The TPAB debated whether it should make recommendations regarding special districts and concluded that it is more in its purview to recommend policy than to analyze and recommend a position on a specific ballot issue.

Dedicated taxes can be mixed blessings. On the one hand, they can protect an important government function from competing with other functions for scarce tax dollars; they can address a specific need that was not anticipated when the budget was assembled; and they can give voters a clear picture of where their tax dollars are going, and why. On the other hand, dedicated taxes usually remove oversight authority from the governing body, which has primary responsibility for judging the relative importance of all of the city's needs. Consequently, we recommend that before agreeing to place a dedicated tax question on the ballot, City Council should ask if there are other possible sources for the money requested, should insist upon retaining control of the funds, and should require that if passed, the dedicated tax should sunset within a reasonable period – normally no longer than 5 years.

Special taxing districts may be appropriate for some amenities or unique programs, but in general should not take over perceived City functions. When necessary, there can be intergovernmental or cross support agreements when service areas do not conform to City boundaries.

Citizen led issues can be brought to public ballot via two avenues, citizen petition or City Council ordinance. A petition by the citizens represents that a required percentage of eligible voters endorse the ballot issue. If a citizen group is incapable or unwilling to bring an issue to ballot via petition, they may request that City Council place the issue on the ballot. It therefore follows that when this type of ballot issue is brought to ballot by City Council, the perception is that Council endorses the issue. There are currently no criteria for City Council to use to decide which issue will require public signatures and which issue they will support to the extent of placing it on the ballot. (An exception to this would be when City Council is required by law to place an issue on the ballot.)

The TPAB recommends that the City Council establish an unbiased and transparent process for bringing citizen led issues to public ballot via City Council ordinance. Council should develop a procedure to insure issues are evaluated in a non-prejudicial fashion.

The 2005 report of the TPAB recommended that the City adopt a policy to require that ballot issues with a significant financial or tax implication be submitted at least 180 days before the election, so that the public will have adequate time to become aware of the issues and submit to Council suggestions that might be incorporated into the final ballot language. The TPAB reviewed this recommendation to see if some refinement or clarification was in order.

Law requires that City initiatives have two readings. The first reading by Council in effect states the goal or desired outcome of the measure if approved by voters. Then a legal specialist writes the ballot language in appropriate format for a second reading by council. The second reading and submission to the County Clerk for inclusion on a ballot must occur at least 90 days before the election. It was noted that the City does not have a policy on timely submission for first reading, and that some measures are submitted with little time for public education and input between the first and second readings.

The conclusion arrived at is to suggest a more specific policy. The purpose of this important policy is to provide adequate time for staff and Council review the proposal and for appropriate public input, but to require 90 days between first and second readings seemed more than necessary. After some discussion, the following recommendation was approved:

"The City should establish an ordinance to require 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, and that the final ballot language be presented to Council for second reading no later than 90 days before the election."

Further, we recommend that before agreeing to place a dedicated tax question on the ballot, City Council should require that proponents of new dedicated taxes demonstrate, at a minimum, that:

- The tax will fund a service, program or facility that is clearly within the scope of City functions provided for in the City Charter;
- It addresses a need not adequately accommodated by existing City services, programs or facilities;
- It would not duplicate, compete with or harm any existing City service, program or facility; and
- It addresses a goal that can be accomplished within a term of no more than five years.
- The goals to be accomplished by the imposition of such tax will be measurable and evaluative, and over the duration of the dedicated tax, progress toward its goals would be delineated in the City's Annual Audit (CAFR).

SECTION III – ECONOMIC DEVELOPMENT

City Marketing

The perception is that the winter tourism market is pretty close to its maximum, but that there is room for growth during the summer and shoulder seasons, which is why the City is investing in the concept of "Bike Town USA" in the summer along with "Ski Town USA" in the winter. The City provides funds for summer marketing to the Steamboat Springs Chamber Resort Association (SSCRA). The current SSCRA summer marketing budget ($650,000 in 2010) is focused mainly on events in July, which is the summer month with the highest number of visitors.

The SSCRA analysis "Summer Marketing Opportunities & Evaluation" (see Appendix C-2) discussed the impact of marketing efforts in Colorado since 1992 and estimates of how increased summer marketing would benefit Steamboat Springs. Included is a chart showing nightly lodging occupancy rates during the summer and shoulder seasons, May through October. Opportunity is illustrated by the available "pillows", and lists of activities that could be promoted to increase tourism during specific months. A few statistics brought out in the discussion include:

- The marketing dollar to tax revenue ratio is 1 x 5.50. In other words, there were purchases totaling $136 which generated $5.50 in sales tax revenue for each dollar spent on marketing.

- 36% of summer visitors are from Colorado Front Range communities. The visitors from other states come mostly from Texas, California, Florida, Arizona, and Illinois.

- During mud seasons, the occupancy rate drops below 50%. June through September weekends the occupancy rate is 60%. By comparison the occupancy rate during ski season is 70%.

The City participated in the 2011 Governor's call for Economic Development recommendations from local governments up to the State. Our Economic Development Council and the Chamber create networking opportunities to stimulate business, but the City has not actively targeted and recruited specific companies to move to Steamboat as some other cities have done. The City does support the concept of a Business Improvement District ("Main Street") and has an Economic Development Policy which includes support for small business grants. The overarching principles to the City's

Economic Policy are (1) for economic sustainability, we must protect and preserve our existing assets, (2) to stir economic activity, we must leverage our existing attributes and (3) for economic development, we must encourage business diversity and career creation.[2]

Fortunately Routt County is diversifying its income and employment sources. The economic slowdown that is forecasted to occur nationally will be tempered in Routt due to this diversification. Below are current trends provided by Yampa Valley Data Partners.

One important indicator of economic diversity is the contribution of the top three private industry sectors to the total counties' employment and personal income. YVDP used a bench mark of 50%. If the top three private industry sectors account for 50% or less of private sector income and employment, the county's economy is considered diverse. In addition, the growth of per capita income must be at a rate greater than the rate of inflation. Mixing these three factors helps determine if an economy is more or less diverse. Although private sector employment in Routt County is still fairly dependent on the top three industry sectors, the trend over the past 10 years has been toward increased diversity. The top three in Routt accounted for 44.5% in 2001 and in 2009 accounted for 38.4%, thus the trend is becoming more diverse.[3]

Location Neutral Businesses

The term Location Neutral Businesses, (LNBs) was coined in Routt County. It is a term that is increasingly used throughout Colorado and occasionally nationally, to describe a significant economic trend in areas with an abundance of lifestyle amenities. For purposes of this report, the definition of a location neutral business can be described as follows: A LNB is anyone or business that is located in the Yampa Valley with his or her source of business income/revenue that is not directly dependent upon the economic activity occurring in the Yampa Valley. Simply put, the individual or business made the decision to locate in the Yampa Valley because of lifestyle, technology and transportation infrastructure and does business nationally and often globally.[4]

"Although LNBs are involved in many different industry sectors, the growth of LNBs from 2000 forward appears to be highly correlated with the growth in the Professional,

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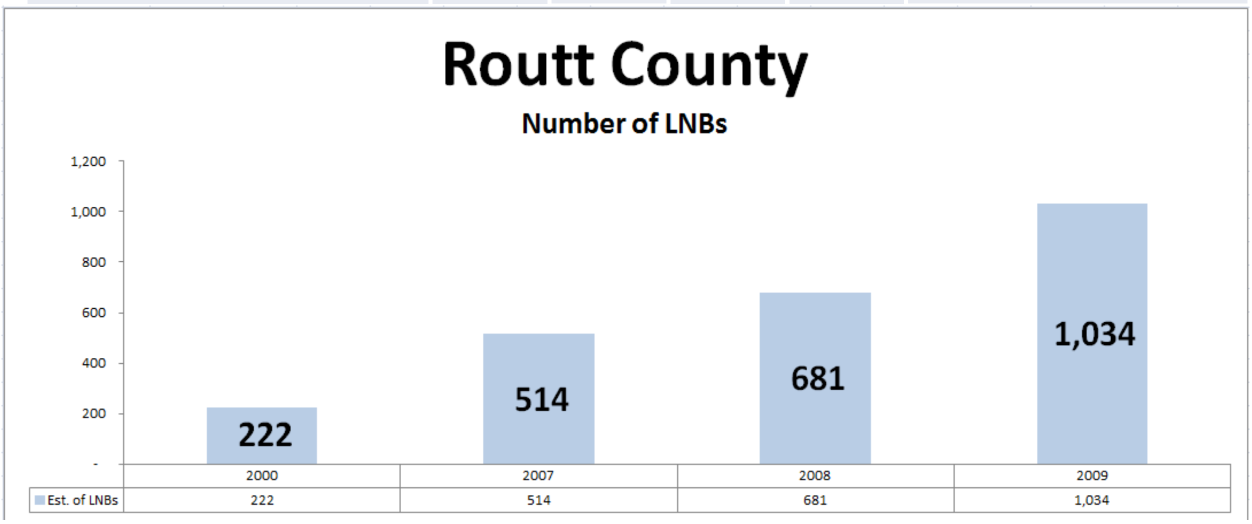
[2] City of Steamboat Springs "Economic Development Policy" 2011, p.3
[3] Yampa Valley Data Partners "Regional Economic Forecast", Volume 2 Issue 4; Fourth Quarter 2011, p.4
[4] Ibid. p. 10

Technical and Scientific industry sector. Income and employment data is captured by the Bureau of Labor Statistics for Routt County. In 2010, the average annual income for a person in this industry sector was $50,388. Using this income value multiplied by the estimated number of LNBs results in over $52 million dollars in local personal income. To put this in perspective the Routt County LNBs are roughly equivalent to the personal income generated from the Routt County Accommodation and Food Services sector. "The YVDP estimates that the spending of these LNB's generate about $1,272,000 per year in sales tax revenue to the City."[5]

	1990	2000	2007	2008	2009
% Working From Home	**3.6%**	**5.2%**	**7.2%**	**8.4%**	**10.5%**
Less Baseline		**3.6%**	**3.6%**	**3.6%**	**3.6%**
Likely LNBs		**1.6%**	**3.6%**	**4.8%**	**6.9%**
LNB Bodies		**222**	**514**	**681**	**1,034**



Location neutral businesses that move to Steamboat are typically represented by individuals who are attracted by the quality of life in Steamboat. They are typically in their mid 30's, are well-educated, have already achieved some success in their career and are looking for our quality of life, safety, good schools, good health care, and a friendly community environment. While Steamboat is a relatively expensive place to live, many

[5] Ibid. p. 11

LNBs come from other high property value areas such as Boston, Silicon Valley, and Boulder. Whether the City has a property tax is not a factor in their decision to move here.

Seldom are LNB's attracted because of City marketing. Steamboat has not targeted businesses with incentives to relocate here. We do not have a large labor pool of management or other talent to offer large businesses, and tax incentives alone would make little difference. The way to encourage LNBs is to consider what makes a "good" city, such as sound fiscal management.

Economic diversity is a unique challenge of ski resort communities, which are dependent on tourism to a large degree. The majority of jobs created by a tourism economy tend to be lower-paying service industry jobs. A tourism economy also tends to be most sensitive to economic downturns. Broadening our economic base will provide stability in times of economic downturn, as well as providing the opportunity for higher-paying jobs.

Personal income from non-labor sources is trending upward in Routt County. The growth of non-labor source income is an indicator of the growth of the residential/lifestyle economy associated with location neutral businesses, location neutral employees, retirees and other individuals who have sufficient economic means to live in this area.

The City of Steamboat Springs should capitalize on this trend by actively recruiting more businesses which are not dependent on tourism. The success of Smartwool, Moots, BAP and TIC is proof that non-tourism related businesses can thrive in Steamboat Springs. The City of Steamboat Springs should develop a plan, which could include a position dedicated to Business Recruitment, to attract more non-tourism related businesses, including location neutral businesses.

The difficulty in this quest is identifying and targeting these new residents. Surveys have shown that the idea that "build it and they will come" has substantial merit. These surveys identify the "it" as good schools and health care, recreational and cultural amenities, public safety and a quality of life that attracts high income individuals and their families, who can live and work wherever they choose. The shortcomings the community faces are physical and electronic connectivity to the outside world. Overcoming these shortfalls and expanding the "it" will not only attract additional local taxpayers, it will improve the quality of life of those who already call this community their home.

The TPAB recommends that the City of Steamboat Springs expand the quality of its infrastructure and amenities in such a fashion as to attract tax payers who will contribute in a sustainable and stable manner.

CHAPTER 3

PROPERTY TAX
And
EVALUATION OF REVENUE SOURCES

PROPERTY TAX
And
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SECTION I - METHODOLOGY

The Board reviewed the 2005 list of current and possible sources of City revenue and determined that most of the information presented in Chapter 3 of that report is still valid. By far the issue most often suggested for study is whether the City should have more diverse sources of revenue, and specifically a property tax. There being little need to duplicate work of the previous TPAB, only a few of the most promising current and potential sources of revenue were selected for analysis and evaluation. As compared with the earlier study, less time was spent examining enterprise funds or City expenditures, and significantly more time was spent analyzing mechanisms, legal issues, and impacts of property tax at different mill levies on the various classes of property.

The approach taken by the TPAB was to review selected current and potential sources of income and identify and analyze alternative sources of revenue for:

- Predictability
- Stability
- Fairness
- Change over time relative to inflation
- Caps or sunset provisions
- Restrictions on use (i.e. dedicated mill levy)
- Other limitations imposed by state laws (i.e. Gallagher amendment)
- Provider demographics
- Consistency with City policies and plans

Interviews with employees in various City departments and members of the community were held to obtain or verify quantitative data, to explore possible untapped sources of revenue, and to assess the impacts of potential changes to existing sources of funding, then to develop spreadsheets and analytical tools to test the impact of various types and levels of tax on different segments of the population. Examples of these tools are shown in the Appendix D for illustration; however the real benefit is the ability to change parameters, to play "what if". Some of the TPAB spreadsheets are available for download on the City website under City Council, then Board and Commissions.

Colorado law is very restrictive on new tax matters, and for a property tax, the unequal treatment of non-residential property due to effects of the Gallagher Amendment are difficult to overcome. The TPAB was interested in testing some creative ways to equalize the impact of a property tax across most classes of property. The TPAB scheduled a discussion with a tax specialist in Denver, Dee Wiser of Sherman & Howard L.L.C., for legal advice on different approaches to obtain more equitable tax on properties. Some key points are:

1. Does Colorado law allow a local government to consider the first X dollars of actual value (e.g., $100,000) as non-taxable for all categories of non-exempt properties?

   Discussion: The City could attempt to exercise Colorado Constitution Article 20 powers for home rule municipalities by providing a tax exemption, but it should anticipate a legal challenge that may be difficult to win given the constitutional limitations and precedents to restrict tax revenues in Colorado. An ordnance for the exemption would also require the County government to agree to implementation, and it might need a resolution at the state level.

2. What flexibility do local governments have in instituting a program for rebating some portion of property taxes to some tax payers As part of such a program, could the municipality raise taxes sufficient to pay for the rebate program?"

   Ans: The City could institute a rebate program and could fund this with increased taxes.
   Discussion: Colorado Statute 39-1-111.5 provides for temporary credit or mill levy relief. It was not intended as a permanent form of rebate, but such a rebate is possible.

3. If we pass a real property tax, must that also include a tax on personal property?
   Ans: Yes, this is required by the Constitution.

4. What restrictions would there be if the City were to implement a form of rebate to commercial property owners to help level the impact of a new property tax? We have so far stayed away from the rebate solution as being costly and complicated. We would like to see if we could achieve the same end by simply not collecting as much tax in the first place.

Ans: This can probably be done. We will need to consider Article XI, Sections 1 and 2 of the Constitution which limit aid to private entities.
Discussion: A rebate that is given by the City is an expenditure decision, not a revenue decision, and could be implemented by the City. The tax is collected by the County Treasurer, passed to the City, and then rebated. A rebate can be applied selectively. It is not the intent of the TPAB that a tax burden would be shifted to a small or specific segment of the population, but it may be desirable to have the tax system be less regressive, and to mitigate the consequences of the Gallagher Amendment that places the property tax burden disproportionately on businesses.

5. We need to clarify the situation where a single condominium has been broken up into a time share. Preferably, we would like to see the exempted amount of i.e. 100,000 applied to the property before some management company then subdivides the tax bill for all the time share owners. Can this be done? Will the assessor be able to work with this and is it legal?

   Ans: If a rebate system is used, this can be accommodated.
   Discussion: The examples we have seen so far (including the Steamboat Grand) include a tax bill for each property, and it is up to the recipient to apportion the tax among multiple owners.

6. If a tax authority is allowed to collect, for example, 6 mils on assessed property values, but it only needs and collects 4 mils in one year, what restrictions are imposed about varying the levy each year (up to the maximum approved of 6 mils)? Who can be given the authority to make yearly changes in the mill levy to meet revenue needs?

   Ans: This is dependent upon the ballot question. It could be drafted to give this flexibility.
   Discussion: It may be advisable to solicit voter approval. Include in the ballot language how, when, and why a mill levy will be adjusted within allowed limits.

7. Can voters enact a mill levy that is applied to actual vs. assessed value? Answer: No.

8. Existing dedicated taxes: The Library, Education Fund, Museums, and other approved property taxes cannot be adversely impacted by a City tax or tax credit. Any credit given can apply only to a City property tax. The measure can be worded such that a tax rebate or credit can be limited to the amount of tax paid so that no funds need be issued to entities that fall below a tax formula threshold.

SECTION II – PROPERTY TAX ISSUES

The Tax Policy Advisory Board spent nine months examining the current tax structure of the City of Steamboat Springs. In addition to our mission statement, the TPAB felt that revenue neutrality and stability would be important considerations in any recommendation made to City Council. We reviewed Chapter 3, Evaluation of Revenue Sources from the 2005 TPAB report and, once again, no other revenue source was subject to more discussion by the TPAB than a property tax. Many members of the TPAB supported the concept of expanding the tax base to those who are perceived to contribute less than their proportionate share of the tax burden. Colorado State law seriously inhibits any attempt to accomplish this equality of treatment. During these discussions, fairness, balance, revenue neutrality and stability were the constant parameters of evaluating a property tax. Numerous computer models were built to test the consequences of variations of a property tax in exchange for a sales tax on grocery items and/or the sales tax on utilities. When each one of these models was tested using real life numbers, every variation failed to meet one or more of the parameters.

The TPAB concludes that in a revenue-neutral exchange of property tax for sales tax, the revenue from visitors and non-resident locals is too significant to be lost, therefore the Tax Policy Advisory Board does not recommend any exchange of a city sales tax for property tax.

Gallagher Amendment

This amendment to the Colorado Constitution is named for its sponsor, former state senator Dennis Gallagher. Adopted in 1982 in response to rising residential property assessments, Gallagher requires non-residential property owners to pay 55 percent of all property taxes statewide, with residential property paying the remaining 45 percent. The commercial property assessed value is fixed at 29 percent of actual value, while the residential rate varies to keep the ratio at 55/45 percent. When the ratio of aggregate property values has changed sufficiently to warrant a change in the residential assessment rate, the state legislature must approve the change.

Taxpayer Bill of Rights (TABOR)

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 extension of an expiring tax, or any tax policy change that causes a net tax revenue increase over the limit. 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.

Effect of state law on local property taxation

Property tax is a function of assessed value and mill levies. The TABOR Amendment imposes revenue and spending limits on all levels of government and prevents taxes (including property taxes) from increasing beyond those limits without voter approval, while Gallagher caps the residential share of property taxes. This leads to the so-called "ratchet effect," whereby once the mill levy is cut to meet TABOR restrictions, it cannot increase again to prior levels without consent of the voters. The assessment rate for residential property is adjusted whenever there is a reassessment of value to ensure that the percentage of the total statewide valuation for assessment attributed to residential real property remains the same as in the preceding year. [6] Thus as the total value of residential real estate in Colorado increases relative to non-residential real property, the assessment rate for residential property decreases. In 1986 the residential assessment rate was 21%[7]. By 2003, due to growth in value of all residential property, the assessment rate has dropped to 7.96% where it remains through 2011. Once a property tax rate (mill levy) has decreased, lawmakers are not permitted to raise the rate back to previously approved levels without another vote of the public, regardless of any change in economic conditions.

A few of the TPAB tools most used, and information gleaned from them, are discussed below.

Effects of Gallagher

An objective of the current analysis and discussion is to examine a hypothetical, but legal, property tax that would minimize the burden on business and low income homeowners,

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[6] Residential and commercial real property values are updated every two years, using one of three methods. The market approach compares market sales of similar properties. The cost approach estimates the material and labor costs to replace a similar property. The income approach converts income from rent to an estimate of value. Residential property is valued using the market approach only.

[7] Colorado Legislative Council "State and Local Taxes in Colorado, Report to the Colorado General Assembly" Research Publication No. 447; December 1998.

and provide a predictable source of revenue from all property owners, including second homes.

The Assessor's data was summarized into 16 property groups and formatted as the "Effects of Gallagher" spreadsheet to illustrate the percentage each group would contribute to a property tax. This spreadsheet showed that as a result of the Gallagher amendment, commercial properties that make up 16% of the total actual value of property in Steamboat Springs will pay 41% of any new property tax. Residential property is 83% of total actual value and will be responsible for 58% of any new property tax. This file is not included in the Appendix due to its large size.

