



To: Mayor Dickson and Elected Officials
From: Dara MacDonald
Date: November 24, 2014
Subject: Proposed Alternate Ballot Measure

Work Session Overview

The December 2nd work session will be devoted to discussion of the proposed alternate ballot measure related to allocation of city sales tax to capital spending.

We first want to attempt to understand the restrictions and terminology currently in place for the City sales tax. Secondly, we would like both the council and public to understand the recent history of capital expenditures in order to inform the discussion about the 'right' amount that should be mandated for capital spending. Finally, we would like direction from the Council on the language of an alternative ballot measure that would be brought before the Council for formal consideration on December 16th and January 6th.

Also included in the work session packet are some previously prepared materials including overviews of the operating budget, an analysis of the costs of general services in each department and comparisons of budget allocation to other Colorado communities.

Meeting Objective

Council discussion of alternative ballot language for the upcoming special election.

Discussion Outline

- I. Summary of current voter imposed restrictions on sales tax:
 - a. Currently, 42.7% of total city sales tax used for capital
 - i. Salida spends 2-3x more on capital than average for Colorado municipalities due to these restrictions on sales tax, placing significant constraints on the operating budget (refer to comparison data)
 - ii. Staffing levels and compensation continue to be operating challenges with the current allocations
 - b. 44% of 2% city sales tax restricted for capital expenditures and capital improvements
 - i. 35% is transferred to a "Capital Improvement" reserve account and is used to provide streets and other capital improvements or to pay debt service on bonds or other obligations of the City issued to provide for such capital improvements
 - ii. 9% is transferred to a "Capital Expenditures" reserve account and used for the purchase of machinery and equipment that is greater than \$500 with a useful life in excess of one year.
 - iii. 1% is transferred to an "Economic Development" reserve account to be used for economic development within the city.
 - iv. Up to 8% is placed in a "Contingency" reserve in any calendar year when such fund is less than 15% of the City's General Fund Operating Budget, it being the intent to maintain a Contingency Fund which, in any year, is equal to 15% of the

General Fund Operating Budget. The Contingency Fund can be utilized by the City Council to cover unbudgeted, unforeseen reductions in revenue collections or unusual expenditures outside the scope of normal operations.

- c. "2A" - 1% city sales tax "used for funding construction, operation, maintenance, and repair of roads and other public infrastructure of the City." (ballot language)
 - i. Currently 40% of 1% is being budgeted for capital streets projects

II. Past spending on Capital –

- a. See attached work sheet of Capital Investments by funding source 2008 – 2014 (budget).
- b. Current budget example (proposed 2015 budget)
 - i. Total city sales tax revenue projected for 2015 = \$4,468,600
 - ii. 42.7% of 3% sales tax used for capital = \$1,906,700
 - iii. Total capital spending = \$3,692,400 (\$1.26 million for streets)
 - iv. Grants and contributions for capital - \$1,114,100
 - v. Net cost to City - \$2,578,300
 - 1. City sales tax - \$1,906,700
 - a. Capital Improvement portion of 2% - \$1,042,800
 - b. Capital Expenditure portion of 2% - \$268,100
 - c. Capital portion of 1% ("2A") – \$595,800
 - 2. Capital Reserves - \$421,600
 - 3. Fees in Lieu Reserves - \$70,000
 - 4. Occupation Tax on Lodging Revenue - \$180,000

III. Alternative sales tax restriction on special election ballot

- a. Current language for sales tax restrictions is complicated and confusing
- b. Petition would add more complexity and data tracking requirements
- c. Repeal and reenactment of modified restrictions on full 3% could eliminate confusion and inconsistencies in language
- d. Considerations:
 - i. How much flexibility should elected officials have in determining priorities in a given year versus strictly defined spending priorities?
 - ii. How much is "right" amount for capital versus operating? (\$2.58 million in 2015, \$1.9 million after reserves, fees in lieu and occupation tax)
 - 1. 2015 estimates – City sales tax revenue - \$4,468,600
 - a. 10% - \$446,860
 - b. 20% - \$893,720
 - c. 30% - \$1,340,580
 - d. 40% - \$1,787,440
 - e. 50% - \$2,234,300
 - f. 60% - \$2,681,160
 - iii. How much is "right" amount for streets capital projects? (\$1.26 million in 2015)
 - 1. History of streets & sidewalks capital spending (excluding grants & debt service)
 - a. 2009 - \$ 1,148,252
 - b. 2010 - \$ 420,250
 - c. 2011 - \$ 324,205
 - d. 2012 - \$ 614,460
 - e. 2013 - \$ 770,215

f. 2014 - \$ 1,163,900 (budget)
g. 2015 - \$ 1,260,700 (budget)
2009-2015 spending on streets - \$ 4,441,282
Including grants - \$ 6,112,570
Including grants & debt service on streets - \$ 6,759,515

2. What should be included in the definition of 'streets'?

iv. Definition of 'capital spending'

1. See attached Resolution 2004-04, Capitalization Policy
2. Expenditures using Capital Expenditures funds in the past may shift to operating