

City of Salida

Financial Analysis and Revenue Plan

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Report Purpose

On Friday, February 15, 2008, the City of Salida (the City) convened a “retreat” that brought key city staff, including the department heads and City Council, together for the purpose of analyzing the City’s current situation and developing plans for solving the City’s problems. Although every department expressed important financial concerns, this report is focused only on the departments that receive funding through the General Fund: the Police Department, Fire Department, Aquatic Center & SteamPlant, Public Works Department, and City Administration. During the retreat, the departments funded by the General Fund expressed three dominant concerns:

1. **Capital Infrastructure:** The department heads do not have the financial resources to maintain the current level of capital infrastructure or provide for the new capital infrastructure that the public is demanding. The capital needs addressed in this report include street replacement and maintenance, the Aquatic Center, and the City Hall and Police Department facilities.
2. **Employee Compensation:** The current City compensation structure is not sufficient to hire and retain quality personnel, and
3. **Staffing Levels:** Many departments are understaffed for level of service that the public is demanding.

In response to hearing these concerns from the Department Heads and City's administration, the City Council made a commitment to 1) examine the concerns, 2) develop a plan for how to best address the concerns, and finally, 3) to implement the plan. The purpose of this report is to act as a first step in resolving these problems.

Executive Summary

The primary message of this report is that the City has a number of important revenue needs that must be addressed to provide the minimum level of services that the citizen's demand. The largest and, in the opinion of many, the most important is in the area of street replacement and maintenance. To keep pace with the depreciation of streets from time, use, and weather, the City should be investing at least \$1.975 million per year in replacing and maintaining the City's 36 miles of streets. At present, the City has only had sufficient revenue to invest approximately \$300,000 per year into the streets. In short, the City has under-funded street replacement and maintenance for many years and needs to reverse this practice.

In addition, the City has identified a number of other areas that are in need of improvements that cannot happen without an increase in revenue. These include improvements and repairs for the Aquatic Center, adequate public facilities to house police and administrative personnel and to hold municipal court and council meetings, increase employee compensation to market rate, and add staffing commensurate with increases development and administrative activity. The total in City revenue needs, including street replacement and maintenance is \$2,663,012.

This report recommends that the voters be asked to approve five separate revenue measures in the November 2008 election. These include:

1. 1% Sales Tax Increase
2. \$2 per Room per Rented Night Occupation Tax on Motel and Lodging Operations
3. Use Tax on Building Materials
4. Use Tax on Motor Vehicles

In addition, this report recommends that the voters be asked in a future election to approve the imposition of a Special Fee dedicated to funding the Fire Department.

The approach taken in this report is to let the citizens of Salida know what the real needs of the City are and to ask for their support in solving these problems. The City Council's job is to identify the needs and propose solutions. This report attempts to fulfill that task. The rest is up to the citizens. None of the proposed actions can take place without the express consent and approval of the citizens through the ballot.

Financial Needs Assessment

The City has identified five primary areas of concern:

- 1) Street Replacement and Maintenance,
- 2) Aquatic Center Capital Needs,
- 3) New City Hall/Police Department facility,
- 4) Employee Compensation, and
- 5) Staffing Needs.

The purpose of this section is to examine each of these areas.

1–Street Replacement & Maintenance

The City's responsibility for the maintenance of streets is one of its most important functions. The city owns and maintains approximately 36 miles of streets. The planned annexation of new developments such as Vandever and Mira Monte will result in as much as a 30% increase in the miles of streets that City employees must maintain, and we should expect additional annexation requests in the near future. Unfortunately, the City has failed to keep pace with maintaining existing streets and many are in poor condition and in need of replacement.

Public Works Director Rob Vance has created an excellent program for the maintenance of streets. The plan involves two aspects: 1) full replacement of street infrastructure (paving, water & sewer lines, curbs, landscaping, etc.), and 2) annual maintenance. The annual maintenance program is intended to save money over the long-term by significantly extending the life of a street before paving needs to be replaced. The City has also recently revised the construction specifications to require an increase in the depth of asphalt, extending the original expected life of new streets.

Unfortunately, the plan is meaningless unless the City finds a way to fully fund it. If the City assumes a 25-year life span for an existing well-maintained street, it would need to replace 1.5 miles each year to replace all streets every 25 years. In 2007, the City fully replaced .5 mile of E Street at a cost of \$600,000. Using this amount as a baseline, the City should be budgeting \$1.5 million for full street replacement every year.