Analysis of Property Tax vs. Sales Tax

An important statistic for some of the proposed analyses is the amount of sales tax revenue that is generated by non-residents of Steamboat Springs. An analysis of the past ten years sales tax revenues indicates that non-residents pay about 36% of total City sales tax. It was noted that exact data on resident/non-resident sales tax collections are not available, and as the 2003-5 TPAB discovered, estimates from various studies differ as much as 35%.

The purpose of this discussion is for TPAB to agree on a percent of sales tax revenue that will be used for any subsequent computations or comparisons of the effect of changes in tax structure. The 2004 TPAB grappled with this same question at length and concluded that there is no really accurate accounting, and the agreed numbers are only best estimates. The conclusion then was to attribute 45% of sales tax revenue to residents and 55% to visitors.

Attributing sales tax revenue to second homeowners is useful for some purposes and not others. Many of them are in Steamboat Springs for several months each year and are active in the community. Here the question becomes at what point should second homeowner be treated as a local? Some of them should be included as local residents for sales tax comparisons.

Adam Beaupre presented his analysis of data taken from the Northwest Colorado Council of Governments (NWCCOG), compared to an analysis done by Finance Director Debra Hinsvark late last year which used shoulder season sales tax revenues to determine the mix of permanent and non-resident revenues.

The NWCCOG data attributes the Steamboat Springs sales tax revenue:

- 40% permanent resident

- 34% overnight visitors
- 8% second homeowners
- 18% regional inflow
- Summary: NWCCOG shows sales tax revenue generated by permanent and regional (Routt County) at 58% and visitors and second homeowners at 42%

Adjusting Debra Hinsvark's analysis of seasonal variation of the visitors who are here during May and October indicated:

- Permanent and regional residents account for 64% of City sales tax revenue
- Non-residents (including second homeowners) account for 36%

The final decision of the TPAB adopted the following percentages for use in further analysis:

- 45% of sales tax revenue is attributed to City residents
- 20% is attributed to regional residents
- 35% is attributed to visitors

Another inexact statistic, but necessary for this analysis, is the amount of household expenditure on groceries and the sales tax generated. Statistics on grocery expenditure in the U.S. (from 2/28/11 Time Magazine p.19 and SS Economic Development Plan 2008)

- The national average is 7% of household income spent on groceries
- Lowest income levels in Steamboat Springs are estimated to spend 12% of income on groceries
- Next higher income level estimated to spend 10% on groceries

Stabilization of Tax

The "Stabilization of Sales Tax" spreadsheet uses historical data to demonstrate the percentage of grocery and utility sales tax relative to the General Fund and the revenue from sales tax. Currently the amount of sales tax on groceries is speculative due to confidentiality of data provided from the few large grocery stores in Steamboat Springs. The assumption for this spreadsheet is that 12.5% of the sales tax revenue comes from grocery items. This percentage was supplied by the City Finance Department.

The Commercial Model

Adam Beaupre has developed a spreadsheet that is useful for determining the net cost of replacing a sales tax with a property tax for any size of commercial property, with provisions allowing the user to project changes in property value, personal property tax, and offsets at any level of taxable utility and grocery purchases.

- The median property in the City has an actual value of $476,800, and using Adam's tax calculator, likely would pay less with a 4 mill property tax than they pay in utility and grocery sales taxes. It is likely that a large majority of businesses will not be adversely affected by a property tax at a level that is offset by eliminating sales tax on utilities and groceries.

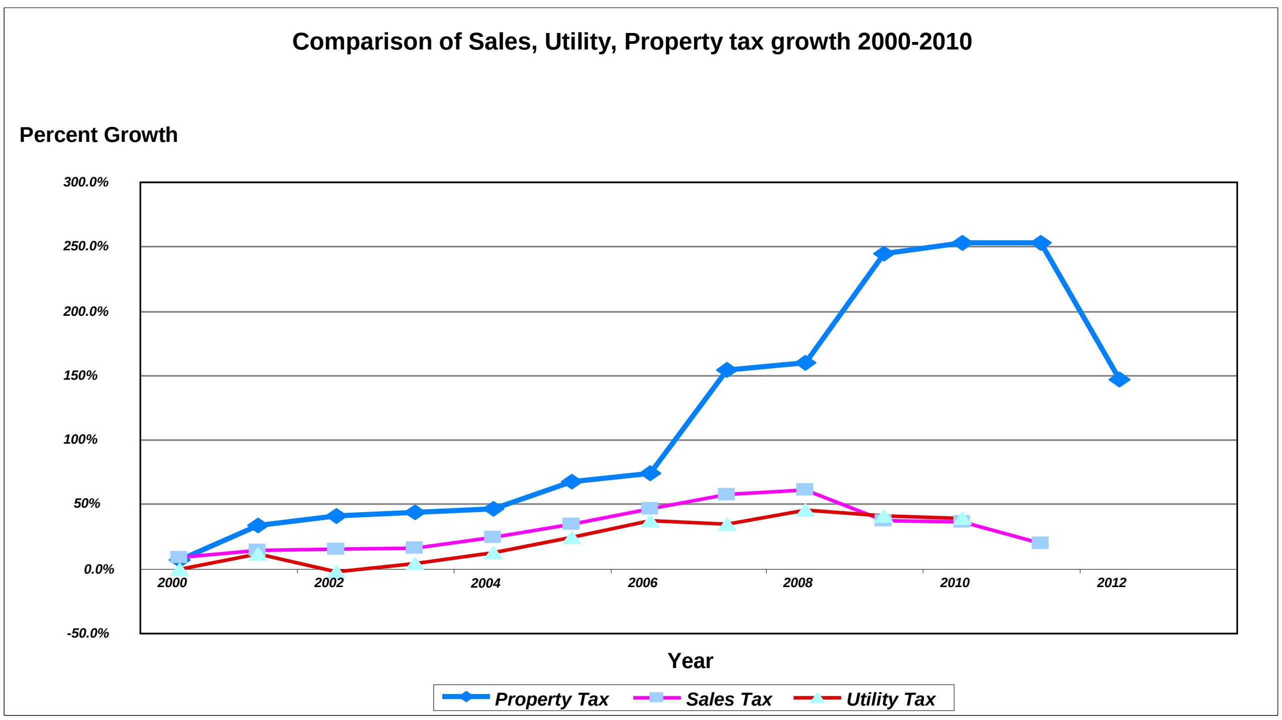
- With a 4 mill levy in lieu of sales tax on groceries and utilities, the largest businesses will pay more, and the 30 largest commercial properties will pay anywhere from $1,800 to $27,000 more. Only four properties are valued at more than $11 million and would have a net tax increase of more than $10,000. It was noted that many larger properties have tenants and would divide and pass on the increased tax burden to these smaller businesses.

The Residential Model

A similar spreadsheet was developed to show the net cost or saving over a range of mill levies for a residential property tax in lieu of a sales tax on groceries and utilities. The user may input the property value, assessment rate, annual utility expense, annual grocery expense, and sales tax rates for each. There is also a provision to set a property tax exempt value. The tool was developed shortly before the 2011 reassessment, so there is a discount field to see the effect of a projected decrease in property value. See Appendix D-4 for an example. (As of this writing, a working copy of this file may also be downloaded from the City web site.)

Time Phasing Effects

Another analysis "Hypothetical Comparison of Sales vs. Property Tax Revenue Growth 1999-2010" illustrates a revenue stream smoothing effect that would exist if the sales tax on utilities had been replaced at parity with a property tax in the year 2000. The mill levy for parity at that time would have been 4.65 mils. Assuming the mill levy remained constant over time, the revenue from property tax increased at a higher rate than for all sales tax, and a higher rate than for sales tax on utilities. Most significant is the time shift of changes in revenue. Specific subsets of the sales tax revenue tend to increase or decrease in the same time periods as overall sales tax revenue. Unlike property tax revenue, sales tax revenues are more immediately affected by changes in the U.S. economy, which affect our biggest driver, tourism. Changes in property tax revenue tend to occur about two years later than changes in sales tax revenue due to the Colorado bi-annual revaluation and assessment schedule. Thus in 2009 and 2010 when sales tax revenues were declining, Potential property tax revenue was still increasing. The assessor has advised that overall property values decreased in the local area by about 22% for the next tax year. As the economy emerges from recession, the sales tax revenue can be expected to increase while assessed property values remain lower for the next two years. This analysis does not factor a 5.5% TABOR cap on revenue collections, which if in effect, would lessen the revenue increases due to large increases in property values in 2006 and 2008. The complete analysis is found in Appendix D-1.



Property Tax and Second Homeowners

The TPAB continued testing the impacts of a small property tax, with and without a rebate, using actual residential and commercial tax data provided by several Board members. The tests assumed that city sales tax on utilities is eliminated and a revenue-neutral city property tax is instituted in its place. Examples included family residences and different types of businesses: a clothing store, a market, and the largest local business, the Ski Corporation.

There was significant discussion as to whether a small property tax would in fact transfer some of the tax burden from full time residents to second homeowners. After posing several examples and considering the typical manner in which second homes are maintained, with continued utility use during periods when the dwelling is not occupied, there was little evidence that a utility tax to property tax exchange would make a significant difference as to who carries the tax burden. Key points from the discussion are:

- At low mill levies of between 1.0 and 3.0 mils, there is generally no need to have a rebate for commercial properties as the utility sales tax saved is similar to the property tax paid. There will, however, be significant variations based on type of business and hours of operation.

- A rebate to commercial property owners would be useful at higher mill levies to overcome the effects of the Gallagher amendment.

The City has little incentive to annex residential developments without a property tax that will provide ongoing funds to support basic services the City provides. The public desire to maintain open space in Routt County favors minimal development in surrounding areas, and urban development if annexed to the City. There are an estimated 3,300 potential residential sites within the city limits if all vacant land is utilized, including projected high rise and other condominium developments.

SECTION III - BENEFITS AND DISADVANTAGES OF PROPERTY VS. SALES TAX

Many alternatives and levels of property tax were examined and at no time was the Board unanimously for or against a property tax in any form. Below are comments submitted by members of the Tax Policy Advisory Board regarding the benefits and disadvantages of instituting a city property tax that initially would be revenue neutral with a reduction in some sales tax. The sales taxes considered for replacement are city sales tax on groceries and on utilities. These comments contain individuals' perceptions and beliefs that may or may not be supported by data presented elsewhere in this report.

Benefits of a property tax in place of a sales tax

- *Second homeowners account for 6% of local spending, 48% of all residential units and 62% of all residential assessed value. It would be difficult to put a number on the city expenditures applicable either directly or indirectly to secondary residents and residences* *(fire, police, road maintenance, amenities, etc.), but it is safe to say that the second homeowner, as a group, is not covering its fair share of the expense burden. Fairness.*

- *While second homeowners do spend in this community, the "construction boom" in the early to mid 2000's and the subsequent economic downturn has resulted in an oversupply of condominiums and other residential real estate (a portion of which was directed at second homeowners) directly contributing to the scope of the decrease in residential values across the valley. The argument here is that we do not need to entice additional second homeowners to build in Steamboat via a "no property tax" sales pitch. Once the existing (and large) inventory of unsold, unoccupied units is bought up then we can look at new second home residential construction projects. That is some time off. I don't see the implementation of a property tax as a negative as it relates to this issue…rather a positive. The banks will also be paying property tax on the foreclosed properties.*

- *Steamboat is one of 6 municipalities in the state that does not have some form of a property tax. There is nothing wrong with being different, but Steamboat must remain malleable and continue to evolve. A partial sales tax – property tax trade would be a progressive evolution in the Steamboat Springs tax structure. Remember, we are only looking to effect a shift of approximately 20%-25% ($4MM) of the total sales tax income stream, so this is not a complete "fix", but more so a "nip and a tuck." I agree the system is not broken, but this would mend a couple of dents.*

- *Sales tax is inherently regressive. Property tax is a more progressive tax. Fairness.*

- *Property tax would incentivize community growth and annexations. Tap fees, building fees, etc. are one time fees. A property tax is reoccurring and the city can budget and make proactive decisions depending on that reoccurring revenue stream. One time fees do not lead to effective planning.*

- *We would be proposing somewhere around 5 mills for the property tax increase. As a percentage increase on existing county and state property taxes on commercial property owners the tax would represent a 14% increase (assuming 36 mills currently). This is not an insurmountable number.*

- *We cannot use the Gallagher Amendment as justification to not change/evolve. All but 6 municipalities in the state deal with Gallagher, including cities in our "competitive set." Businesses in those communities find a way to survive.*

- *It has been noted that of the sales tax generators, sales tax on groceries and utilities are the most stable categories. We would be replacing the most "stable" sales tax categories with* *an arguably more stable property tax…the city does not lose anything here in terms of stability. Like sales tax revenues, property valuations in the city have shown historic growth, with a downturn in the last couple years. I tend to think the two trend lines (sales tax and real estate valuations) will move together over time.*

- *The property tax component will have a "smoothing effect" on city revenue streams. Take for example the most recent economic downturn; the effect on city sales tax was much more immediate. Property tax revenues are dictated by the county assessor valuation every other year; the impact is delayed. Therefore, when we enter a downturn, one could reasonably expect to see reduced sales tax numbers "smoothed" by the consistent property tax numbers. Conversely, when we exit a downturn, we would see an upswing in the sales tax numbers, but may be looking at lower property valuations and revenues until the next valuation is completed…again, a smoothing effect. This is good and lends support to greater stability and predictability.*

- *Diversify. This is one of the most fundamental concepts in finance and investing. By diversifying the city revenue streams we are reducing risk, thereby serving the best interests of the city and its residents.*

- *Tried and True. Implementing a property tax is something that has been successfully accomplished by various municipalities. I do not think we face a substantial risk of running into implementation problems. We have plenty of templates we can follow.*

- *Steamboat Springs transitioned to a purely sales tax based system years ago. From my experiences here and elsewhere, I have not heard once an argument that Steamboat Springs is a "business friendly" community because there is no property tax. Nor have I heard that another comparative community is not "business friendly" because they do have a property tax. My argument is that from a perception standpoint and attracting outside business into this community, 4-6 mills should not deter (most) potential newcomers.*

- *Inclusive of the $100,000 exemption on actual value, and "reasonable" assumptions on utility and property tax expenditures, a homeowner with a house valued by the assessor at $384,623 could expect a breakeven at about 4 mills. Those with a residence valued less than $384,623 could expect a net savings on the switch. At 6 mills, inclusive of my assumptions above I am showing a net $56 increase in taxes annually…again, not insurmountable. If there is an argument for affordable housing, the switch would lend support to the progressive nature of the property tax and the increased ability of the lower income bracket to foot the aggregate bills in Steamboat Springs with the property tax in lieu of sales tax on food and utilities.*

- *Those who are in the lower income bracket and who pay rent will experience savings on groceries sales tax and utilities (depending on how the lease is structured) that could hypothetically offset an increase in base rents via a pass through of the property tax from landlord to tenant.*

- *The basis of the revenue neutral approach is a zero sum game…the same amount of dollars will be coming into the city coffers. This is truly a shift…a reduction in taxes to some and an increase to others. In my head, at least the same amount of money should be flowing through the community. If the business owners are paying more for their property taxes, maybe they can drop personnel expense proportionate to what the employees are saving via the shift. Maybe those saving on taxes will be spending more in the businesses, helping offset some of the property tax burden.*

- *Looking back through spreadsheets it appears that a commercial property with a valuation of $375,000 including a "reasonable" assumption on food and especially utilities has a breakeven of between 3.5 and 4 mills. It is noted that utility assumptions can be very diverse depending on the nature of the business. Only if the mill levy is above 4 mills would said properties experience any sort of a "new" tax. Who knows, the owner may be offsetting that with savings on the personal/residential side? Again, in pure dollars and cents, the increased tax burden does not appear to be insurmountable for a large majority of the businesses in Steamboat Springs. I believe about 40% of commercial properties would not experience a net increase in taxes.*

- *We still would be (plus or minus) 75%-80% sales tax based…plenty of motivation to generate more sales.*

- *There will be a disincentive to buy and hold land if it is taxed at commercial rates. We could see an uptick in construction or agricultural activity on existing land; albeit there is not much of this within city limits. This, in my opinion, would result in less volatility in land prices…which is good.*

- *The fact is that the Gallagher Amendment stinks and needs to be addressed at the State level. Between Gallagher and TABOR, coming up with alternatives to provide some relief to business as it relates to a property tax is difficult, but that cannot and should not keep this community from looking to evolve. Larger commercial property owners would realize the greatest net increase in taxes along with the 2nd homeowner. Business and our local economy is the engine that drives the whole Yampa Valley Region. It is imperative that we do what we can to foster business activity, ambition, lending, and tourism. I agree that a property tax would disproportionately affect large business in Steamboat Springs and I do* *not like that, but I believe the positive impacts of the shift would have a greater impact on more people than would the negative impacts.*

- *Matching concept: for me the strongest argument in favor of a city property tax is that it better matches the services provided by the City (expense side) with the consumers of those services who should pay for them (revenue side).*

- *Fairness: sales tax is regressive while a property tax is not. Philosophically, I agree with this. On the other hand, I also agree that property taxes are factored into the cost of rent and therefore are passed through to the renter. In down markets, rents are more market based. Accordingly in down markets, landlords may not be able to pass through all of their costs of ownership. For me it comes down to whether or not the TPAB was chartered to do "social engineering." I land on the side that social engineering is not our primary purpose. Therefore, although the "fairness argument" is a "pro", it is not that strong of a "pro" for me.*

Disadvantages of property tax in lieu of a sales tax

- *A City property tax would place an undue burden on businesses, especially in this challenging economic environment. Businesses provide jobs and generate sales tax revenue. It simply does not make good economic sense to add a further burden to our job creators and revenue generators.*

- *Stabilize revenue: I am glad that we as a board did the data mining to graph the trends in Sales Tax revenues and Property Tax revenues over the same period. The comparison indicates that the increase in property values over time have out-paced the growth in sales tax; hence, a property tax would have generated more revenue for the City if it had been implemented. More is better. My only concern is "will history repeat itself?" We are coming upon an economic cycle that clearly has an over-supply of housing inventory nationally. I believe this will keep property values in check for a long period of time, say ten years. Accordingly, my conclusion is that history may not repeat itself and therefore a sales tax based structure may be better for the future of Steamboat. I am confident that this City will stay tourism-based and do everything it can to maintain the base level of business that exists today.*

- *Property tax increases the cost of owning a home. Since "affordable housing" is already such a challenging issue for this community, it does not make economic sense to add to the cost of owning a home.*

- *Replacing the sales tax on groceries and utilities is replacing the most stable source of sales tax revenue for the City. Once again, this does not make economic sense for the City. Why add uncertainty and instability?*

- *The City of Steamboat Springs has thrived under the current system of sales tax funding for decades. The trend line provided by the City shows steady growth over a long period of time. A brief, temporary dip in sales tax revenue is not a good reason to fundamentally alter the tax policy that has served this community so well for so many years.*

- *The City of Steamboat Springs should be using the "no City property tax" to attract businesses to Steamboat. One of the keys to a vibrant community is economic diversity, with more opportunities for higher-paying jobs.*

- *Property values also experience volatility, as we are seeing now. When we know from experience that the sales tax funding works for the City, why alter the system to add another tax that is no more stable than the one we already have?*

- *The argument that "2nd homeowners don't pay their fair share" is simply not true. Second homeowners who build homes in Steamboat Springs are paying building permit fees to the City, as well as providing construction jobs (which are sorely lacking at this time). On an ongoing basis, these 2nd homeowners are also pumping significant amounts of revenue into our local economy by using a variety of local services (landscaping, security, snowplowing, janitorial, etc.). These services equal JOBS. Their retail purchases are also generating significant amounts of sales tax revenue for the City. As noted at last night's meeting, many of these 2nd homeowners also operate "location neutral" businesses, while in Steamboat. I know some of these people. They spend a great deal of time in our community, attending our events, contributing to our local charitable organizations, shopping in our stores, etc. They also fly in and out of SS/Hayden airport, helping to fill the airline seats with paying customers.*

- *As was noted, a funding system based on sales tax revenue motivates business to generate more sales. Economic motivation is a good thing!*

- *Exchanging sales tax for property tax simply will not make Steamboat Springs a more affordable place to live. In fact, it will have the opposite effect. Any "savings" in sales tax for the consumer will be more than offset by increases in rent, increases in the cost of owning a home and/or business, loss of jobs, etc.*

- *It has been stated by those who favor adding a City property tax, in place of a portion of sales tax, that this will be a more "fair" system, with the wealthier members of our* *community (i.e., the 2nd homeowners) paying more and those in the lower-income brackets paying less. For reasons cited above, this is simply not true. And, finally, it is never a good idea to use tax policy to effect "social change." If you want to provide more economic opportunity to those in lower income brackets, you do so by increasing job opportunities and by providing an economic environment in which businesses and jobs can flourish!*

- *A City property tax is a form of "taxation without representation," as business owners and 2nd homeowners cannot vote on this tax.*

- *It is quite obvious that we have lost approximately $8 million due to lack of construction over the past few years. These Community Development Fees go directly to the General Fund per the ordinance rather than the Capital Improvement Fund. Unfortunately building construction will not get better in the near future.*

- *Not a revenue stabilizer: The existing sales taxes on groceries and utilities are the most stable of our city sales tax. The removal of these two taxes and replacing them with a property tax does not add stability. In fact the swap may add instability to a portion (estimated to be about 20% of the overall city sales tax revenue stream). For example, the 19% to 34% drops* in 2011 valuations in Routt County (actual % varies by the property type) verses the -12.95% drop in sales taxes in 2009 and the -3.86% drop in sales taxes in 2010 demonstrate that a tax based on property valuation, especially in a resort community is more volatile than the buying patterns of consumers that generate sales tax revenue. For the past 14 years (since 1997) the average actual growth in sales tax revenue was 3.57%, even when you include the two disastrous years of 2009 and 2010, aforementioned. During the same period the CPI grew by an average of 2.38% or 1.2% less growth overall. Consistent growth in sales tax revenue is more beneficial than the uncertainty of property tax revenue because the property tax would be tied to property valuations, which experience wild fluctuations over time. (*Routt Assessor)*

- *Does not create fairness. The fact that the new property tax would shift the tax burden from lower valuation homes and businesses to higher valuation properties combined with the Gallagher Amendment makes the new property tax inherently unfair. Within the current property tax proposal most businesses do not benefit from the removal of the grocery tax and the number of mills being proposed to make up for the $100,000.00 credit pushes the cost of the new tax beyond the break-even point, as demonstrated by TPAB spreadsheets. Therefore, many businesses would be paying a new city property tax in addition to the property taxes paid to Routt County. With the new city property tax and using a scenario proposed by an individual on the TPAB I came up with the following: using a $100,000.00 credit and 4.32 mills, the top 29% or 269 out of 927 total commercial properties would pay 75% of the new tax on business. The idea that these* *businesses will just easily absorb this additional cost because they can (if they can) is not realistic. Commercial property owners will take the additional expense (14% more) and pass it along to tenants, which in many cases are locally grown small businesses. Some of these businesses have a high cost of goods sold, high labor costs and thin margins. The small businesses and the large ones in town for that matter are employers. When businesses need to cut costs they always look to the expenses of payroll and benefits, which represent a large percentage of overall expense in many businesses. Placing a new tax on any business is a new burden on that business. If they can respond by building new business, that's great. However, with a community still mired in recession (as evidenced by the May, 2011 unemployment rate of 11.2%[8] and the local construction industry down approximately 93%[9]) the reality is that businesses will make cuts in response. When one considers the exodus of contractors and subcontractors from steamboat our unemployment rate may be effectively be around 16%[10]. Adding new taxes to small business adds another problem when businesses are currently experiencing problems of historic proportion and many are struggling to survive. When small businesses cut costs and services and lay off employees or fail altogether the community is impacted. The lower wage workers and lower valuation property owners or renters may be impacted first as their jobs are eliminated. The consumer is impacted as well with higher costs for goods and services or less goods and services or less competition due to business failures. These employees and businesses are the individuals the new property tax is supposed to benefit! Small businesses nationwide make up 99.7% of all employer firms, pay 44% of total private payroll, have generated 64% of all the new jobs over the past 15 years and in 2007 small businesses represented 97.3% of all the identified exporters in the US.[11] Why in the world would we want to add <u>any</u> additional burden upon small businesses in Steamboat?*

- *Does not create fairness, continued. We all would love to see the 2nd homeowners pay their "fair share." However, we need to see what they will really be paying by pursuing more analysis. Would they actually pay their "fair share" under the proposed property tax scenario or is this current proposal just a symbolic, emotionally charged gesture? As we consider the idea that we want the 2nd homeowners to contribute more to our community we must acknowledge what they already contribute and their potential contribution going forward. Studies by Scott Ford have shown that 2nd home owners in many instances are also principals or employees in location neutral businesses. Location*

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[8] Steamboat Pilot, 6/17/11 p20

[9] Carl Steidtmann, Chief Economist, Deloitte Research, Economic Summit, 2011

[10] Ibid.

[11] US Small Business Administration

Neutral Businesses are a growing segment of our economy providing sorely needed economic diversity. The Steamboat Springs 2011 Economic Development Strategy Report and the 2011 Update to the Routt County Economic Development Plan both highlight the importance of attracting and supporting location neutral businesses as an important part of an economic growth and diversification strategy for the future. The individuals in location neutral businesses "generate a majority of their income as a direct result of economic activities that occur beyond the borders of Yampa Valley."[12] And, "To put it simply, individuals associated with the residential/lifestyle economy live and spend their money in Routt County, but make that money from all over the state, country and world. They are a significant net importer of labor source income into Routt County." Impacting this group with a new tax is counter productive to what we are learning about the positive contributions that 2nd homeowners have made in our community. This is true whether you consider the jobs they create for the lower valuation homeowner or renter (landscaping, maintenance, repairs, janitorial) to the higher level jobs in their location neutral businesses. I am proposing that we find a more solid rationale for impacting 2nd homeowners with a new tax (however slight or significant the impact) with a new tax instead of a vague notion that they need to or will under this plan pay their "fair share." First of all, evaluating the details of what their share would actually be paid under this plan would help us to more accurately assess whether or not a tax would accomplish fairness. Even if we were able to show that 2nd homeowners would make an adequate contribution to their "fair share" would we be doing anything good for our community by implementing the tax? I am suggesting that a new property tax on 2nd homeowners would not have any positive outcome.

- *Shifts the burden away from visitors to locals: Since we would be taking away the tax on groceries, which are partially paid by visitors as they buy groceries, we would shift that burden away from them and to locals, especially businesses. I can't see anything beneficial about that outcome.*

- *No stimulating effect for the local economy: There is no evidence to suggest that the money saved by individuals with lower valuation properties in this scenario would provide a beneficial impact to the economy and therefore the community. Does having one hundred or two hundred dollars a year more available to a family of four change the behavior of those individuals in any perceivable way? Our current system of sales tax encourages business growth and innovation. In Steamboat our business community and our elected officials work together to attract visitors to town so that they may spend money because we*

[12] Yampa Valley Data Partners

all know it increases sales tax revenue that benefits everyone in our community. Those dollars that are imported to steamboat circulate more than once to benefit all of us. Those dollars help our economy grow and diversify. Also, since we encourage visitors to visit we expose our town to those that may be motivated to settle here permanently or at least on a part time basis, thereby importing more dollars and intellectual capital. The tax revenue generated by those imported dollars then benefits all of us through the services and amenities provided by the city of Steamboat Springs. Good tax policy is reflected in good communities that thrive. How will a property tax help Steamboat thrive? What behaviors do a property tax encourage?

- *The juice is not worth the squeeze. Where is the return on investment in this proposal? The time, effort, money, the businesses and consumers that will be negatively impacted...where are the counterbalancing benefits? It appears that there are none. Since the fairness created is negligible or unknown and the fairness that might be created is countered by the unfairness created toward small businesses and consumers, this proposal is not worth the squeeze. Since the proposal does not create more stability but may create more volatility, or at least uncertainty, the proposal is not worth the squeeze. Since the proposal is revenue neutral there is no more juice to be gained? So, why squeeze?*

- *One premise of the property tax proposal is that it would tend to smooth out the revenue stream to some extent. While I believe this is true, the property tax may have some unintended consequences. The property tax puts another set of dynamics in place that may have some inflationary effects on our cost of living. The property tax in itself is considered by many business people a cost of doing business and is part of the fixed overhead.*

- *Adding to the fixed overhead tends to increase the product or service cost down at the very start of financial calculations to determine pricing for the goods or services to be provided. The sales tax is added at the very end of the economic cycle, just before it gets to the final consumer and it is added only once. In a seasonal economy, such as ours, the fixed overhead is a serious cost to absorb during our off seasons and shoulder seasons for many of our business people.*

- *Personally, I like the idea of reducing the regressive taxation that our sales tax based revenue model produces. However, the Gallagher amendment makes it impossible not to burden the commercial property owners that will just pass the overhead on to the end user of the service or product they provide.*

- *Undue burden: my concern is not so much that of an undue burden on business. Rather my concern is for the burden being shifted away from tourists and onto residents. Our data suggests that 35% of sales tax generated comes from tourists and another 20% comes* *from NW Colorado residents outside of city limits. If sales taxes on food & utilities amount to about $4m per year, then 55% is $2.2m. I find it difficult in a struggling economy to ask any constituency to pay $2.2m more in tax than they were paying before.*

General Comments

- *The bulk of the sales tax lost in the past few years is directly related to construction or the lack thereof. See the spreadsheet Appendices E-2 and E-3 for Building and construction tax revenues to the City.*

- *The Steamboat segment of our economy that is not currently taxed is the interval ownership condo that is traded or exchanged for guest usage. These people use all of the services of the City with no corresponding revenue. There should be some kind of tax in-lieu of an accommodations tax for these interval owners if they are not charged an accommodations tax. This could be called a city services tax or fee. This may be too small to bother with, but it might be worth asking the revenue potential of such a fee.*

- *Property tax would incentivize community growth and annexation. I absolutely agree that the City would not consider annexation without a contributing revenue source. My question on this argument is one of "chicken or the egg and which one comes first." It seems to me that growth would need to come from real economic stimulus with constituents wanting or needing better services for annexation to be considered. I'm not sure that having a property tax first is the growth driver in and of itself.*

SECTION III – EVALUATION OF SELECTED REVENUE SOURCES

A. SALES TAX

Sales taxes are the largest source of revenue for the City of Steamboat Springs. In general, City sales tax does not apply to services, but does apply to lodging and most material goods including food. Revenues generated by the City's 4% sales tax go to the General Fund and are unrestricted.

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[13]
8.4%	Total Sales Tax

In November 2011 voters approved a 0.25% sales tax that will be used to guarantee revenues to airlines that provide availability for winter tourists flying into Yampa Valley Regional Airport. The new tax will take effect January 1, 2012.

For comparison purposes it is worth noting that Steamboat Springs has one of the highest sales tax rates of municipalities in Colorado.

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. In opinion polls on taxation "…the public consistently identifies the state sales tax as the least objectionable U.S. tax…this favorable rating would likely extend to the local-option sales tax…"[14] In fact, Steamboat Springs voters approved a sales tax to get rid of a property tax in 1978.

For a more thorough discussion on the various sales tax sources please see the 2005 Report of the TPAB

[13] Referendum C, General election ballot, November 1993
[14] Brunori, David. 2003. "Local Tax Policy" Washington D.C.: Urban Institute Press.

B. SALES TAX ON UTILITIES

Tax on utilities is one of the most stable and predictable sources of revenue, but combined with the state and county tax, and the 3% Franchise Fee,[15] businesses and residents pay a total of 11.4% tax on utilities, making the combined tax the most regressive tax affecting residents and businesses.

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, some charges related to satellite TV service, or water and sewer.[16]

C. SALES TAX ON LODGING

Steamboat Springs imposes its ordinary sales tax on lodging rentals of less than 30 days, as do most municipalities in Colorado. Growth in lodging sales tax revenue is tied primarily to visitors, (who are influenced by overall economic conditions in the United States, and by our own and competing destination marketing efforts) and price. Due to the dependence on tourism, with its inherent potential for volatility, lodging sales tax revenue is less predictable than some other sales taxes.

[15] The Franchise Fee is actually a percentage-based excise tax on utilities; it is, in effect, another sales tax.
[16] The City does not tax water, but were it to do so, it would have, in effect, a progressive form of taxation when applied to an incremental 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.

D. ACCOMODATIONS TAX

In addition to sales tax, the City collects an accommodations tax on lodging rental of less than 30 days. The accommodation tax rate is currently 1%, and since 1994 the City has dedicated these funds to the Haymaker Golf Course debt service. When all Haymaker debt is retired, the funds are supposed to be used for amenities that will promote tourism and enhance the vitality of Steamboat Springs as a premiere destination resort, and enhance the community identity, environmental desirability and economic health of Steamboat Springs.

In 2004 a Local Marketing District (LMD) was created that collects an additional 2% accommodation tax on lodging within the district, which includes all lodging in the ski area and the southeast portion of Steamboat Springs. The new tax was expected to raise $1.2 million per year, but has dropped lower during the recent recession. Proceeds are dedicated almost exclusively to support for the airline guarantee program. City Council has oversight of the LMD budget and also has the authority to dissolve the LMD.[17]

Lodging and accommodations tax on timeshare units

Some rental properties and most timeshare units in Steamboat do not pay sales tax, lodging tax, or accommodations tax. Major problems for revenue collection are identifying these rental units by owner and determining how to collect the tax. With various types of ownership and conditions for use the issue becomes complex. Relevant aspects of the issue include:

- Properties that have interval owners and which are routinely rented by property management companies generally do pay the City taxes.
- If interval properties are included in a swap pool that exchanges one property for another, then when the unit is occupied there is no rental fee and consequently no tax is collected, though due, because the City has no means to efficiently enforce.
- Steamboat Springs has taken steps to register the second homes and condos that are rented out, and to collect the tax for these rentals.

[17] See also the TPAB supplemental report on Policy Implications for LMD/Accommodations Tax in Appendix E-9.

- It is difficult to identify those owners who are outside of regular management pools who do not report rentals, but the number may be small enough in Steamboat Springs as to question whether it is cost effective to try to identify all of them.

- Time share units have multiple owners and if the use is being traded without room charge, it is difficult and could become a legal quandary to determine who to go after for collection.

- Additional information: the city of Breckenridge at one time had hired a firm to patrol the town checking known interval or vacation units for occupancy and then determining if the occupants were not the owners and to see if a tax was due. There were some public objections to this approach.

TPAB makes no recommendation on this potential source of revenue but suggests that the City should monitor the program in Breckenridge to see if it is successful and cost effective, and if it appears to be practical and profitable then consider a similar action.

E. BUILDING USE TAX

In 1973, the Board of Trustees of Steamboat Springs enacted Ordinance No. 421, a building use tax on building and construction materials. This tax provided the City with a means to recapture some of the "leakage" of sales tax to other jurisdictions. Because exact material cost is not known at the time a permit is issued, this tax is paid on a percentage of the estimated total construction cost. The tax is collected at the time a building permit is issued. In effect it is a prepayment of sales tax on an assumed amount of material.

How it works: For projects within the city limits, at the time you pay for a building permit you pay a county "use tax" of 1% and a city use tax of 4.5% for the estimated materials portion of the project. This estimate is based on the total building construction valuation as determined by the Routt County Regional Building Department. Taxable materials are considered by Routt County to be 50% of the total construction valuation, and the County assesses a 1% tax on this valuation. Taxable materials are considered by the City to be 50% of the total construction valuation, and the City charges 4.5% tax on the new materials value.

Building and construction materials attached to a building permitted project (lumber, nails, paint, etc.) are not subject to sales tax at the point of purchase in Steamboat Springs (if a permit number is given). However, construction materials consumed at, but not attached to, permitted projects (such as propane, saw blades, etc.) are still subject to sales tax.

If the construction site is outside of city limits, one pays only the county use tax of 1%. For these projects, building materials purchased within the City limit are subject to City sales tax, but not county sales tax. If the materials are delivered to the jobsite, neither sales tax applies. Materials purchased outside of Routt County are subject to the sales tax applicable at the point of purchase unless the material is delivered to the jobsite.

The construction industry in Routt County is highly volatile. The average Use tax collection for the ten-year period from 1994 – 2003 was $1,053,600. The average use tax collections for the 7-year period from 2004 –2010 was $1,594,400 or 51% increase. Since 1994 the Building Use Tax has brought in $26,480,000 for an average of $1,557,647 / year.

In 2007 the use tax spiked from $2,160,000 in 2006 to $5,911.000 then back down to$2,243,000 in 2008. This spike was due to several big projects including One Steamboat Place and Wildhorse. Building Use tax collections dropped in 2009 and 2010 well below the 17-year average to $688,000 and $510,000 respectively. 2010 was the lowest amount of collected tax since 1994.

In 2003 The City Council directed that building use taxes and excise taxes, although they are received into the General Fund, be allocated and dedicated to the Capital Improvement Fund. The opinion of most TPAB members is that new construction and capital improvements are sufficiently related such that dedication of building use and excise taxes to capital funds are sound management practice. The TPAB recommends continuation of this policy.

The 2005 Tax Policy Advisory Board report recommended "that the City periodically review and reestablish guidelines as necessary to fairly estimate material cost commensurate with the scale of permitted projects". At that time some potential revenue was not being collected due to many larger scale homes estimated to cost $200 per square foot but actually costing significantly more. A reconciliation process was instituted that allows the City to audit all projects and to retroactively apply the correct use tax. For the past few years the City has done a final cost audit on completed homes to capture building use taxes that were not collected, or in some cases overpaid. This year there is approximately $500,000 in the Building Fund but this amount is expected to drop significantly in the next few years. This decrease in revenue is due to down grading finishes in some projects, but also a large drop in labor costs.

Current valuations (2009) used by the Building Department are $106/sf for "good", $145/sf for "average", $198/sf for "above average" and $264 for/sf for "custom" construction. These values were increased in 2007 and 2009 as an attempt to keep up with then-current construction costs. While the upper end custom homes probably will cost more than the $264.00/sf it is possible to build for less than the $145.00/sf resulting in rebates. It is to be noted that the General Contractor, not the property owner is responsible for paying these taxes and the time required to prepare for this audit.

Since 2002 there have been other new taxes and fees associated with building permits. In 2002 the people of Steamboat Springs voted in an excise tax. Since 2002 excise tax collections have totaled $9,809,000. These taxes are also dedicated to the Capital Improvement Fund.

Other building fees

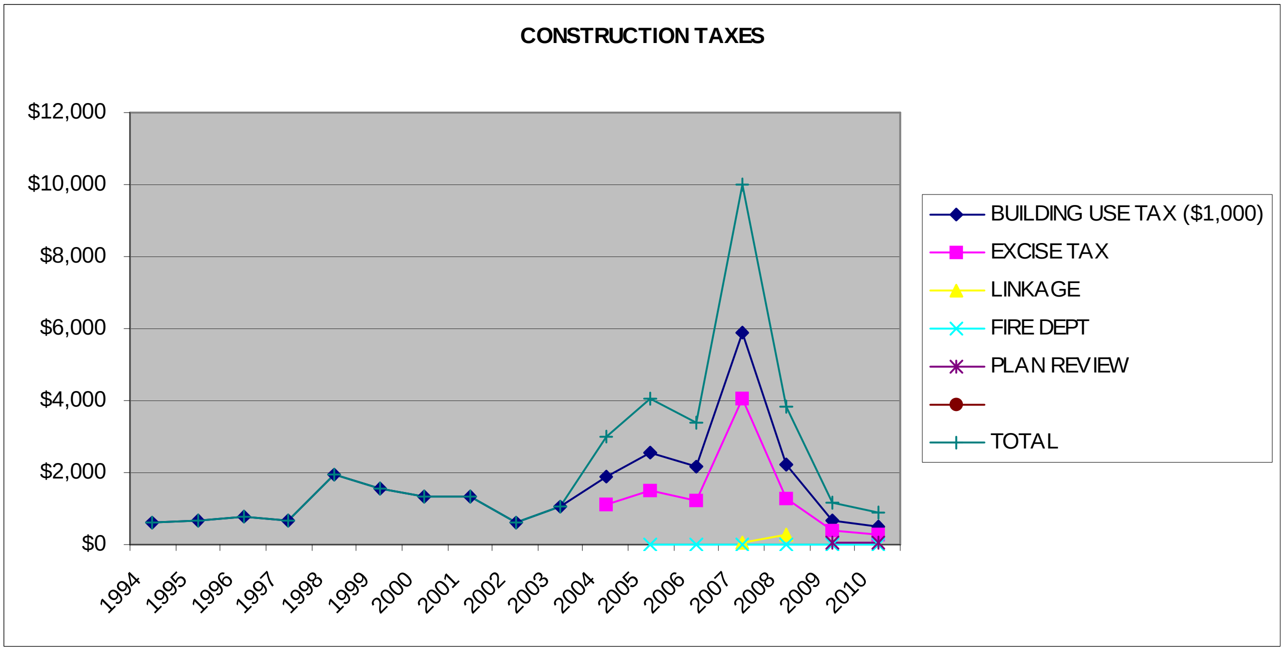
A linkage fee was added in 2007 and quickly abandoned in 2008. $323,000 was collected and added to the General Fund for affordable housing. Some residential projects require that a percent of the units built be designated affordable housing. For this brief period, contractors could pay this fee in lieu of building affordable housing units.

Since 2005, the Fire Department has collected a plan review fee for all new building permits. This fee has totaled $61,000 and is added to the General Fund to help offset costs associated with the Fire Department.

The Department of Planning and Community Development has also collected a plan review fee for all new permits. This fee has totaled $150,000 and is added to the General Fund to help offset costs associated with the Planning Department.

The total tax and fee revenue generated has totaled $36,823,000 since 1994. This averages to $2,166,000 per year. Since 2005, $23,309,000 has been collected for an average of $3,884,833 per year. In 2010, the taxes and fees spiked to $10,015,000.

The graph below shows the revenue volatility of the Building Use Tax, Excise Tax and other fees associated with building permits.