In addition, the City needs to fully implement the street maintenance program developed by Director Vance. To extend the life of streets, the City should plan to chip seal 9 miles of street every 6 years. This will provide for all streets to be chip sealed once during its 25-year expected life between full replacement. The cost of implementing the maintenance program is estimated to be \$50,000 per year for routine maintenance and \$750,000 every 6th year for a more comprehensive maintenance. Averaged over 6 years, the City needs to budget at least \$175,000 per year for street maintenance.

The total capital investment that the City should be budgeting each year for street replacement and maintenance is at least \$1.975 million. This number should then be adjusted to make sure the City's investment keeps pace with inflation every year.

For comparison purposes, the City made the following investments in paving in past years:

Year	P/Works	Water	Total
2003	\$6,894	\$-	\$6,894
2004	\$218,506	\$65,758	\$284,264
2005	\$246,816	\$54,476	\$301,292
2006	\$29,453	\$4,677	\$34,130
2007	\$641,161	\$65,554	\$706,715
2008	\$500,000	\$30,000	\$530,000
Average:	\$273,805	\$36,744	\$310,549

The City needs to work towards increasing the annual spending on street replacement and repair to \$1.975 million/year.

Annual minimum budget increase needed for streets: \$1.975 million.

2-Aquatic Center

The Aquatic Center is a city landmark and provides a number of important benefits to residents. To local residents, the Aquatic Center provides many important health and recreational benefits. To local businesses, the Aquatic Center is an economic engine that attracts visitor to the area.

The Aquatic Center is faced with two major capital needs:

- 1) Rebuilding of the changing rooms, and
- 2) Completion of the hot water line.

The changing rooms at the Aquatic Center were declared to be unsafe and thus closed to public use. The changing rooms are an essential element for the efficient operation of the Aquatic Center and need to be replaced. The anticipated cost of replacement is \$2.5 million. In addition, the Aquatic Center needs to budget for annual maintenance to avoid depreciation debt.

The City has spent over \$1.8 million on the replacement of the water line that supplies water from the hot spring in Poncha Springs to the Aquatic Center. In 2007, the City settled a lawsuit with the engineer resulting in a payment of \$325,000. This reduced the out-of-pocket expense to \$1.5 million. The City financed the new hot water line through bonds for which it currently pays around \$75,000 per year. Unfortunately, the hot water line, as it now stands, delivers water that is too cool to function properly as a hot springs facility.

The City Council settled the lawsuit for \$325,000 based on the new engineer's estimate that repairs would cost that much to bring the hot water line to minimum standard necessary to function properly as a hot springs facility. Unfortunately, after settlement, the new engineer has revised the cost estimate to over \$525,000.

Assuming the Aquatic Center has \$2.8 million in immediate capital needs, if financed over 20 years at 5.25% equals an annual payment of \$230,000. In summary, the City needs to invest at least \$230,000 per year for the foreseeable future to continue to operate the Aquatic Center as a hot springs facility. The City has applied for approximately \$450,000 in grant money from the Colorado Department of Local Affairs (DOLA). If the City is successful and receives this grant, these costs projections would be reduced by the amount of the grant money received by the City.

Aquatic Center Capital Needs	
Hot Water Line	\$(300,000)
Locker Room Improvements	\$(2,500,000)
Total	\$(2,800,000)
Financing—20yr/5.25%	\$(229,466)

Annual increase in budget to finance Aquatic Center needs: \$ 230,000

3-City Hall/Police Department

The current facilities housing the City Hall administrative staff, planning department, council chambers/municipal court, and police department are not adequate. Various departments are physically separated in different buildings, which reduces effective communications and creates some redundant administrative and IT costs. Staff has recommended consolidating these operations into a combined City Hall/Police Department.

The City has partnered with the County in evaluating the feasibility of purchasing the old hospital facility and rehabbing it for use as a City Hall/Police Department. The facility would easily provide adequate space to meet the City's needs for many years to come. To this end, the City has entered into negotiations to purchase around 21,000 square feet of the former Salida Hospital building. The purchase cost would be \$800,000. It is reasonable to project that the City would need to invest at least \$800,000 in renovation costs to make the building into a new City Hall/Police Department for an overall projected cost of around \$1.6 million dollars.