The residential construction industry will stagnate for the next 3 to 5 years unless we see the single family home sales rate increase. Over the past 12 months, the sale of existing single-family homes to existing total housing inventory was 1.7%. The construction predictor developed by YVDP indicates that single family home sales need to exceed 2.5% on a sustained basis for 12 to 18 months before there is a recovery in residential construction. It is important to highlight that although the construction industry sector has declined, construction has not stopped. Large commercial projects have and will continue to support this industry sector.[18]

F. CHARGES FOR SERVICES

The City's largest department, Parks and Recreation, generates the majority of General Fund charges for services. User fees and licenses are typically set by comparison with other communities. As a department goal, youth activity fees should cover up to 50% of direct program costs, and adult activity fees should cover 100% of direct costs. One argument against program fees is that City programs are a form of childcare for families and affordability is the issue. The Haymaker Golf Course is the only recreation amenity for which user fees cover all of the operating expenses.

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[18] Yampa Valley Data Partners "Regional Economic Forecast" Volume 2, Issue 4, Fourth Quarter 2011, p.8

As the population increases, so does the demand for both the quantity and variety of recreation amenities, but ongoing operations and maintenance costs to the City may well increase faster than charges for services. Examples include local interest not just in more parks, but specifically dog parks, skateboard parks, the plastic ski jump, and a new recreation center. Special interest user groups often do raise funds to pay a significant portion of the initial investments; the goal for the summer ski jump budget was $2.4 million with all but $144,000 provided by contributions and grants.[19] Only the Botanic Park has a benefactor to repay for ongoing maintenance through an account at the Community Foundation.

G. BUS FARES

At one point the City did charge for riding the buses. The decision to go to a "free to rider" format was done to accomplish several goals. 1) Other similar resort communities also provide this service and by doing this it kept us competitive with them. 2) by providing free service it reduced the number of cars on the road, and the attendant air pollution caused by those cars. At one point the City was not in compliance with EPA standards, but the reduction of numbers of cars on the road along with other things (i.e. street sweeping, etc) has brought the City into compliance. 3) ridership goes down when fares are charged, and it was determined that it would never be possible to have the system pay for itself, so it is treated similarly to Howelsen Hill which is a community amenity that can only operate with a City subsidy.

The City understands it has a responsibility to provide a viable economic environment, and considers that by providing free bus service to tourists it is helping to promote tourism, and by providing this service to locals it is not only alleviating the pollution, but also the parking problems primarily at the mountain, and by getting workers to and from their jobs it is helping the business community.

It is estimated that the City could raise up to $300,000 per year by charging for bus service, partly offset by the costs for collection, monitoring, and accounting. The TPAB consensus is that the small economic gain for charging a fare does not outweigh the potential disadvantages, and recommends not charging for the bus service.

[19] Examples from TPAB interview with Chris Wilson, Director of Parks and Recreation, June 29, 2004.

H. ADMISSION TAX – LIFT TICKET AND SPECIAL EVENTS

An admission tax (also referred to as an entertainment tax) is imposed on the charge for admission to places or events open to the public. The tax 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. One advantage of an admission tax is that it is not inherently regressive because the purchases are discretionary and not for basic needs. As of July 1, 1998, 26 Colorado municipalities reported admission taxes, ranging from 2 to 15 percent.[20] There is currently no admission tax in the City of Steamboat Springs.

The largest potential source of admission tax revenue is a tax on ski lift tickets. At a 4% tax rate, lift ticket sales would generate an estimated $1,600,000 in tax revenue, and all other sources combined would generate about $150,000. These are only estimates from sales figures obtained verbally from various organizations. The list of sources is shown in Appendix D-6.

One rationale for having an admissions tax is that most of the money will come from lift tickets purchased by visitors. There is some difficulty in collecting this tax at the point of sale because many lift tickets are included in travel packages that are sold in advance and outside of Steamboat Springs. Collecting the tax on these and on tickets sold over the internet is problematic. It was suggested that the admission tax be dedicated to the airline program, but the Steamboat Ski and Resort Corporation already contributes about $1 million each year, historically 50% of the program cost, but 75% of the benefit goes to other businesses in the community. To effectively double the contribution generated by the Ski Corp. is disproportionate to how visitors' money is spent in Steamboat Springs.

It should be noted that the Ski Corporation voluntarily collects and remits a City sales tax for on-mountain sales that occur outside of City limits. The Ski Corporation would likely discontinue collecting this voluntary sales tax if a lift ticket tax were imposed.

Currently, only three ski areas in Colorado have some tax or fee on lift tickets:

- Mount Crested Butte has a 4% admissions tax on all ticketed events, including concerts and lift tickets

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[20] Colorado Legislative Council "State and Local Taxes in Colorado, Report to the Colorado General Assembly" Research Publication No. 447; December 1998.

- Beaver Creek has a "Resort Fee" that is applied to lift tickets (no details were given)

- Vail has a 2% "voluntary assessment" on lift tickets, which was agreed to between the ski company and the City of Vail (as contrasted to a voter approved sales tax). The ski area donated property to the city for a parking garage, and provides the voluntary assessment to the city of Vail. In turn, the city built and maintains a parking structure, and the city provides and operates the ski shuttle busses.

It is noted that people live in Steamboat for the quality of life, which for many includes a lot of recreational amenities. Some of these, such as the ice rink and tennis center, are promoted and used more by local families than visitors, and a sales tax on these activities could be viewed as degrading the quality of life. On the other hand, these same facilities are partially supported by the City, and fees for service generate City revenue.

- An admission tax is often included in the price of a ticket, and whether the City had a new tax or raised fees at City-owned facilities would make little difference.
- An admission tax would add to revenues if collected from theaters and events that are not owned or controlled by the City.

If there were a tax only on lift tickets, it might make sense to use the funds to offset expenses that are related to bringing skiers to Steamboat Springs, such as the incremental cost of City bus service during ski season, or support for the airline guarantee program. The Ski Corp. financial officer advised that 17.5% of lift ticket revenue comes from season passes, and most of the passes are purchased by locals.

It is the consensus of the TPAB that the admission tax, selectively applied, can be an accessible source for new City revenue, but does not recommend implementing an admission tax at this time.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS AND RECOMMENDATIONS

Tax policy is a complex issue. All the members of this Board volunteered because of a desire to improve the City's approach to revenue; many had strongly held preconceived notions. During the course of their broad discussion of the relationships between government agencies' responsibilities and division of services, member's understanding of tax policy grew substantially.

We encourage interested readers to take the initiative to search for validation of their strongly held taxation beliefs by reviewing this document as well as the multitude of other good resources available. It is through a well-informed community that our municipal government will operate in an effective and efficient manner. Steamboat Springs is a financially strong municipality that provides for a quality of life superior to many other communities in the state, and at one of the lowest levels of tax contribution by residents. Question everything, be informed of the strength of your conviction, and acquire the knowledge to understand the position of the opposition. The following are the TPAB's conclusions and recommendations.

SECTION I - CONCLUSIONS

1. The current financial position of the City of Steamboat Springs is sound. Operating expenses and capital expenditures were managed successfully in the past three year period of economic downturn, increasing population and demand for new and expanded services. Costs were contained within current sources of revenue and a substantial operating/capital reserve was established.

2. The City of Steamboat Springs has thrived under the current system of sales tax funding for decades. The trend line, provided by the City, shows steady growth over a long period of time. A temporary dip in sales tax revenue is not cause to fundamentally alter the tax policy that has served this community so well for so many years.

3. There is no immediate requirement for additional revenue levels or sources. The City's ability to maintain sufficient reserves provides support for this conclusion

4. The greatest vulnerability of the City's ability to fund capital and services at the community's desired level is the loss of use tax revenue, rather than decline from sales tax.

5. Without a property tax, the City has no financial motivation to annex additional property unless there is adequate commercial development within the potential annexed area

SECTION II – RECOMMENDATIONS

The tax policy advisory board recommends:

1. That the City of Steamboat Springs develop and implement a comprehensive multiyear financial plan, which is reviewed annually, for the utilization of unanticipated revenue. Such plan should be made known to the public.

2. That the auditor of The Comprehensive Annual Financial Report of The City of Steamboat Springs make a presentation to City Council in a regularly scheduled public meeting after the audit is complete.

3. The City operates a number of enterprise funds such as Howelsen Ski Hill, Tennis Fund, Ice Arena and Employee Housing Fund. The aforementioned funds 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.

4. That the City Council establish an unbiased and transparent process for bringing citizen led issues to public ballot via City Council ordinance. Council should develop a procedure to insure issues are evaluated in a non-prejudicial fashion.

5. That the City Council establish an ordinance to require 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, and that the ballot language be presented to Council for second reading no later than 90 days before the election (or as required by state law).

6. Before agreeing to place a dedicated tax question on the ballot, that the City Council require proponents of new dedicated taxes to demonstrate, at a minimum, that:

- The tax will fund a service, program or facility that is clearly within the scope of City functions provided for in the City Charter;
- It addresses a need not adequately accommodated by existing City services, programs or facilities;

- It would not duplicate, compete with or harm any existing City service, program or facility; and
- It addresses a goal that can be accomplished within a term of no more than five years.
- The goals to be accomplished by the imposition of such tax be measurable and evaluative, and over the duration of the dedicated tax, progress toward its goals be delineated in the City's financial report (CAFR).

7. That the City of Steamboat Springs expand the quality of its infrastructure and amenities in such a fashion as to attract tax payers who will contribute in a sustainable and stable manner.

8. The TPAB concludes that in a revenue-neutral exchange of property tax for sales tax, the revenue from visitors and non-resident locals is too significant to be lost, therefore the Tax Policy Advisory Board does not recommend any exchange of a city sales tax for a property tax.
(Note: In the specific case of replacing the sales tax on groceries with a property tax, the Board was evenly split. See Appendix A-1 for the Dissenting Opinion.)

9. The City Council should conduct a public meeting to address the recommendations of the 2011 and the 2005 Tax Policy Advisory Board reports.

10. That the City of Steamboat Springs develop and implement an evaluative schema with specific metrics and benchmarks to objectively judge their efforts meeting their obligations including governmental efficiency and effectiveness to the citizens of The City of Steamboat Springs. Examples would include but not be limited to per capita comparative statistics with like communities such as operating expenses, tax burden, number of police and fire personnel, full time equivalent staff (FTE), contracted services, etc. Other metrics could include salary/benefits schedule, retirement packages and services provided to the citizens' vis-à-vis other like cities. Goal setting should be more formal and structured with specific assessment strategies for the completion or non-completion of those goals. All such evaluative/assessment results should be made known to the public.

APPENDIX

APPENDIX A

DISSENTING OPINION

A-1 Favoring a City Property Tax

2011 TAX POLICY ADVISORY BOARD DISSENTING OPINION FAVORING A CITY PROPERTY TAX

We, the undersigned members of the Tax Policy Advisory Board (TPAB), constitute a minority of that Board with respect to the issue of replacing a part of the City's sales tax with a small property tax. Specifically, we disagree with this recommendation of the TPAB: **"…** the Tax Policy Advisory Board does not recommend any exchange of a city sales tax for property tax."

We believe that an exchange of sales tax for a property tax is justified for the following reasons, each of which is explained in more detail below:

- The existing City tax burden is not distributed fairly.
- The current tax structure addresses conditions that no longer exist, and it ignores conditions that exist today.
- Replacing the 4% City sales tax on food with a small (2 -3 mils) property tax will help those who are in most need and will make City taxes more progressive without unfairly burdening any group of taxpayers.
- The sales tax-based City tax system depends upon constant growth of population and tourism, and at some point may not be sustainable.

The minority recommendation is:
That the Steamboat Springs City Council ask the City's registered voters if they will eliminate a regressive City sales tax in favor of a modest, more progressive property tax that would raise the same amount of money. Specifically, we recommend asking the voters if they will approve eliminating the 4% City sales tax on food and replacing it with a property tax that will raise an offsetting amount of approximately $2,100,000.

<u>The existing City tax burden is not distributed fairly</u>
The Economic & Planning Systems report (November, 2008) shows that residents, not tourists, account for the largest segment of retail sales and, therefore, sales tax. A system that was designed to have tourists pay the bills has instead come to rely on locals, who buy 41% of all retail goods, as opposed to tourists who pay 35%, county residents who pay 18%, and second home owners who pay just 6%.

Appendix A-1-1

Sales tax on food is inherently regressive. The same study (p.44) shows that lower household income brackets pay disproportionately higher shares of income on everything they buy, including groceries. The 4% City sales tax on groceries – rare among Colorado municipalities – simply exacerbates this regressive situation. Given the dramatic changes in the City's population and property ownership, it is no longer possible to justify taxing a necessity (food) in such a way as to penalize those who have the hardest time making ends meet. We can and should eliminate the 4% City sales tax on food.

<u>The current tax policy addresses conditions that no longer exist, and it ignores conditions that exist today.</u>

In 1978, when the City voted to eliminate its property tax in exchange for a sales tax, there were about 5,000 full-time residents and about 800,000 skier days – then the major source of sales and sales taxes. This means that every "local" had 160 skier days paying a large share of his bill for City services. Today, there are about 11,500 locals and about 980,000 skier days. That is 85 skier days per local. The full-time population has continued to grow, while the skier days have remained static.

Two studies (1998 and 2004) concluded that every full-time residential unit costs between $2,200 and $4,000 more per year to serve than its occupants produce in sales taxes. Yet the number of City residential units continues to grow.

The number of second homes has grown even faster than full-time residences. It is tempting to say that these seldom-occupied units do not cost much for the City to serve. Yet the 2004 Northwest Colorado Council of Governments (NWCCOG) Second Home Report reaches a very different conclusion:

Traditionally, residential homes and their neighborhoods have provided workers with a decent home and adequate community services. However, second homes are different in that they are not a residence, but an industry creating a demand for workers. Secondly, second homes drive up property values, including residential housing for workers. Because of this, it becomes especially important for elected officials and community planners to understand and estimate the secondary effects of second homes in tourist based economies. With this information, policies can be developed by local governments to provide for the social needs of citizens with each new development and to influence the growth in the economic drivers themselves.

Appendix A-1-2

To ignore this information concerning second homes within [the] Colorado rural resort region casts social and economic fates to the wind. (p.5)

Today in Steamboat Springs, second homes account for almost half of all residences and 62% of all property wealth. Yet according to the Economic & Planning Systems report, they account for only 6% of retail sales and, arguably, 6% of sales tax revenue. Thus full-time residents, who account for 41% of retail sales, have been subsidizing the basic City services that are provided to second homes and businesses, and they have been doing so for decades.

Replacing the City 4% sales tax on food with a small (2-3 mils) property tax will help those who are in most need and will make City taxes more progressive without unfairly burdening any group of taxpayers.

One of the loudest arguments against any property tax has been that such a tax, because of the Gallagher Amendment, would be unfair to businesses. It is certainly true that Gallagher, which was intended to address conditions on the Front Range, does no favors for businesses in most of Colorado. But Gallagher is the law in Colorado, and it is not, by itself, sufficient reason to continue a City tax policy that holds businesses harmless from taxes and passes that burden to others. A City property tax of the scale suggested is less than a 10% increase to existing property tax bills and will not represent anything more than a slight increase in the cost of doing business.

There is another important point to consider here. A property tax in lieu of a tax on food will bring to the table over 4,000 second homes and 3,500 businesses to share, for the first time, the cost of the City services, programs and facilities that are provided for them. By enlarging so significantly the pool of taxpayers, the individual tax bills will be modest for all but the most expensive residences and businesses. In exchange, those residents who must watch their grocery bills carefully will have 4% more to spend on food, which in most cases is significantly more than the average household increase in property taxes.

"The current fiscal structure relies on constant growth in tourism and retail and is therefore not sustainable."

This conclusion, stated several times in the 2008 Economic and Planning Systems report, should be a warning to those who say that the sales tax-based system isn't broken and shouldn't be fiddled with. The TPAB report goes so far as to say that the

Appendix A-1-3

City has “thrived” on the current system. The truth is that the City has managed, and it has shown remarkable flexibility in dealing with the ups and downs of a volatile, unreliable revenue stream. But if the City’s future fiscal health will indeed depend on more growth, where will that growth take place? The City and Chamber have done about all that can be done to increase tourism, despite residents being divided as to whether they want more visitors. And the recent emphatic vote against the Steamboat 700 proposal effectively settled the western City boundary and plans for dramatically increasing the number of residential units.

The voters of thirty-some years ago did not contemplate a scenario where half of the housing units – and more than half of the housing value – consisted of second homes whose owners did not pay for City services except when they were in town and went shopping. They did not foresee that the full-time population would grow by leaps and bounds while the number of tourist visitors would not.

The TPAB recommendation to encourage more Location Neutral Businesses and to depend less on tourism in the future further supports the argument for a more diverse tax structure. It is time to redistribute the City tax burden in such a way as to share that burden more fairly and by using the taxable resources already at hand. Our recommendation to replace just the sales tax on groceries with a city property tax will take a small but important step toward achieving that goal.

Adam Beaupre

Burt Cohen

Jack Dysart

Paul Hughes

Bill Moser

Bud Romberg

Appendix A-1-4

APPENDIX B

LISTS OF DOCUMENTS REVIEWED

B-1. Materials provided by City or County Staff

B-2. Information provided by outside speakers or experts

B-3. Work Products of TPAB

Tax Policy Advisory Board

Materials provided by City or County Staff

2010 City Budget notebook

2009 City Comprehensive Annual Financial Report

2005 Report of the Tax Policy Advisory Board

November 2008, Steamboat Springs Economic Development Plan
(prepared by Economic & Planning Systems Inc.)

Financial Information & Analysis:
2000 to 2009 Total City Sales Tax Revenue
2000 to 2013 Actual / Projected City General Fund Revenue
1998 to 2009 Actual City Sales Tax history
2003 to 2011 City yearly total revenue growth rate
2000 to 2009 City Retail Sales by Industry
1997 to 2010 City sales tax growth rate
2000 to 2010 City changes in Fund Balances
1977 to 2010 City sales tax trend
2000 to 2010 City sales revenue by category
2000 to 2010 estimated sales tax collected from Residents vs. Non-Residents
2000 to 2010 Total City Lodging Sales Tax Only (No Accomodations Tax)
City taxes from RCRBD - identifies excise taxes, permit fees, linkage fees, and Fire fees derived from new building construction

E-mail response from Kim Weber, City Budget Manager, in response to various questions, primarily indicates sources of taxes other than those dedicated by voter approval

Fire & Rescue Incident Response Summary
Fire & Rescue Incident Summary by Hour
Fire & Rescue response to questions

Abstracts of Assessments from Routt County for years 1999 to 2010
Property Tax Classes and Subclasses index, provided by County Assessor updated July 2010
Response from Gary Peterson, County Assesors Office
Personal Property CSS
Assessment Ratios – Colorado

Calculation of Inflation for TABOR growth figure

Appendix B-1

Tax Policy Advisory Board

Information provided by outside speakers or experts

Report to the Colorado General Assembly from the *Fiscal Stability Commission* dated December 2009

House Joint Resolution 03-1033 Study: TABOR, Amendment 23, the Gallagher Amendment, and other Fiscal Issues

E-mail response from David Broadwell, Attorney, regarding TABOR Question

Routt County Impacts of 2010 Ballot Initiatives: Prposition 101 & Amendments 60 and 61
Dated September 22, 2010 prepared by Dan Strnad, County Finance Manager

Yampa Valley Housing Authority, Ballot Initiative 2011

Air Services Update, prepared by Janet Fischer and Chris Diamond of Steamboat Ski & Resort Corporation, dated April 6, 2011

- Local Marketing District Budget vs. Actual History Since Inception
- Local Marketing District Accommodations Tax Collected from 2008 to 2011

Summer Marketing Opportunities & Evaluation prepared by Chamber Resort Association

- 2010 Marketing Budgets of Competitive Resort Communities
- Steamboat Summer Marketing funding history
- Return on Investment analysis for Summer marketing
- Lodging Barometer history

Economic Value of Location Neutral Business presented by Scott Ford

Yampa Valley Partners: Regional Economic Forecast, Q4 2011

House Joint Resolution 03-1033 Study: TABOR, Amendment 23, Gallagher, and other fiscal issues

Agreement between Steamboat Ski & Resort Corporation and the City Local Marketing District

Appendix B-2

Tax Policy Advisory Board

Work Products of TPAB

Memos & Handouts

Questions for Discussion

- Answers to “Ken Solomon Questions,” primarily indicates how the $1.45m City revenue surplus from 2009 was distributed.

Hypothesis for Discussion

“Ask All the Right Questions,” questions & answers that discuss historical assessed values, mill levies, Gallagher, and TABOR

“Sales vs. Property Tax – One Example”

“Benefits and Disadvantages of instituting a City property tax”

August 1978 Ordinance for passage of 2% sales tax, including some newspaper articles written at the time of the vote

Ordinance 970 regarding 1% Lodging Accommodations Tax, including some newspaper articles written at the time of the vote

TPAB objectives as background information for Dee Wisor

Evaluation of Metrics used by the City to measure success

Ballot Election Update

Bus Fares – analysis on charging for bus use rather continuing as free ridership

Legal Questions relating to Property Tax

Appendix B-3-1

Financial Information & Analysis

Resort Communities - comparison of City revenues, expenditures, and sales tax
(absolute dollars and per capita metrics)

2010 Resort Community Tax Rate Comparison

City General Fund Revenues by Source of tax or fee

Historical Denver-Boulder-Greeley CPI from 1991 to 2010

Data mined from County Assessor data base:
- Extract of Land, Residential, and Commercial property values
- Extract of Colorado (in-state) property owners within City limits, but outside of Routt County
- Extract of Out-of-state property owners within City limits
- Summary of High & Low property tax assessments in the last ten years
- Extract of Commercial, Condo, and vacant land within City limits

Scenarios generated for evaluation of Property Tax:
- Residential Scenario of substituting a property tax in lieu of tax on groceries and utilities
- Commercial Scenario for First Financial Center, utilities only
- Commercial Scenario for SkiCorp, utilities only
- Stability of Sales Tax from Food & Utilities
- Abatement scenarios
- Effects of Gallagher
- Effects of Gallagher with rebate
- Hypothetical Comparison of Sales vs. Property Revenue Growth from 1999 to 2010
- Actual Sales Tax growth from 1997 to 2010
- Estimated property tax revenue generated for a mill levy between 1 and 6 mils

Graph – # of Housing Units by value, % of Second Homes

NWCCOG Resident vs Non-Resident portion of sales tax

Estimated Revenue generated from an Entertainment Tax

Construction taxes generated from 1994 to 2010

Appendix B-3-2

APPENDIX C

REFERENCE DOCUMENTS

C-1 Assessment Ratios

C-2 SSCRA Airline Program Presentation

C-3 Summer Marketing Opportunities

C-4 CPI TABOR inflation source

C-5 Steamboat Springs Ballot Issues since 2004

Assessment Ratios - Colorado

2003 - 2009
Residential Properties* pay taxes on 7.96% of estimated market value. All other property types pay tax on 29% of estimated market value.
2001 - 2002
Residential Properties* pay taxes on 9.15% of estimated market value. All other property types pay tax on 29% of estimated market value.
1997 - 2000
Residential Properties* pay taxes on 9.74% of estimated market value. All other property types pay tax on 29% of estimated market value.
**Residential Properties include Single Family, Duplex, Tri-plex, Apartment, Condo, and Townhome.*

Appendix C-1

Air Service Update
Tax Advisory Board Meeting
April 6, 2011

Presented by: Chris Diamond, Janet Fischer
Steamboat Ski & Resort Corporation

Commercial Air Service into Steamboat/Hayden

- Steamboat contracts with airlines for winter service
- Airlines do not fly here without contracts because it is not profitable
- Family demographic, vacation travelers (no business mix), seasonal
- 70% of 2010/11 winter air seats are contracted; 73% were contracted in 2009/10
- Destination guest requires regional air access to come here

Current Situation Analysis

- Air service capacity down
- Costs up and funding reserves being depleted
- Air service & airport are the economic engine for the County
- Routt County's economic recovery is at risk if capacity continues to decline

Capacity

- Winter 2010/11, -14% in available seats
- Seats —26% from three years ago; lowest winter capacity since 1994/95
- Available lodging pillows & units have increased by 22% over past 7 years

Costs

- Annual costs for winter vary based on prior year flight performance, fuel costs, aircraft availability and opportunity costs
- Costs are up substantially, fuel is up
- Airlines have reported profits in 2010 pushing opportunity costs up
- Mergers create challenge as there are fewer airlines to work with
- Winter 2009/10 was highest at $2.6M; Costs $2M+, 5 times in past 10 years

Funding

- Winter funded primarily by Ski Corp & LMD
- Lodging tax revenues down 35% since 2008
- Reserves can support current year and next winter, then depleted, creating extreme deficit for 2012
- Equity — Recipients of deplaned passenger spend not equitable with entities covering costs
    - Spend — 44% lodging, 24% ski area, 19% food & drink, 7% retail, 6% activities & other entertainment
    - Costs — 48% lodging tax, 48% ski area, 4% Fly Steamboat
    - Voluntary contributions are diminished

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Community Impact

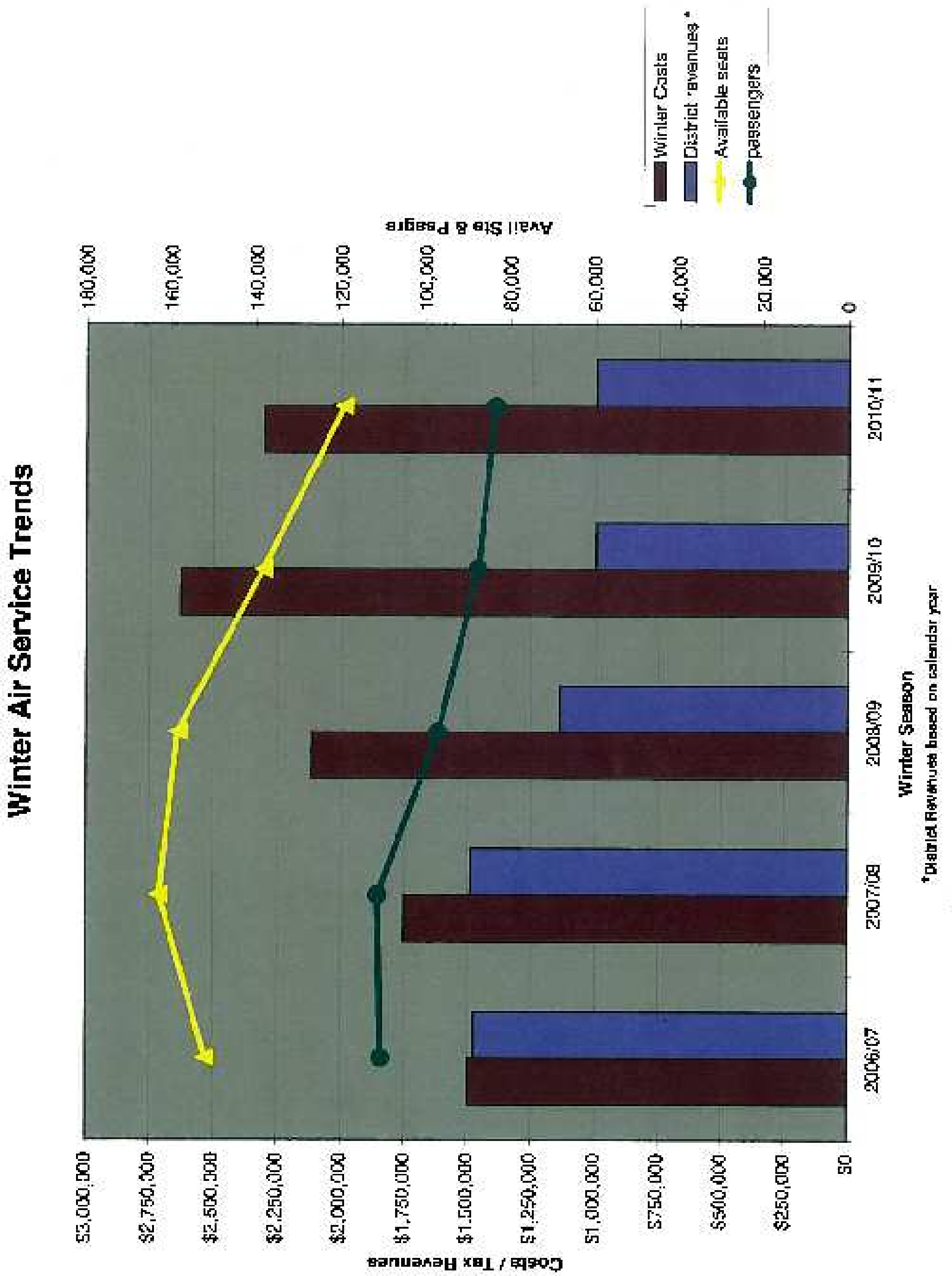
- Winter air capacity numbers directly correlate to number of arriving passengers
- Spend per deplaned HDN passenger $1113 (based on CDOT 2008 Economic Impact of Colorado Airports study including 136,750 arriving passengers)
- Spend per deplaned HDN winter passenger $1161 (based on Airport departing passenger research compiled by RRC Associates)
- 2010 annual cost per deplaned passenger approx $21

- CDOT Economic Impact of Airports in Colorado 2008 for YVRA
  - Total economic output of YVRA is $412M
  - Annual passenger expenditure output from YVRA is $152.5M
  - Passenger lodging, rental car and sales tax paid $12.9M
  - Related employment 4,922
- Local economy needs air seat capacity re-established, to recover
- Without air service contracts, community would lose up to 70% of winter air service which equates to an average of 78K winter passengers
  - Equates to approx. 130K room nights
  - Equates to approx. $87M in passenger spend
- 82% of winter passengers surveyed respond that the availability of the direct flights into HDN is considered "extremely important" or "very important" in their decision to visit Steamboat.
- During Summer a second airline allows competitive airfares and variety of schedule
- Crested Butte example — crash in air seats, depleted to half, created an environment to pass their RTA, the air service need was felt economically by the entire community

Solutions

The Community needs a solution for additional air service funding sources.
There may be an immediate shortterm need based on 2011/12 service cost increases or reduced capacity.
Ski Corp and the Chamber met with County Commissioners on January 25 to review these issues.
Ski Corp is currently working with Scott Ford to do an economic analysis of current and future air service costs and capacity.

Appendix C-2-2



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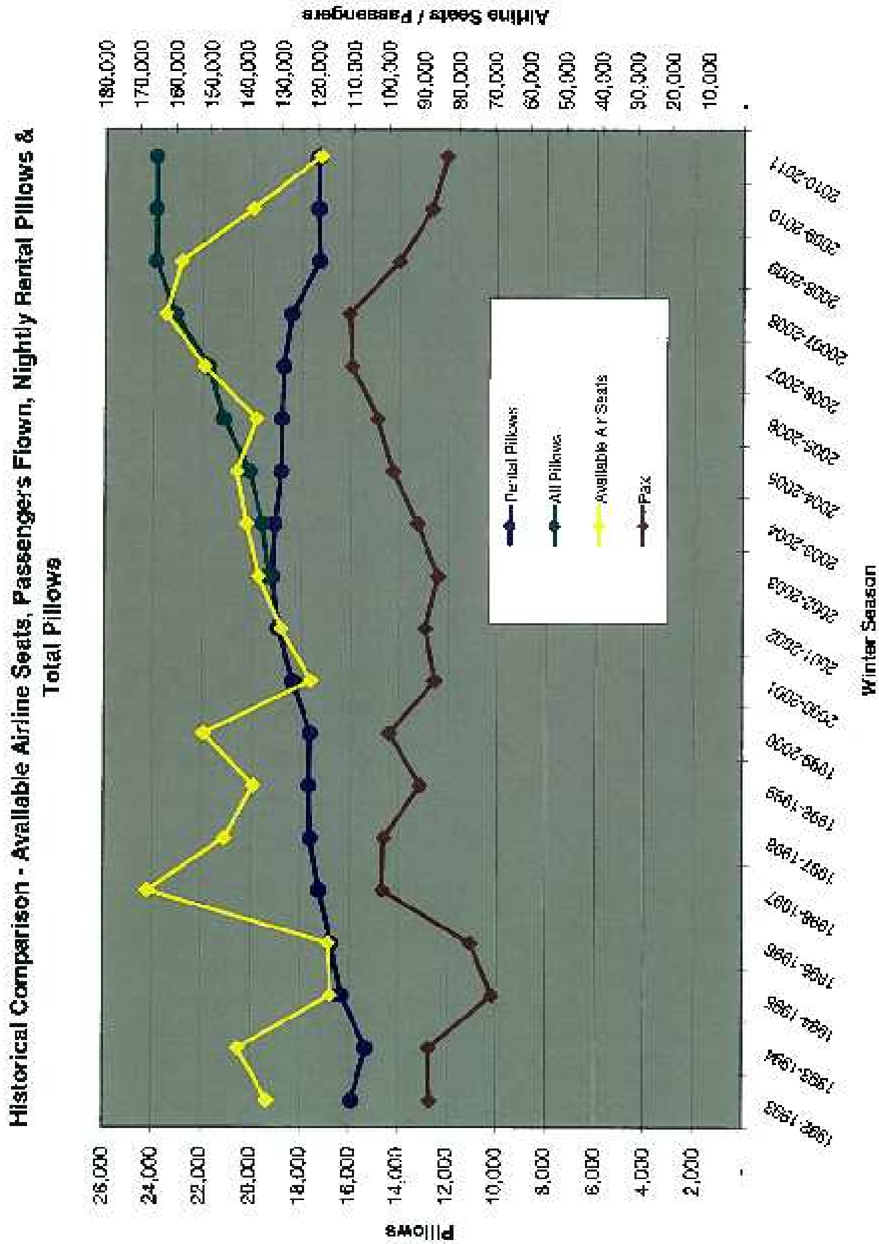


Appendix C-2-4

Appendix C-2-5

Commercial Air Service - Economic Analysis

Changes in Annual Deplaned Passengers Affects on Sales Tax Collections & Jobs

Updated March 9, 2011

					At -4% from 2010	At -8% from 2010	At -13% from 2010	At -20% from 2010
	2007	2008	2009	2010	Est. 2011	2012	2012 or 2013	2012 or 2013
Annual Deplaned Passengers	138,950	136,750	121,660	110,560	106,137	101,715	96,200	88,448
Average Spend per Deplaned Passenger	$1,113	$1,113	$1,113	$1,113	$1,113	$1,113	$1,113	$1,113
Total Spending in the Local Economy	$154,651,350	$152,202,750	$135,407,580	$123,053,280	$118,130,481	$113,208,795	$107,070,600	$98,442,624
Total Sales Tax Collections	$13,498,821	$13,285,094	$11,819,119	$10,740,768	$10,311,079	$9,881,487	$9,345,711	$8,592,614
Job Creation	1,506	1,482	1,318	1,198	1,150	1,102	1,042	958

Total Sales Tax Collections Detail

					At -4% from 2010	At -8% from 2010	At -13% from 2010	At -20% from 2010
	2007	2008	2009	2010	Est. 2011	2012	2012 or 2013	2012 or 2013
State Colorado	$3,917,604	$3,855,577	$3,430,124	$3,117,167	$2,992,463	$2,867,788	$2,712,296	$2,493,734
Routt County	$1,355,190	$1,333,733	$1,186,559	$1,078,300	$1,035,162	$992,034	$938,246	$862,640
City SS	$5,497,448	$5,410,407	$4,813,383	$4,374,220	$4,199,227	$4,024,474	$3,806,078	$3,499,376
SS School Dist	$687,181	$676,301	$601,673	$546,777	$524,903	$503,034	$475,760	$437,422
LMD	$1,360,932	$1,339,384	$1,191,587	$1,082,869	$1,039,548	$996,237	$942,221	$866,295
Lodging Amenities	$680,466	$669,692	$595,793	$541,434	$519,774	$498,119	$471,111	$433,148
Total	$13,498,821	$13,285,094	$11,819,119	$10,740,767	$10,311,077	$9,881,686	$9,345,712	$8,592,615

2.79

Summer Marketing Opportunities & Evaluation

Prepared by:
Steamboat Springs Chamber Resort Association
Lynna Broyles
Director of Marketing

Appendix C-3-1

Summer Marketing
Opportunity & Evaluation

May 2011

Introduction

The purpose of this document is to identify the opportunity that summer tourism has in Steamboat Springs, Colorado and to what level summer marketing can impact overall tax revenue in non-ski season months. By evaluating the opportunity, the metric analysis for existing efforts must be established. The following evaluation provides methodology that formulates the conclusions made within this evaluation. Determining the results from Steamboat in the Summertime marketing activities can be evaluated in two way, the direct impact and the indirect impact. Direct impact refers to the visible financial gains from tax collections from visitor spending, while indirect impact refers to the employment, income and so on within Steamboat Springs as a result of summer marketing. For the purposes of this report, we will only examine the direct impacts of summer marketing activities.

Metrics Analysis

Methodology

ROI to Sales Tax

To calculate the ROI, we examined the estimated number of visitors to Steamboat Springs, CO from May through October 2010 to be 252,000 based on a pillow base of 18,000, average occupancy rate per day of 35%[21], total number of days in period of 180 and average length of stay 4.5[22] nights. Given 252,000 visitors to Steamboat in the summer with an average spend per person per trip of $324[2], this would generate $81,648,000 in total spend. With this calculation and considering a funding level of $600,000, for every $1 spent on summer tourism promotion yielded $5.50 in tax revenue and $136 in spend. This is making the assumption that all visitors that came responded to marketing activities initiated by the Steamboat Springs Chamber Resort Association.

To calculate the overall impact that summer tourism has on the vitality of our economy, we used the $81,648,000 total spend by visitors (May-Oct) and calculated Steamboat's 4% tax rate equaling $3,265,920 of tax revenue. Given this calculation and the total sales tax collected of $7,009,858 for this period in 2010, subtracting out local spend of $3,743,948 visitors contribute just under 50% of the total sales tax revenue generated in the summer.

Indentify Opportunities

A. **What if we had $500,000 more than we do today?**

Given the above calculations, if we were able to increase our total number of visitors by 10,000 each year over a 5 year period:

[21] Steamboat Springs Chamber Resort Lodging Barometer
[22] RRC Associates Steamboat Summer Intercept Research 2010

C-3-2

Total Proposed Visitors Increase	10,000	per year
Total Spend (per person per trip)	$324	(10000 x $324)
Total Spend	**$3,240,000**	
Total Budget Increase	$500,000	
Sales Tax Rate	0.04	
Total Spend	**$12,500,000**	(500,000 / .04)
Total Visitor Spend of 500,000 Budget Increase	$12,500,000	
Total Spend (per person per trip)	$324	
Total Break Even # of Visitors at $500k	**38,580**	(12,500,000 / $324)

A. Specific Areas of Opportunity

i. If we increase our budget by $500,000, we would increase reach from less than 40% of our target audience currently to over 50%. . The frequency would increase from less than 2x to over 4x. And the effective reach of seeing the ad 4 or more times would increase from only 20% to over 30%.

ii. Expand reach to very desirable target markets. Under current funding levels, we are unable to effectively reach our top 5 feeder states and only have minimal reach in our top 3. Presently, we have no exposure on an international level and further funding would allow for some strategies to be put into place.

iii. Additional funding would allow us to market Steamboat in the Summertime to groups and meeting planners as well as weddings and reunions. Under current funding levels, we rely on individual businesses to market Steamboat, but it is not effective in placing Steamboat as a desirable destination of choice for these events and meetings and leads to a fragmented brand message.

B. Goal: Increase Tax Revenue
Tactics:

i. Increase length of stay – We are at a 4.5 average length of stay, down from 5.3 in 2008.

ii. Increase daily spend/ trip spend – We are at an average daily spend of $72 and average trip spend of $1,156, down from $$73 in 2008 and $1407.

iii. Improve average daily rate – We are at $97.90[23] in 2010 down from a high of $108.36 in 2008.

C-3-3

[23] Smith Travel Research

iv. Currently, our competitive set in the state are increasing rate and translating into increased occupancy. This demonstrates an opportunity to push demand so that we could see the same here.[24]

Competitive Comparison

- When the state of Colorado lost tourism promotion funding in 1992, within two years Colorado lost one-third (38%) of its U.S. tourism market share. What would happen to Steamboat if we lost our summer marketing budget, given the state model?
- This loss of Colorado tourism budget resulted in $2 billion dollar loss of tourism dollars.
- Though tourism funding was restarted in 2000 at a $5million budget, increased to $19million in 2006, it has taken the state nearly eight years to regain the market share that was lost.
- From 2006 to 2007, Colorado tourism increased 4%, resulting in a 10% increase in tourism spending.
- For every dollar spent on Colorado tourism promotion, visitors spent $292.
- Colorado ranks 5th among the states that people say they would "really enjoy visiting." Steamboat should capitalize on this as a well-known destination within the state.
- Steamboat is currently the lowest in summer marketing dollars compared to our competitive set.
- This past November, Breckenridge and Boulder passed a lodging tax for tourism promotion that will set Steamboat even further behind in marketing dollars.

[24] Rocky Mountain Lodging Report 2010– CHLA

Inflation / TABOR Growth Figure

Overview

Denver-Boulder-Greeley CPI
Historical Denver-Boulder-Greeley CPI

Inflation is a component for the calculation of two constitutional limits on local government budgets. Article X, Section 20, ("TABOR") defines inflation to mean the percentage change in the United States Bureau of Labor Statistics Consumer Price Index (CPI) for Denver-Boulder (now Denver-Boulder-Greeley).

The actual Denver-Boulder-Greeley CPI figure is not released until near the end of February. Since this is too late for budgetary purposes, current year forecasts are available quarterly. Both the Governor's Office of State Planning and Budgeting (OSPB) and the Legislative Council prepare forecasts that are released in late March, June, September, and December.

Before the release of the CPI, many local officials use the forecasts to calculate the limitations on "fiscal year spending" and property tax revenue in Article X, Section 20 (7)(b) and (7)(c) respectively.

After its release, the actual CPI should be used to re-calculate the limits, which can then be compared to the actual amounts budgeted. This is the first opportunity for local governments to determine whether their budgeted amounts in property tax revenues and "fiscal year spending" exceed the limitations.

Denver-Boulder-Greeley CPI:

- Bureau of Labor Statistics **2009 Denver-Boulder-Greeley CPI**: - 0.646%

Source: Colorado Department of Local Affairs

http://dola.colorado.gov/dlg/ta/budgeting/inflation.html

Note that the voters in the City of Steamboat Springs approved a general exemption for the City from TABOR revenue and spending limits.

Appendix C-4

STEAMBOAT SPRINGS BALLOT ISSUES SINCE 2004

Nov. 2004

Shall the Steamboat Springs Local Marketing District Taxes be increased $1,250,000 annually in the first full fiscal year, and by whatever additional amounts are raised annually thereafter, from a new marketing and promotion tax levied on and after May 1, 2005, on the purchase price for rooms or accommodations pursuant to Section 29-25-112, C.R.S. at a rate not to exceed 2%, to provide revenue for organizing and operation the District and furnishing services: Shall the Steamboat Springs Local Marketing District be established within the City of Steamboat Sprigs, as more specifically described in Resolution No. 204-33 of the Steamboat Springs City Council: and shall the proceeds of such tax, investment income thereon and all other revenue received from any source constitute voter approved revenue changes and be collected and spent by the District each year without regard to any spending, revenue raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution or any other law?

Passed- Yes-282 No-175

Nov. 2007

Shall City of Steamboat Springs taxes be increased up to $455,500 annually (for collection in calendar year 2008) and by such additional amounts raised annually thereafter by the levy of an ad valorem property tax imposed at a rate of up to .70 mill for the operation and maintenance of a recreation center and providing programs and services at the Recreation Center: and shall such tax revenues and the earnings from investment of such tax revenues be collected..

Not Passed Yes- 695 No- 2826

Nov. 2007

Shall the City of Steamboat Springs debt be increase up to $34,00,000 with a maximum repayment cost of up to $66,495,000 and shall City of Steamboat Springs taxes be increased up to $2,965,000 annually for the purpose of financing the construction of a Recreation Center at Ski Town Park, which shall include youth/teen facilities, a double gymnasium, an elevated walk/job track, locker rooms, six lane indoor lap pool with diving well, warm leisure pool, artificial turf field, indoor playground, fitness center, and associated support spaces: and shall the mill levy be increased in any year without limitation of rate or amount, to pay the principal of, premium, if any, and interest on such debt or any refunding debt (or to create a reserve for such payment), such debt to be evidenced by the issuance of general obligation bonds. Shall the earning from the investment of such bond proceeds and tax revenues be collected, retained and spent as a voter approved revenue change under Article X Section 20?

Not Passed Yes- 723 No- 2786

Appendix C-5-1

Nov. 2008
REFERENDUM 2A
Without raising additional taxes shall the existing .05% (one half cent) City of Steamboat Springs, Colorado sales and use tax for educational purposes be extended from its current expiration of December 31, 2009 through December 31, 2019, and shall the City be authorized to receive and spend the proceeds of such tax notwithstanding any revenue or expenditure limitations?

Passed Yes- 4831 No- 1477

Nov. 2008
REFERENDUM 2B
If question No. 1 is approved by the voters, should the City authorize the Steamboat Springs Education Fund to share, in its sole discretion, some portion of the proceeds of the ½ cent sales tax with the other school districts in Routt County in addition to the Steamboat Springs RE-2 School District?

Passed Yes- 4530 No-1738

Nov. 2011
REFERENDUM 2B
Shall City of Steamboat Springs sales and use taxes be increased $1,300,000 annually in the first full calendar year, and by whatever additional amounts are raised annually thereafter by increasing the sales tax rate by .25% from 4.5% to 4.75%, to be levied on and after January 1, 2012, and to expire on December 31, 2016, and shall revenues generated from that increased tax rate be dedicated for use by the Local Marketing District to support guarantees to commercial air carriers to provide non-stop service to the Yampa Valley Regional Airport in Hayden, and shall the proceeds of such tax and investment income thereon constitute voter approved revenue changes to Article X, Section 20 of the Colorado Constitution?

Passed Yes- 2574 No- 1664

APPENDIX D

CASE STUDIES and TPAB SPECIAL REPORTS

TPAB Hypothetical Comparison of Sales vs. Property Tax Revenue Growth 1999-2010

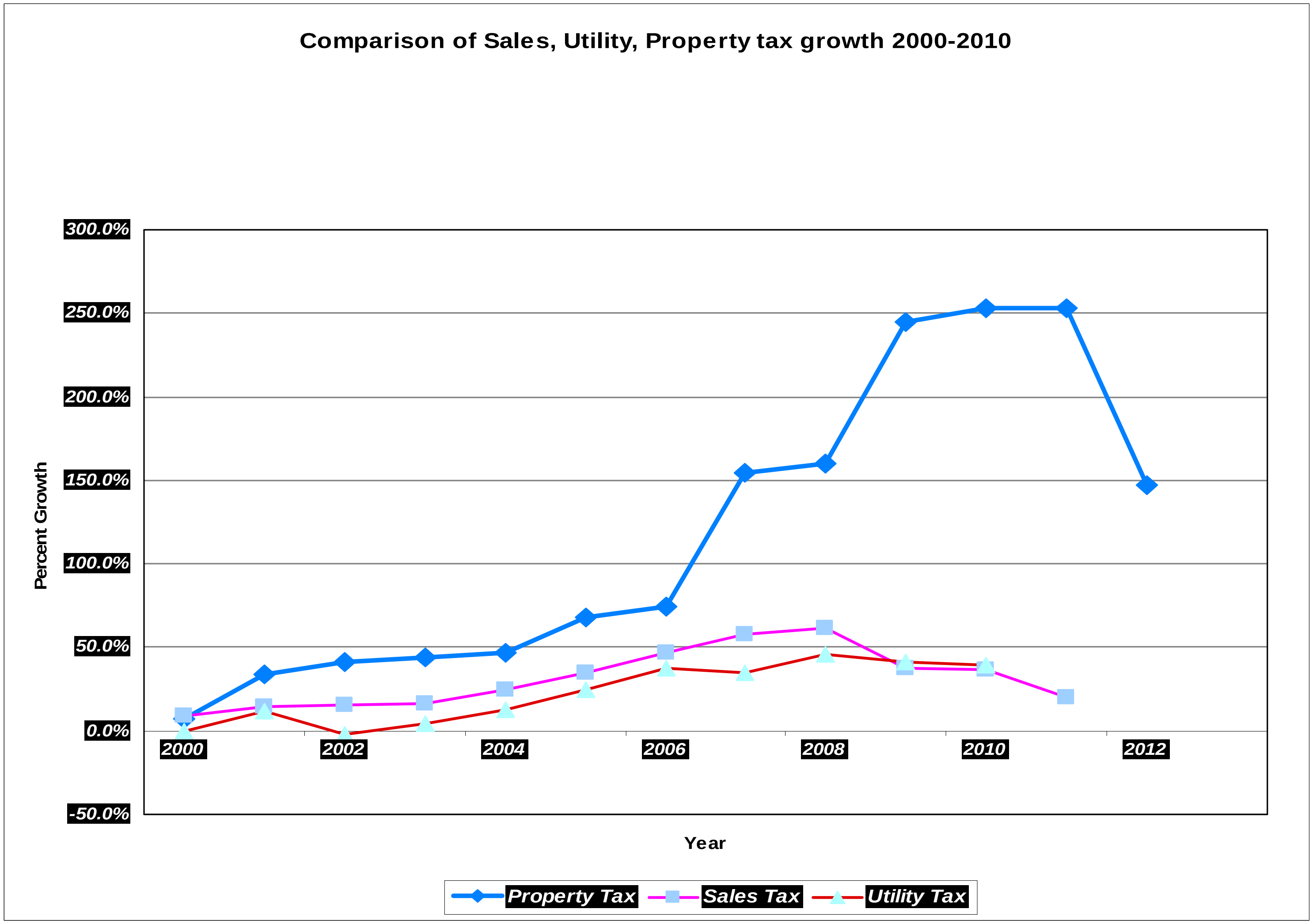
Graph compares the timing of revenue flows from sales tax and the revenue that could have been generated by a City property tax in lieu of utility tax
Exempt and state assessed utiltites and not included; nor is agricultural land which is valued at less than 1% of totals within city limits.

What if? Insert mil levy here: 4.65 mils

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (5)	2010	2011	2012
Total Sales Tax Revenue $1,000's (1)	$12,130	$13,180	$13,862	$13,988	$14,107	$15,161	$16,295	$17,748	$19,117	$19,607	$16,710	$16,595	$14,595	n/a
Growth 1999-2010		8.7%	14.3%	15.3%	16.3%	25.0%	34.3%	46.3%	57.6%	61.6%	37.8%	36.8%	20.3%	
Utility Tax Revenue $1,000's (2)		$ 1,266	$ 1,414	$ 1,244	$ 1,320	$ 1,431	$ 1,581	$ 1,741	$ 1,709	$ 1,849	$ 1,788	$ 1,768		
Growth 2000-2010		0.0%	11.7%	-1.7%	4.3%	13.0%	24.9%	37.5%	35.0%	46.1%	41.2%	39.7%		
Total Assessed Value $million's (3)	$ 255	$ 272	$ 342	$ 360	$ 367	$ 373	$ 428	$ 444	$ 650	$ 662	$ 880	$ 900	$ 900	$ 630
Growth 1999-2010		6.7%	34.1%	41.2%	43.9%	46.3%	67.8%	74.1%	154.9%	159.6%	245.1%	252.9%	252.9%	147.1%
Hypothetical Property Tax Revenue $1,000's (4)	$ 1,186	$ 1,265	$ 1,590	$ 1,674	$ 1,707	$ 1,734	$ 1,990	$ 2,065	$ 3,023	$ 3,078	$ 4,092	$ 4,185	$ 4,185	$ 2,930
Growth 1999-2010		6.7%	34.1%	41.2%	43.9%	46.3%	67.8%	74.1%	154.9%	159.6%	245.1%	252.9%	252.9%	147.1%
City tax revenue with property in lieu of utility tax		**$13,179**	**$14,038**	**$14,418**	**$14,494**	**$15,464**	**$16,704**	**$18,072**	**$20,431**	**$20,836**	**$19,014**	**$19,012**	**$18,780**	

Notes:

1. All sales tax collected each year, from City records
2. Utility tax taken from data "Historycategoryand nonresidentrevenue.xls" provided to TPAB by City Treasurer. Utility tax is also included in total sales tax revenue above
3. Data from Routt County Assessor abstract of assessements by City code, for Steamboat Springs only. 2011 and 2012 are etimates only.
4. Hypothetical revenue that could have been collected from a 4 mil City Property Tax levy on all assessed value.
5. 2009 actual sales tax revenue as reported in 2009 CAFR and 2011 City Budget is $16,833,849; as shown on updated Sales/Use tax City web page documents $16,710,291;



Appendix D-1-2

Total Visitor Estimate

	2010	
Pillows	18000	
Average Occupancy Rate	35%	May - October (assumed rates for early May and all October)
Total Pillow Occupancy per day	**6300**	
Total people based on daily pillow occupancy	6300* 180days	(May - October)
	1,134,000	people per night for 6 months
	1,296,000/4.5 avg length of stay	
Total estimate of visitors (May-October)	**252,000**	

Marketing Spend ROI on Tax Revenue

Total Visitor Estimate	252,000	
Total Spend (per person per trip)	$324	
Total Visitor Spend (May - October)	$81,648,000	
Total Tax Revenue based on 252,000 Visitors	$3,265,920	
Marketing Budget 2010	$600,000	
Marketing Spend to Tax Revenue Ratio	**$5.50**	
Marketing Spend to Total Spend Ratio	**$136.00**	
	For every $1 marketing yields $5.50 in tax revenue	**For every $1 marketing yields $136 in spend**

$500,000 More

Total Proposed Visitors Increase	10,000	per year
Total Spend (per person per trip)	$324	(10000 x $324)
Total Spend	**$3,240,000**	
Total Budget Increase	$500,000	
Sales Tax Rate	0.04	
Total Spend	**$12,500,000**	(500,000 / .04)
Total Visitor Spend of 500,000 Budget Increase	$12,500,000	
Total Spend (per person per trip)	$324	
Total Break Even # of Visitors at $500k	**38,580**	(12,500,000 / $324)

Appendix D-2

City of Steamboat Springs

Fire and Rescue

To: Ed Miklus, Ken Solomon
Cc:
From: Ron Lindroth, Fire Chief

Date: February 1st, 2011

Re: Tax Advisory Council follow-up questions

Dear Mr. Miklus and Mr. Solomon,

I would like to thank you for expressing interest in obtaining a greater understanding of the details behind the operations of Steamboat Springs Fire Rescue (SSFR). For your information, I am in process of writing a very thorough analysis of the fire department. Upon its completion, I will forward a copy to you. Until then, I will attempt to answer the questions you have poised with as much detail as I can offer. The statistics used will be based on the combined years of 2009 and 2010. A computerized records management program was introduced in the fall of 2008, so most data retrieval for prior years would be extremely labor intensive to obtain.

Incident response Type: Please refer to the attached file “Incident Response.” Over a two year average, SSFR responded to 1,800 calls for service. Of these calls, 54% were EMS, 28% were fire alarms (inclusive of all fire protection systems types), 2% were actual working fires, and 16% were coded as “Other”. This category includes hazardous materials spills and leaks, non-injury vehicle accidents, smoke and other related investigations with no active fire, as well as calls dispatched and cancelled (usually fire alarms that are confirmed false by party on-scene). Since fire alarms are such a large portion of the call volume, a false alarm ordinance was recently passed and efforts are underway to reduce the nuber of system malfunctions.

Staffing and Deployment: Currently there are 8 firefighter/EMS personnel on duty 24 hours per day. There are three, 24 hour rotating shifts that provide this coverage with 24 career firefighters. There are an additional 4 part time firefighters that assist with back filling positions when career staff is sick, injured or on other leave. The current deployment is four personnel on the engine at the Mountain Station, two personnel on the ambulance at the Mountain Station, and two personnel at the Ambulance/Search and Rescue barn on Yampa. The Central Fire Station (below police department) is not a staffed station. It is used when off duty and volunteer firefighters are called back from off duty to respond to an incident. From a deployment standpoint, it is clear that the public would receive much timelier service if the Central Station was staffed with an engine company. Barriers that have not been resolved include: no available space in the Central Station as PD has already exceeded its working capacity, no identified money or location for the PD to move their services to another location so that the fire department can staff apparatus and locate fire administration and prevention staff into one location, no available room in the Ambulance barn to house an engine or added staff, and no identified location for Search and Rescue to relocate out of the building to create additional space. We continue to explore alternatives to find a workable solution, however it seems as if the PD relocation is the first domino that must fall so that fire can relocate and S&R can have a structure to meet their needs as well. Add to this the complication that there are some community members who would like to see all services removed from Yampa St. so that economic development can replace them. I personally would like to see the Fire Department keep a visible presence and interaction with the public and believe the central station is well located for this purpose as well as well placed for appropriate response times. The fire service as a whole is still viewed by children and visitors alike as an enjoyable interactive experience. The education and prevention that can occur because of this interaction is a very important aspect to retain.

Governance: Up until two years ago, SSFR operated under a Public Safety Department concept where the Police Chief ran both the police and the fire department. In 2009, City Council, at the recommendation of the City Manager, separated the two departments. SSFR is now a stand alone department with-in the city, and all personnel, facilities, and apparatus fall under city purview. SSFR provides emergency services to both the City of Steamboat Springs and the Steamboat Springs Area Fire Protection District. I am employed and work for City Manager Jon Roberts. I am also the District's fire chief by state statute per special district law. Currently the fire district contracts with the city to provide emergency services to the district residents. This is done through an intergovernmental agreement and has resulted in an estimated 40% cost savings to the tax payers in both jurisdictions. On average, when looking at the city/district ratios, there is an 80/20 split for emergency service response and a 70/30 split on the financial contributions. The public has repeatedly stated it would like the cooperation between the city and district to continue. I can unequivocally state that the public will receive the better emergency services with greater economic return when both agencies cooperate to meet each entities need. Currently both entities are exploring the best possible method to ensure this occurs.

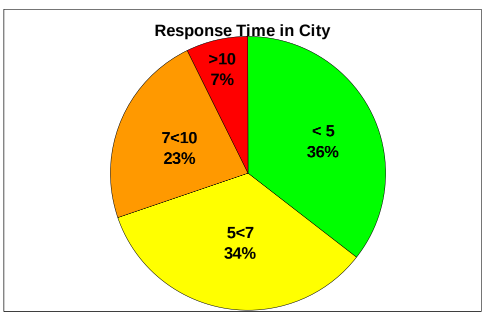
Metrics: I appreciate you pointing out the discrepancy in population and lodging numbers. A small percentage of this occurs due to the population of the district being included with the city population. The rest comes from numbers provided to me by outside sources. Per Kathy Connell, "*the lodging numbers only reflect what is generated through the Central Reservations and chamber, however in the last three years there have been increasing numbers of rentals that go through such internet systems as VRBO or owners who advertise themselves and are not tracked. Further there has been a great increase in fractional and timeshare ownership units being used and many of these numbers are not reflected in the lodging numbers either. There is a growing gap between the reality of how many visitors we have and who we account for because of this. As we increase the number of winter visitors who do other things like cross country and snowshoeing, we also see a difference in the number of visitors verses those "skier days" which used to be the measuring stick for our community. Many of our visitors and paying guests of the past are now property owners either through whole units and homes are through the fractional and timeshare programs. This information I obtained from Kathy Connell who has been in the lodging business in Steamboat since 1980*." She would be happy to talk with you in more detail about this. Regardless, I will update my analysis with currently accepted population numbers. Using the metric of # of firefighters per 1,000 population is where this statistic is important. It is a useful statistic when comparing like communities and services. Further extrapolation of this information will be available in the complete department analysis when SSFR is compared to 9 other similar communities.

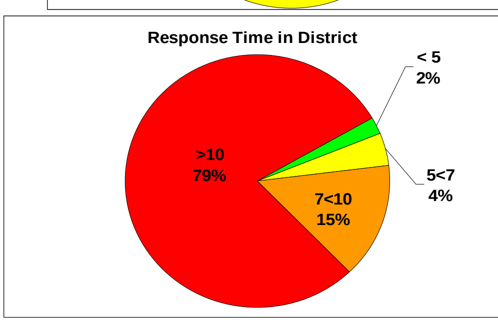
Response Times: A critical factor in successful intervention for fires and serious medicals is rapid intervention. The National Fire Protection Association recommends the following response times for communities. When looking at this chart, realize that the high-rises of the base area put us in the urban zone, the rest of town into the sub-urban zone, and much of the district into the rural and remote demand zone. The challenge then becomes which does SSFR build out to? I believe that the most economically viable for all parties is to build to a suburban model. This requires 10 firefighters responding in 10 minutes 80% of the time. An additional 6 firefighters are needed to *safely* engage in sustained interior attack firefighting tactics.

Demand Zone	Demographics	Staffing and Response Time	Percentage of Calls standard is met
Urban	1000 people/1 sq. mi.	15 FF in 9 minutes	90
Suburban	500-1000 people/1 sq. mi.	10 FF in 10 minutes	80
Rural	< 500 people/1 sq. mi.	6 FF in 14 minutes	80
Remote*	Travel Dist $\geq$ 8 miles	4 Firefighters	90

*Upon assembling the necessary resources at the emergency scene, the fire department should have the capability to safely commence an initial attack within 2 minutes 90 percent of the time.

The following data looks at response times in 2010 for all call types and represents the *first unit* on scene, 2 to 4 personnel, not the full required staffing of the above chart. Successful medical intervention should be less than 5 minutes. SSFR met this 36% of the time in the city and 2% of the time in the district. Timely fire intervention *with appropriate level of staffing* occurred once in the city and once in the remote area of the district (no time requirement) during this time period.





Appendix D-3-4

The city and district both are in the situation where response time to simultaneous calls is compromised. The following chart indicates how these calls in aggregate fell in priority. The department has the ability to handle two minor simultaneous calls or one moderately severe incident with on duty staff. Multiples exceeding this require call back of off duty firefighters. Statistics are not readily available as to the severity of these call types, however on average, response is delayed at least once per week due to simultaneously occurring incidents.

	Total # of calls	# of 2 simultaneous	# of 3 simultaneous	# of 4 simultaneous
2008	2037	194	34	0
2009	1857	298	36	10
2010	1771	293	41	6

Staffing and Equipment:

The question of "Does SSFR have the equipment and staffing to respond to a major fire at one of the larger buildings in Steamboat Springs" can not be simply answered. The question of what level of service is provided with the response must first be answered. In an attempt to accurately paint a picture of our capabilities, let me offer you the following:

- On duty staffing of 8 is the only guaranteed response, and that is provided no other emergencies are occurring. Off duty call back of firefighters for a working fire ranges from 2 to 12 depending on time of day, day of week or time of year. Rarely does a call back result in a combined force exceeding 20 firefighters.

- Mutual Aid from surrounding agencies (North Routt, West Routt, Oak Creek) is usually limited to 4-5 people and one apparatus with a 30 minute response time.

- Experience has shown 12-16 firefighters generally respond to a working structure fire within 30 minutes of the initial page.

- A fire that exceeds "room and contents" in size requires 16-20 firefighters to safely make an interior fire attack.

- With the scheduled upgrades in currently owned or ordered apparatus, SSFR has an adequate amount of fire apparatus. No dedicated funds exist for replacement of this fleet.

Sprinkler systems exist in the high rise buildings of the city, and are an effective first line of defense from a fire becoming greater than a room and contents fire. Under normal situations, I believe the fire department could handle a fire in a high rise, although evacuation of people under moderate to heavy smoke conditions would be extremely challenging. If a fire overwhelmed the sprinkler system, which is possible, there would not be enough resources available in a timely manner to save individuals who did not self evacuate or save the building.

- Many of the two, three and four story multi-residential and commercial buildings are not sprinklered. These poise significant risk to residents and firefighters alike because the department would not be able to mount an effective interior fire attack once the fire grew beyond room and contents. At that time, a defensive fire attack mode would be deployed, which would result in significant loss to the structure from either fire or water damage.

- The same holds true for the very large single family residents surrounding the city. Many of these structures are the size of commercial occupancies, yet lack fire sprinkler protection and adequate water supplies.

Ultimately, the community's first line of defense comes from effective, proactive fire prevention efforts. SSFR Fire Prevention Services have done an excellent job at reducing the incidence and size of fires in the city. Inevitably, a fire will break through this first line of defense and firefighters will intervene. We are capable of effective intervention up to and including a single room and contents stage. When the fire exceeds this size, our ability to perform interior rescue and suppression efforts diminishes rapidly. Early detection and rapid response (7-8 minutes) is key to intervention prior to flash over. Once flash over occurs, fire growth occurs greater than our ability to handle it other than defensively.

In closing, it is important to remember that SSFR provides both fire and pre-hospital emergency medical services. Many fire departments do not provide this level of service, and rely on private or other governmental ambulance transport. Private ambulance service in this area is not cost effective as a business, thus it falls on government to provide. By having SSFR do both, the citizens again receive significant cost benefit.

I hope this helps answer the questions you have raised. I will forward you a copy of the department analysis when it is complete.

Kind Regards,

Ron

Appendix D-3-6

RESIDENTIAL		
Actual Value	$800,000	? Insert Value
Value Discount Rate	0%	? Insert Value
Assessed Rate	7.96%	? Insert Value
Annual Utility Expense	$4,000	? Insert Value
Sales Tax Offset	4%	? Insert Value
Annual Grocery Expense	$3,000	? Insert Value
Sales Tax Offset	4%	? Insert Value
Exempt Value	$0	? Insert Value

Placing values at left will show the effects of replacing a sales tax on grocery and utilites with a property tax for a residence owner in Steamboat Springs. The discount rate is an estimate of the expected decline in property values after reassessement in 2011.

Actual Value	Reduced Value	Exempt Value	Reduced Value	Rate	Assessed Value	Annual Ulitliy Expense (Rounded)	Subtract .5% for edu and calc total (4%)
$800,000	$800,000	$0	$800,000	7.96%	$63,680	$4,000	$160

								Grocery & Utility	
Assessed Value Including Exemption & Discount	Mill Levy	Property Tax	Utility Offset	Annual Net Cost (Savings)	Monthly Net Cost (Savings)	Annual Grocery Expense	Sales tax offset (4%)	Annual Net Cost (Savings)	Monthly Net Cost (Savings)
$63,680	0.5	$32	$160	**($128)**	($11)	$3,000	$120	**($248)**	**($21)**
$63,680	1	$64	$160	**($96)**	($8)	$3,000	$120	**($216)**	**($18)**
$63,680	1.5	$96	$160	**($64)**	($5)	$3,000	$120	**($184)**	**($15)**
$63,680	2	$127	$160	**($33)**	($3)	$3,000	$120	**($153)**	**($13)**
$63,680	2.5	$159	$160	**($1)**	($0)	$3,000	$120	**($121)**	**($10)**
$63,680	3	$191	$160	**$31**	$3	$3,000	$120	**($89)**	**($7)**
$63,680	3.5	$223	$160	**$63**	$5	$3,000	$120	**($57)**	**($5)**
$63,680	**4**	$255	$160	**$95**	$8	$3,000	$120	**($25)**	**($2)**
$63,680	**4.5**	$287	$160	**$127**	$11	$3,000	$120	**$7**	**$1**
$63,680	**5**	$318	$160	**$158**	$13	$3,000	$120	**$38**	**$3**
$63,680	**5.5**	$350	$160	**$190**	$16	$3,000	$120	**$70**	**$6**
$63,680	**6**	$382	$160	**$222**	$19	$3,000	$120	**$102**	**$9**

Appendix D-4-1

COMMERCIAL		
Actual Value	$1,000,000	? Insert Value
Value Discount Rate	0%	? Insert Value
PP Value	$0	? Insert Value
Assessed Rate	29.0%	? Insert Value
Annual Utility Expense	$12,000	? Insert Value
Sales Tax Offset	4.0%	? Insert Value
Annual Grocery Expense	$0	? Insert Value
Sales Tax Offset	4.0%	? Insert Value
Exempt Value	$0	? Insert Value

Placing values at left will show the effects of replacing a sales tax on grocery and utilites with a property tax for a commercial property owner in Steamboat Springs. The discount rate is an estimate of the expected decline in property values after reassessement in 2011.

Actual Value	Reduced Value	Exempt Value	Reduced Value	PP Value	Rate	Assessed Value	Annual Ulitliy Expense (Rounded)	Subtract .5% for edu and calc total (4%)
$1,000,000	$1,000,000	$0	$1,000,000	$0	29%	$290,000	$12,000	$480

								Grocery & Utility	
Assessed Value Including Exemption & Discount	Mill Levy	Property Tax	Utility Offset	Annual Net Cost (Savings)	Monthly Net Cost (Savings)	Annual Grocery Expense	Sales tax offset (4%)	Annual Net Cost (Savings)	Monthly Net Cost (Savings)
$290,000	0.5	$145	$480	**($335)**	($28)	$0	$0	**($335)**	($28)
$290,000	1	$290	$480	**($190)**	($16)	$0	$0	**($190)**	($16)
$290,000	1.5	$435	$480	**($45)**	($4)	$0	$0	**($45)**	($4)
$290,000	2	$580	$480	**$100**	$8	$0	$0	**$100**	$8
$290,000	2.5	$725	$480	**$245**	$20	$0	$0	**$245**	$20
$290,000	3	$870	$480	**$390**	$33	$0	$0	**$390**	$33
$290,000	3.5	$1,015	$480	**$535**	$45	$0	$0	**$535**	$45
$290,000	**4**	$1,160	$480	**$680**	$57	$0	$0	**$680**	$57
$290,000	**4.5**	$1,305	$480	**$825**	$69	$0	$0	**$825**	$69
$290,000	**5**	$1,450	$480	**$970**	$81	$0	$0	**$970**	$81
$290,000	**5.5**	$1,595	$480	**$1,115**	$93	$0	$0	**$1,115**	$93
$290,000	**6**	$1,740	$480	**$1,260**	$105	$0	$0	**$1,260**	$105

Appendix D-4-2

Property Tax in Steamboat Springs - Effects of Gallager with Rebate to Commercial Properties

Residential Assessed	7.96%	
Commercial Assessed	29.00%	
Mills	2.000	? B4
Exemption	$ -	? B5
Mills	2.500	? B6
Rebate percent of tax	35%	? B7

Chart shows amount of tax that would be collected from various properties.

2009 City sales tax collected on Utilites: $ 1,788,368

All information taken off of AllCitynon-exempt as of 2-11-11v2

Updated by Jack Dysart 7/12/11

Parcel valuation	number of parcels	Total value	% of total property value	ass'd valuation	% of assessed value	Yield from mills entered in cell B4	Actual valuation with exemption in cell B5	ass'd valuation	yield from mills entered in cell B6	% of tax paid
EFFECTS OF GALLAGHER										
CONDOS										
less than 100k	44	$ 1,126,103	0.02%	$ 89,638	0.01%	$ 179	$ 1,126,103	$ 89,638	$ 224	0.01%
			0.00%	$ -	0.00%	$ -	$ -	$ -	$ -	0.00%
100k-200k	109	$ 17,812,620	0.24%	$ 1,417,885	0.17%	$ 2,836	$ 17,812,620	$ 1,417,885	$ 3,545	0.18%
greater than 200k	4227	$ 2,418,884,915	32.93%	$ 192,543,239	23.10%	$ 385,086	$ 2,418,884,915	$ 192,543,239	$ 481,358	23.80%
Total	4380	$ 2,437,823,638	33.19%	$ 194,050,762	23.28%	$ 388,102	$ 2,437,823,638	$ 194,050,762	$ 485,127	23.98%
VACANT IN RESIDENTIAL										
less than 100k	5	$ 91,500	0.00%	$ 7,283	0.00%	$ 15	$ 91,500	$ 7,283	$ 18	0.00%
	0	$ -	0.00%	$ -	0.00%	$ -	$ -	$ -	$ -	0.00%
100k-200k	6	$ 863,180	0.01%	$ 68,709	0.01%	$ 137	$ 863,180	$ 68,709	$ 172	0.01%
greater than 200k	35	$ 18,930,260	0.26%	$ 1,506,849	0.18%	$ 3,014	$ 18,930,260	$ 1,506,849	$ 3,767	0.19%
Total	46	$ 19,884,940	0.27%	$ 1,582,841	0.19%	$ 3,166	$ 19,884,940	$ 1,582,841	$ 3,957	0.20%
TOWNHOMES										
less than 100k	11	$ -	0.00%	$ -	0.00%	$ -	$ -	$ -	$ -	0.00%
			0.00%	$ -	0.00%	$ -	$ -	$ -	$ -	0.00%
100k-200k	14	$ 1,989,920	0.03%	$ 158,398	0.02%	$ 317	$ 1,989,920	$ 158,398	$ 396	0.02%
greater than 200k	1633	$ 1,258,715,209	17.14%	$ 100,193,731	12.02%	$ 200,387	$ 1,258,715,209	$ 100,193,731	$ 250,484	12.38%
Total	1658	$ 1,260,705,129	17.16%	$ 100,352,128	12.04%	$ 200,704	$ 1,260,705,129	$ 100,352,128	$ 250,880	12.40%
SINGLE FAMILY										
less than 100k	0		0.00%	$ -	0.00%	$ -	$ -	$ -	$ -	0.00%
100k-150k	0	$ -	0.00%	$ -	0.00%	$ -	$ -	$ -	$ -	0.00%
150k-200k	2	$ 326,580	0.00%	$ 25,996	0.00%	$ 52	$ 326,580	$ 25,996	$ 65	0.00%
greater than 200k	2294	$ 2,186,295,188	29.76%	$ 174,029,097	20.88%	$ 348,058	$ 2,186,295,188	$ 174,029,097	$ 435,073	21.51%
Total	2296	$ 2,186,621,768	29.77%	$ 174,055,093	20.88%	$ 348,110	$ 2,186,621,768	$ 174,055,093	$ 435,138	21.51%

Appendix D-5

Entertainment Tax - Estimated Income

Prepared by Burt Cohen TPAB 3/16/11

(Note: These are rough estimates obtained verbally or computed and are not from actual financial statements.)

ENTITY	ESTIMATED INCOME	ESTIMATED TAX INCOME @ 4%
Mt Werner- winter	40,000,000	1,600,000
Mt.Werner -summer..............	200,000	8,000
Golf Course.........................	925,000	37,000
Hockey Rink......................	600,000	24,000
Tennis Courts....................	525,000	21,000
Nordic Center....................	250,000 (est)	10,000
Movies.............................	300,000 (est)	12,000
Arts		
Concerts...................	160,000 (est)	6,400
Museums..................	50,000	2,000
Opera........................	12,000	480
Howelsen Hill and Rodeo	240,00	9,600
TOTALS	43,262,000	1,730,480

Steamboat Springs

STABILIZATION OF SALES TAX ON FOOD AND UTILITIES

	General Fund revenue	Sales tax revenue	Assumed sales tax on food*	Utilities sales	Sales tax on utilities	Total sales tax food and utilities	$ change in tax revenue	% change yr to yr sales tax on F&U	% change in sales tax on F&U relative to Gen'l Fund	Total change sales tax on F&U 2000 to 2009
2000	$19,596,470	$13,100,000	$1,637,500	$31,641,244	$1,265,650	$2,903,150				
2001	$20,405,566	$13,800,000	$1,725,000	$35,342,511	$1,413,700	$3,138,700	$235,551	1.71%	1.15%	
2002	$21,164,955	$14,000,000	$1,750,000	$31,095,911	$1,243,836	$2,993,836	-$144,864	-1.03%	-0.68%	
2003	$20,199,866	$14,100,000	$1,762,500	$32,994,311	$1,319,772	$3,082,272	$88,436	0.63%	0.44%	
2004	$21,081,980	$15,100,000	$1,887,500	$35,767,800	$1,430,712	$3,318,212	$235,940	1.56%	1.12%	
2005	$22,590,705	$16,300,000	$2,037,500	$39,517,133	$1,580,685	$3,618,185	$299,973	1.84%	1.33%	
2006	$26,644,162	$17,700,000	$2,212,500	$43,528,022	$1,741,121	$3,953,621	$335,436	1.90%	1.26%	
2007	$26,776,250	$19,100,000	$2,387,500	$42,719,978	$1,708,799	$4,096,299	$142,678	0.75%	0.53%	
2008	$27,479,977	$19,600,000	$2,450,000	$46,227,956	$1,849,118	$4,299,118	$202,819	1.03%	0.74%	
2009	$24,495,413	$16,800,000	$2,100,000	$44,709,200	$1,788,368	$3,888,368	-$410,750	-2.44%	-1.68%	5.86%

SS Financial Dept. estimated $2,100,000 of 2009 sales tax revenues were from sales tax on food

This is 12.5% of total sales tax revenue in 2009. 12.5% was used to estimate previous years sales tax revenue on food.

Appendix D-7

City of Steamboat Springs Sales Tax Revenues 10 years history by category

LODGING

MONTH	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
JAN	392,909	451,167	405,182	409,154	400,436	406,866	456,148	548,014	580,512	459,147
FEB	494,912	510,911	520,367	462,871	481,383	510,258	523,735	618,133	638,517	458,016
MAR	635,880	569,985	571,086	572,221	545,853	582,749	673,062	772,773	830,401	548,185
APR	77,385	66,734	90,493	68,664	64,956	59,136	65,528	92,137	60,052	80,263
MAY	27,935	29,134	29,315	33,889	31,978	36,002	51,304	48,297	48,897	41,016
JUN	107,160	126,857	114,135	114,959	136,024	144,385	163,691	181,168	167,516	119,782
JUL	205,997	223,112	231,987	194,246	226,916	253,546	314,104	290,804	257,939	203,221
AUG	189,965	185,429	182,698	161,203	171,004	169,659	191,607	209,735	209,316	158,836
SEP	93,226	90,731	81,781	78,851	98,454	99,788	116,129	149,685	131,289	111,648
OCT	40,580	44,655	32,047	51,344	52,643	56,826	69,477	68,551	72,203	56,984
NOV	37,065	28,063	34,122	35,530	40,147	47,110	55,869	52,261	49,254	38,342
DEC	333,898	320,432	346,639	398,421	435,024	473,359	512,779	506,827	465,186	421,694
TOTAL	2,684,818	2,684,818	2,684,818	2,684,818	2,684,818	2,839,683	3,193,435	3,538,385	3,511,083	2,697,132

UTILITIES

MONTH	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
JAN	120,478	165,107	138,250	136,746	159,328	174,482	208,795	189,593	200,361	233,842
FEB	112,557	169,012	133,692	124,490	141,274	148,622	191,353	185,066	197,178	195,534
MAR	120,919	165,282	128,302	124,163	136,183	148,155	205,521	174,073	180,407	182,327
APR	94,962	125,978	105,704	117,552	116,248	134,294	139,542	141,840	163,221	170,701
MAY	84,657	115,909	87,858	97,652	96,754	104,329	112,053	109,363	137,512	128,580
JUN	85,092	105,772	87,301	92,956	93,809	112,818	116,510	130,412	131,997	106,888
JUL	87,587	87,948	85,645	92,399	102,543	100,703	112,271	111,278	128,523	118,161
AUG	94,744	92,536	87,013	100,585	97,124	101,850	106,446	112,463	125,481	114,960
SEP	102,156	89,717	85,122	95,730	120,187	109,659	124,515	124,662	130,681	113,287
OCT	99,134	87,436	82,837	95,020	97,715	103,267	119,958	112,594	131,742	117,110
NOV	110,928	87,528	99,898	103,611	109,356	121,214	125,783	131,112	142,097	130,583
DEC	152,452	121,330	122,163	138,914	160,209	221,313	178,397	186,381	179,622	176,417
TOTAL	1,265,666	1,413,555	1,243,785	1,319,818	1,430,730	1,580,706	1,741,144	1,708,837	1,848,822	1,788,390

TOTAL TAXES

MONTH	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
JAN	1,350,850	1,516,657	1,468,241	1,470,669	1,530,388	1,616,753	1,993,747	2,046,716	2,166,214	1,900,539
FEB	1,504,477	1,595,528	1,609,765	1,497,302	1,609,505	1,735,243	1,863,733	2,037,523	2,180,200	1,767,623
MAR	1,877,872	1,842,783	1,822,591	1,787,853	1,855,895	1,967,094	2,323,527	2,450,828	2,570,344	2,022,179
APR	684,022	712,108	774,193	736,952	793,620	803,360	908,688	1,018,612	998,825	960,333
MAY	637,714	678,565	704,180	710,283	744,457	815,926	971,382	1,015,098	1,077,246	908,727
JUN	938,420	1,046,037	983,131	1,279,635	1,097,204	1,223,102	1,376,787	1,510,377	1,500,863	1,203,305
JUL	1,132,906	1,183,912	1,233,795	1,214,703	1,325,462	1,457,456	1,614,566	1,675,675	1,728,330	1,419,435
AUG	1,098,588	1,214,616	1,175,604	1,207,201	1,209,608	1,299,304	1,436,114	1,566,972	1,612,541	1,301,839
SEP	997,419	1,018,593	927,571	935,179	1,112,533	1,202,658	1,307,683	1,470,714	1,440,373	1,176,400
OCT	722,638	758,546	718,161	835,481	875,225	962,731	1,139,647	1,281,544	1,244,025	967,807
NOV	734,603	670,940	736,831	770,838	839,423	961,549	1,051,195	1,115,614	1,030,654	951,873
DEC	1,611,967	1,526,828	1,686,939	1,803,586	2,081,956	2,363,276	2,551,809	2,556,537	2,353,838	2,130,468
TOTAL	13,291,476	13,765,113	13,841,002	14,249,682	15,075,276	16,408,452	18,538,878	19,746,210	19,903,453	16,710,528

Appendix D-8

City of Steamboat Springs
Resident Vs. Non Resident Portion of Sales Tax

Adjusted NWCCOG Conclusions					
Year	%	2007	2008	2009	2010
Total City Sales Tax		$19,743,507	$19,904,293	$16,710,326	$16,558,792
Permanent Resident	**40.00%**	$7,897,403	$7,961,717	$6,684,130	$6,623,517
Overnight Visitors	**34.00%**	$6,712,792	$6,767,460	$5,681,511	$5,629,989
Second Homeowners	**8.00%**	$1,579,481	$1,592,343	$1,336,826	$1,324,703
Regional Inflow	**17.81%**	$3,515,731	$3,544,362	$2,975,612	$2,948,628

Permanent & Regional	**57.81%**	$11,413,134	$11,506,080	$9,659,742	$9,572,145
Overnight & Second	**42.00%**	$8,292,273	$8,359,803	$7,018,337	$6,954,693

Adjusted Hinsvark Theory Conclusions May & October					
Year		2007	2008	2009	2010
Total City Sales Tax		$19,743,507	$19,904,293	$16,710,326	$16,558,792
Resident (Permanent and Regional)	**64.33%**	$12,700,171	$12,803,598	$10,749,053	$10,651,578
Non Resident (Overnight & Second Homeowers)	**35.67%**	$7,043,335	$7,100,695	$5,961,273	$5,907,214

Range	low	high	Average
Permanent & Regional (Resident)	57.81%	64.33%	61.07%
Non Resident (Overnight & Secon Homeowners)	35.67%	42.00%	38.84%
Total			99.90%

Regional Inflow represents 18% of total sales tax (Deb Hinsvark estimated 20%)
Regional Inflow represents 30% of "Residential" sales tax

Conclusion & Reconciliation (Rounded) Total Sales Tax	
"Resident" portion of sales tax	**60%**
"Non-Resident" portion of sales tax	**40%**

Conclusion & Reconciliation (Rounded) Resident Sales Tax as a % of Total	
Permanent City Resident	**40%**
Regional Inflow	**20%**

Conclusion & Reconciliation (Rounded) Resident Sales Tax as a % of Resident Sales Tax	
Permanent City Resident	**70%**
Regional Inflow	**30%**

Appendix D-9

2011 Status Report on 2005 TPAB Recommendations
By Paul Hughes

The City Council should take specific steps to establish credibility in the community with respect to financial responsibility. Specific areas for which the City should formalize a set of policies and procedures involving management of its financial responsibilities are included in the following TPAB recommendations:

1. The Tax Policy Advisory Board does not recommend any change, at this time, to the City's tax structure.

Implemented. No change to the City's tax policy has been made since 2004.

2. The City Council should develop a policy setting the criteria for approval and control of new authorities, districts, and other government-type entities (considering that State statutes seem to encourage the proliferation of such entities). This policy should be designed to minimize the number of government entities and bureaucracies, duplication of administrative costs, loss of control by elected officials, restriction of future tax options, designation of public revenue streams for private purposes and loss of oversight by electors of the community. (The Limited Marketing District and the Urban Renewal Authority are recent examples.)

Implemented. The advice to keep the City's tax options open and to restrict the loss of control by elected officials has been followed and, in fact, is clearly provided for in the City Charter.

3. The City should establish policy and procedures to ensure that community capital needs and community support funding requirements are submitted to the City in a timely manner – such as 90 days prior to the initial Council Budget meeting and 90 days prior to the mid-year budget review. These procedures would allow for effective City staff review prior to preparation and consideration of the budget or budget updates. The procedures should require basic information about the request, estimated initial and future costs, suggested revenue sources, the community to be served by the expenditures, etc. City Council should consider adoption of these requirements by ordinance.

Implemented. Detailed budget requests are required from community groups at the beginning of the budget-setting process.

4. The City should continue the policy of maintaining an operating reserve representing a set amount or percentage of operations. For example, a set percentage (15%) of total revenues or expenses, or alternatively several months (three) of operating expenses. This reserve provides protection from unexpected fluctuations in revenues, expenses, and capital requirements. It should also encourage a realistic budget of future revenues.

Implemented as of 2004, when the general fund reserves accounted for c. 40% of annual operating expenses; Since then, drop in sales tax revenues has caused the City to use some of these reserves. The City has always kept reserves far in excess of those required by TABOR.

5 The City should establish a policy that requires that any ballot issue referred by City Council that has significant financial/tax implications be submitted to City Council for first reading at least 180 days prior to the election. The purpose of this important policy is to provide adequate time for staff and Council review and appropriate public input. City Council should consider adoption of this requirement by ordinance.

In Place per State Law. Deb Hinsvark told me that the timing for elections and other ballot issues is governed by state law. If state law requires a 90-day advance filing deadline, for example, we could not make it 180 days for citizen led ballot issues.

6. The City should establish a hierarchy for consideration of future tax increases should the need arise. The fund source priority recommended by the TPAB differs depending on whether the funds are needed for operations or for capital items.

If the shortfall is for ongoing operations TPAB recommends in order of priority:

1. Re-prioritize and reduce all capital and expense budgets
2. Increase Accommodations tax
3. Add up to .6% to sales tax
4. Implement sales tax on selected services

If the need is for capital items TPAB recommends in order of priority:

1. Grants
2. Contributions from user/affected groups
3. Debt financing
4. Dedicated Property tax in conjunction with debt financing

In Place per City Charter. City Council makes budget adjustments as the Charter requires it to do. Reducing capital and expenses budgets is always Council's first priority, and Councils have historically done so, even during budget years. Raising accommodations and/or sales taxes is not a Council prerogative. Under TABOR, such initiatives must go to the voters. Similarly, the recommendations for addressing shortfalls in capital revenue have all been implemented as appropriate, except for a dedicated property tax, which, under TABOR, would have to go to the voters.

7. The TPAB further recommends that, generally, whenever a new source of revenue is required or when a change to the City tax structure or tax districts is proposed, approval be obtained by citywide vote, or of the largest segment of City voters who are potentially affected by the proposed change.

In Place, as Required by TABOR.

8. The City should encourage the consolidation of government entities and services. Consolidation should reduce costs and/or bureaucratic contention.

Implemented. Several collaborative initiatives are in place, including the Yampa Valley Housing Authority, the Yampa Valley Airport Commission, the Steamboat Springs Fire Department/Fire District, and the Routt County Building Department. Efforts to consolidate the City's and Mt. Werner's water and sewer operations have not been successful. Over the years, several City departments have been consolidated where doing so would increase efficiency and/or reduce costs.

9. The City should continue to encourage the creation of public-private partnerships, and innovative approaches, to address priority capital projects and services. The City's role should be to provide initial funding, not to support ongoing operations. These partnerships may provide for successful project completion that could not otherwise be funded without new or increased taxes. The City should discourage private groups from presenting funding approaches that would designate tax revenues or public income streams for the benefit of private interests/projects.

Implemented. The City has formed several successful public-private partnerships, including the Emerald Mountain Partnership, the transit centers, expansion of the ice rink, replacement of the Tennis Center structure, the Urban Renewal Authority improvements, several phases of the West of Steamboat Plan, the Main Street Steamboat program, and many others. So far, City Councils have discouraged private groups from asking for dedicated tax revenues.

10. The City Council should maintain effective working relationships with Routt County, and with regional and Colorado State government agencies so that consolidation of appropriate functions (such as fire fighting districts), sharing of tax revenues (roads, regional airports, etc.) and joint approaches to problems (second home owners, impacts of Gallagher, etc.) can be effectively implemented.

Historically the Case.

11. The City should establish a policy that states and describes the governmental and community role that is embraced by the City Council. A hierarchy of needs should be established, which recognizes the following:

- Primary. That the City provides a high level of generally recognized governmental services. (This includes basic services such as police, fire, roads, utilities, etc.)

- Secondary. That the City has expanded upon traditional "parks and recreation" services to acquire and protect open space, and to provide an alpine ski area, Nordic ski areas, rodeo grounds, a golf course, a tennis center, baseball and soccer fields for this community and visitors, and other amenities.

- Tertiary. That the City provides funding and sometimes staff support to community organizations, in support of community values such as the arts, the performing arts, the tourism business, the airline support program, urban renewal, historic preservation, and others.

In addition to recognizing such a hierarchy, the City Council should acknowledge that on issues related to the tertiary level of activities, there could easily be community perception of conflicts of interest. On such issues, the Council members, or City staff, should take particular care to disclose, discuss and step down from apparent or perceived conflicts.

Implemented Before 2004. The City has traditionally followed the priorities for services as outlined in the 2004 Report. It is important to note that Parks, Recreation and Open Space occupies a unique place in the City's budget. It is the largest City department both in number of employees and size of budget, because the citizens have wanted the scope and level of services, facilities and programs provided here. In avoiding conflicts of interest where community organizations' funding is concerned, the City's Code of Ethics covers the issue. Historically, Council members have been strict about stepping down on a vote if there is even the possibility of a perception of a conflict.

13. The city should establish policies to guide the requirements for and levels of usage fees for amenities that serve limited or specific community interests.

Implemented Before 2004 and adjusted regularly

14. The City should formalize the criteria for those services or amenities that require identification as Enterprises. For example, the golf course is treated as an enterprise and the ice rink is not.

Implemented. Deb Hinsvark says that the City is guided by both TABOR and GASB concerning enterprise funds and TABOR enterprise funds.

15. Continue City support for effective management of grant requests and develop procedures for fully assessing life-cycle maintenance and replacement costs prior to applying for or accepting capital grants.

Mostly Implemented. Ongoing maintenance and replacement costs are always considered when the City applies for or accept grant funds. Some grants require the City to declare that it will provide ongoing support. With the Rehder Building, the City and various historic preservation interests decided that keeping the building as the donor wished was worth spending City funds annually.

16. The City should develop a specific set of policies and procedures for addressing the requests that it receives from special interest groups. The City also needs a specific oversight policy for financial management of the funds that it provides for private entities.

Ongoing. Regular steps have been taken over the years to try to coordinate funding requests from interest groups and community organizations. The Human Resource Coalition, United Way, and the Yampa Valley Community Foundation have all tried, at one time or another, to help coordinate so that the available dollars are spread as effectively as possible. In the end, funding and monitoring of the Community Support requests has been more a political decision than a financial one.

Appendix D-10-5

17. The City should establish policies and procedures to assess and prioritize the annual Community Support budget within the context of all City budget needs. Policies and procedures should include a formal review process that includes an evaluation of each organization's fiscal and programmatic health. Coordination among all local funding entities (Routt County, Routt County United Way and the Yampa Valley Community Foundation) should be encouraged. Further suggestions and discussion on this topic are found in Appendix E-10 "Community Support Policies and Procedures."

See # 15. Coordination is still not optimal, but it has improved since 2004.

18. The City should establish a policy for acceptable City debt levels including multi-year leases. This policy will provide consistent guidance for consideration of the need for ballot issues and funding sources.

<u>Implemented Before 2004.</u> The City's allowable debt is set by state law (e.g., 5% of revenues), bonding agencies, and the City's own written guidelines. Deb Hinsvark suggests that, rather than set the debt ceiling at a number, we should require that the City always maintain its bond rating at its current level of AA.

19. The City Council and staff should establish a simplified general fund financial display that clearly displays major categories of ongoing operating revenues and expenditures, differentiates them from capital expenditures, and clearly displays general fund debt levels and restricted and unrestricted reserves. This format should aid significantly in explaining to and obtaining support from citizens should additional revenues be required.

<u>Implemented as Appropriate.</u> This recommendation was the suggestion of a member of the TPAB who had long experience in private sector business. However, in 2004 the City's budget presentation had for years received the GFOA (Government Finance Officers Association) annual award for budget presentation. Deb Hinsvark reports that the City continues to follow GFOA guidelines for budget presentation.

20. City Council should establish an "early warning system," a process to identify and act upon negative trends in all significant sources of revenue. For example, if the sales tax numbers were to drop, as against the previous year, for three months in a row, the City might automatically set a "sales tax discussion" item for the next available agenda, to take a hard look at the reasons for the drop in revenue, and to identify any steps that need to be taken by the City.

<u>Implemented and Ongoing.</u>

21. The City Council should continue to improve its measurement of City government productivity in a format that is easy to understand and track (for instance: benchmarking with similar communities, limiting overall operating expense growth to growth in population plus visitors plus CPI minus regional or national productivity improvements).

Partially Implemented. The City uses published information from CML (the Colorado Municipal League) to compare its “outputs” with other, similar towns’. Some “outputs” are easy to measure: for example, the City’s spending per capita has historically been lower than that of many similar resort communities. It is also easy to track the number of gallons of water filtered, gallons of sewage treated, number of crimes in each category, etc. However, because the City’s real end product is service, efforts to quantify and measure service have taken a variety of different approaches, including performance-based budgeting, management by objectives, principle-centered leadership, total quality management, continuous quality improvement, etc. etc. There is no single generally-accepted method for measuring the productivity of cities and counties. My experience was that staff were always open to new methods of measuring their departments’ work.

22. TPAB recommends that the City and County periodically review and reestablish guidelines as necessary to fairly estimate material costs commensurate with the scale of permitted construction projects. Periodic update of the guidelines can materially affect building use tax and excise tax revenues.

Implemented Before 2004. The City confers from time to time with the Routt County Building Department to evaluate Building and Use fees in light of changing building materials costs.

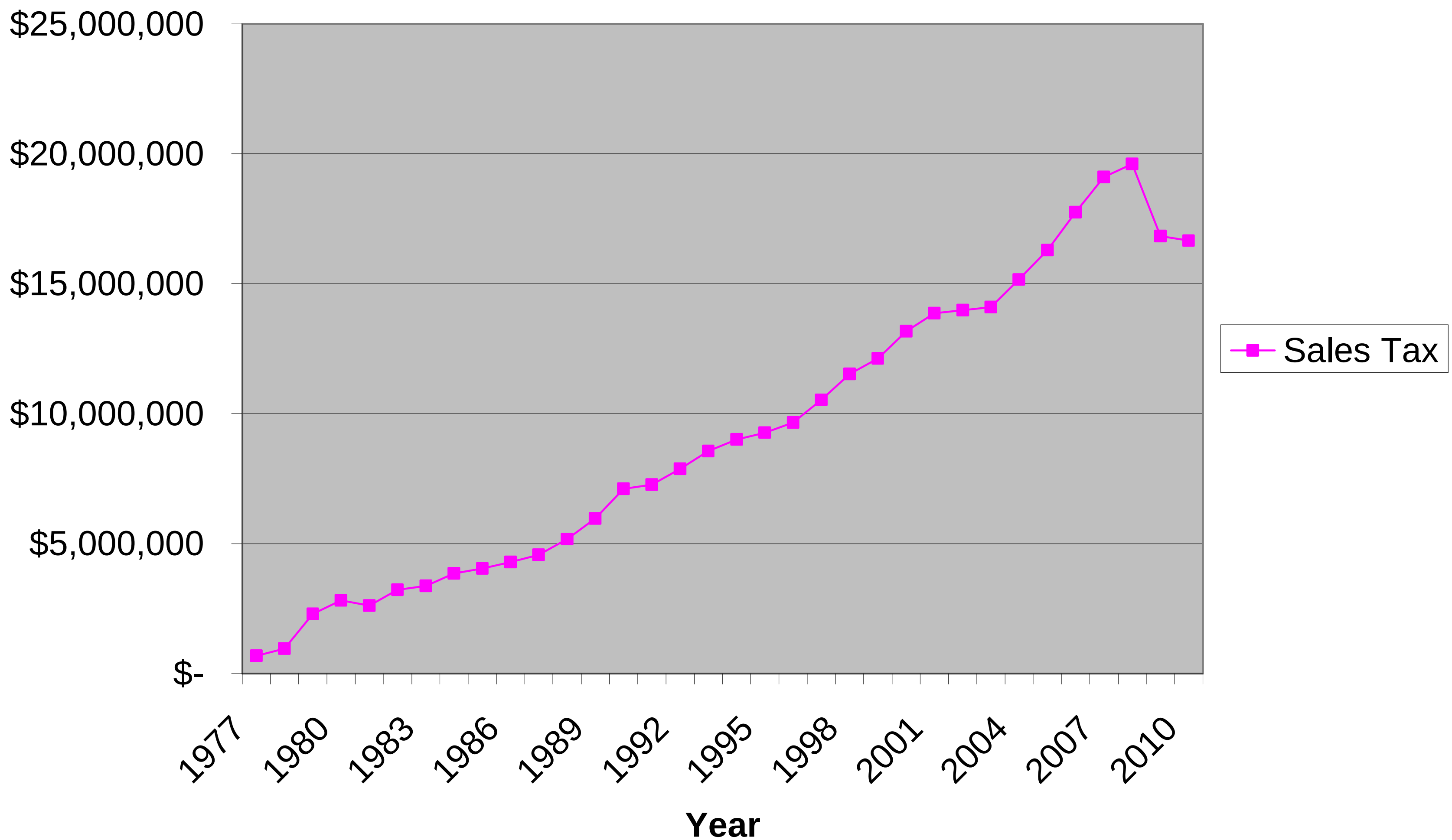
23. It was the consensus of the Tax Policy Advisory Board that continuing the free local bus service is a significant benefit to the community. It is currently funded mostly from City general funds (sales tax revenues); other sources of funding may be addressed at a later date.

The Free Bus Is Still Free!

APPENDIX E

HISTORICAL FINANCIAL DATA

Steamboat Springs Sales Tax Revenue 1977-2010



City of Steamboat Springs Historic Sales Tax Revenues

Year	Sales Tax	Sales Tax % Annual Growth	CPI Growth
1977	$ 679,656		
1978	$ 955,874	41%	
1979	$ 2,293,921	140%	
1980	$ 2,814,105	23%	
1981	$ 2,613,139	-7%	
1982	$ 3,218,620	23%	
1983	$ 3,370,074	5%	
1984	$ 3,845,032	14%	
1985	$ 4,039,687	5%	
1986	$ 4,287,626	6%	
1987	$ 4,567,992	7%	
1988	$ 5,168,473	13%	
1989	$ 5,971,812	16%	
1990	$ 7,105,414	19%	
1991	$ 7,267,291	2%	
1992	$ 7,879,468	8%	
1993	$ 8,566,885	9%	
1994	$ 9,010,679	5%	
1995	$ 9,270,476	3%	
1996	$ 9,666,833	4%	
1997	$ 10,534,836	9%	3.30%
1998	$ 11,531,956	9%	2.40%
1999	$ 12,130,489	5%	2.90%
2000	$ 13,179,566	9%	4.00%
2001	$ 13,862,324	5%	4.70%
2002	$ 13,987,933	1%	1.90%
2003	$ 14,106,975	1%	1.10%
2004	$ 15,161,356	7%	0.10%
2005	$ 16,295,480	7%	2.10%
2006	$ 17,748,660	9%	3.60%
2007	$ 19,117,400	8%	2.20%
2008	$ 19,607,176	3%	3.90%
2009	$ 16,833,849	-14%	-0.65%
2010	$ 16,663,758	-1%	1.70%
Average Growth Rate		11.92%	2.38%

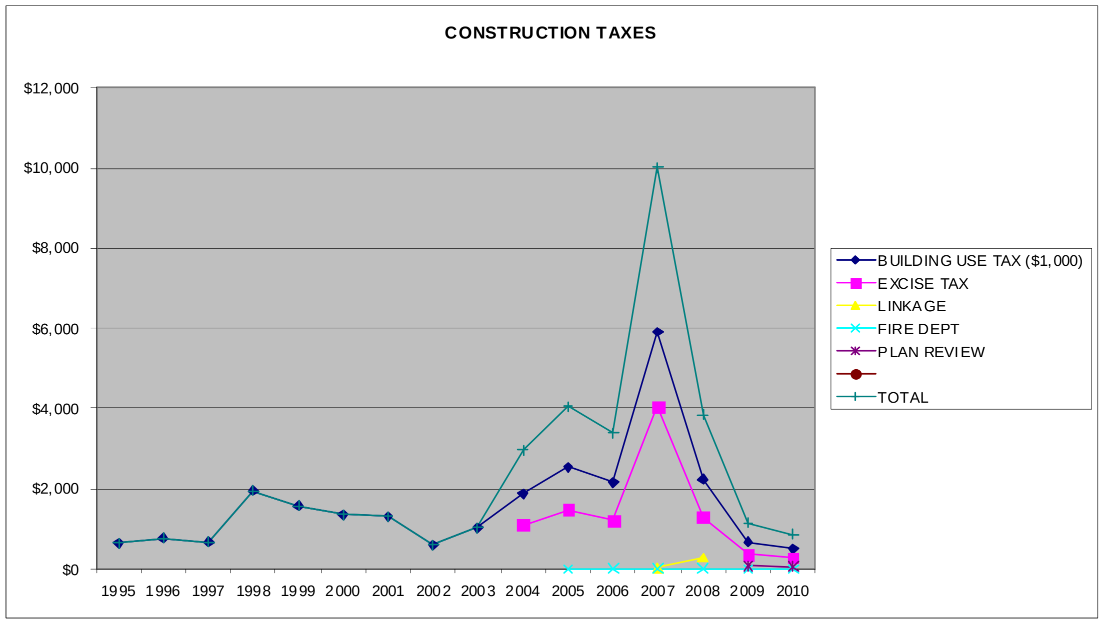
Appendix E-1-2

Steamboat Springs Construction Taxes

Prepared by Jake Henry

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TOTAL
BUILDING USE TAX ($1,000)	$646	$777	$671	$1,959	$1,573	$1,354	$1,309	$599	$1,040	$1,878	$2,554	$2,160	$5,911	$2,243	$688	$510	$26,480
EXCISE TAX										$1,100	$1,488	$1,218	$4,053	$1,298	$373	$279	$9,809
LINKAGE													$36	$287			$323
FIRE DEPT											$8	$13	$15	$11	$8	$6	$61
PLAN REVIEW															$80	$70	$150
TOTAL	$646	$777	$671	$1,959	$1,573	$1,354	$1,309	$599	$1,040	$2,978	$4,050	$3,391	$10,015	$3,839	$1,149	$865	$36,823

Ordinance 2219 dated 16 December, 2008 created Community Development Fee
Ordinance 2314 dated 6 April 2010 continued the existing Community Development Fee



Appendix E-2

City of Steamboat Springs Fees & Taxes from RCR Building Department

Year	Valuation	Use Tax	Excise	School	Linkage	Fire	Review Fee	Permits
2011 YTD	8,384,998	230,660	137,914	28,832		2,100	17,875	72
2,010	24,770,165	509,648	279,345			6,200	69,927	227
2009	38,967,904	687,529	373,628			7,900	80,051	269
2008	259,383,306	2,243,256	1,298,406		286,585	11,475		318
2007	173,755,975	5,911,366	4,052,771		36,231	14,581		376
2006	105,126,970	2,160,311	1,218,368			13,300		186
2005	119,814,357	2,554,264	1,488,145			8,475		447
2004	155,968,993	1,878,244	1,100,551					234
Totals	**$886,172,668**	**$16,175,258**	**$9,949,128**	$28,832	$332,816	$64,031	$167,853	

2011 is the first year that School portion of Use Tax is separated out
Ordinance 2219 dated 16 December, 2008 created Community Development Fee
Ordinance 2314 dated 6 April 2010 continued the existing Community Development Fee

Appendix E-3