To reduce the impact of the purchase and renovation, the City is proposing the sale of some other City properties, including the current Council Chambers building, the Police Department building, and other properties owned by the City. The goal would be to recover at least \$600,000 towards reducing the cost of the purchase, leaving a net cost of \$1,000,000. If financed over 20 years at a 5.25% interest rate, the annual increase in the budget would need to be \$82,000 per year.

City Hall/Police Department	
Net Cost for New City Hall/Police Dept.	\$1,000,000
Financing–20yr/5.25%	\$(81,952)

Annual increase in budget to finance new City Hall/Police Dept: \$82,000

5–Employee Compensation

Each of the department heads has expressed considerable concern that the City’s compensation scale has not kept pace with the cost of living in Salida or the pay scale of other similar cities. Salida has experienced a steadily rising cost of living rooted primarily in soaring housing costs. Increasing health insurance costs (which are shared by the City and employees) are further eroding the total compensation provided to employees. Several department heads also expressed dissatisfaction with the retirement plan. Chief Clark has stated that the Police Department has experienced relatively high turnover and believes that the primary reason officers are leaving is that they can obtain better paying jobs elsewhere. Public Works director Vance stated similar concerns.

To be able to attract and maintain quality staff, the City needs to address this situation by providing compensation that is commensurate with the cost of living in Salida and the wages paid by other similar communities. The City should seek to increase employee compensation by 19% over current levels.

2008 Budgeted Personnel Costs	
General Government	\$15,512
Finance & Clerk	\$127,794
Municipal Court	\$15,179
Administrator's Office	\$95,026
Community Development	\$85,340
Police Department	\$661,117
Fire Department	\$406,706
Public Works Department	\$219,939
Recreation	\$27,407
Aquatic Center	\$256,832
Marvin Park	\$25,110
Trails & Other Parks	\$55,488
Water Department	\$149,838
Wastewater Department	\$174,644
Steam plant	\$50,000
Total 2008 Budget	\$2,365,932
19% Recommended Increase	\$236,593

Estimated increase in budget to satisfy compensation needs: \$ 240,000

5–Staffing Needs

The City Administrator and Planning and Finance departments have expressed a need for additional staff.

Planning Department

One planner and one assistant currently staff the Planning Department. The City Planner has recommended increasing the size of the Planning Department by one additional planner.

Finance Department

The Finance Department is currently staffed by the Finance Director and two assistants. The Finance Director has requested that the staff of the Finance Department be increased by at least one degreed accountant.

Increase in Information Technology Budget

The City's could created greater efficiency in its operations through the improved use of information technology.

Staffing Needs	
Planner	\$(60,000)
Degreed Accountant	\$(50,000)
Administrative Assistant	\$(30,000)
Total Increase for Staffing	\$(140,000)

Estimated increase in budget to satisfy staffing needs: \$ 140,000

Summary of Financial Needs

Street Replacement & Maintenance

Annual Maintenance	\$(175,000)
Annual Replacement	\$(1,800,000)
Total Increase Needed	\$(1,975,000)

Aquatic Center Capital Needs

Hot Water Line	\$(300,000)
Locker Room Improvements	\$(2,500,000)
Total	\$(2,800,000)
Financing–20yr/5.25%	\$(229,466)

City Hall/Police Department

Net Cost for New City Hall/Police Dept.	\$1,000,000
Financing–20yr/5.25%	\$(81,952)

Employee Compensation Needs

Total 2008 Payroll	\$(2,365,932)
Increase %	10.00%
\$ Increase	\$(236,593)

Staffing Needs

Planner	\$(60,000)
Degreed Accountant	\$(50,000)
Administrative Assistant	\$(30,000)
Total Increase for Staffing	\$(140,000)

Total Annual Increase	\$(2,663,012)
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Action Plan

This report recommends increasing the City's revenue through the following methods:

1-Street Replacement & Maintenance

To keep pace with the annual depreciation in the street system, the City needs to increase revenue by at least \$2.24 million per year. This is a significant increase and would best be accomplished through three separate funding mechanisms:

1) **Repeal Property & Increase Sales Tax:** The City should repeal the City property tax and place a 1% sales tax increase on the ballot in November 2008. Sales tax is the most significant source of general operating revenue for Salida. Currently, the 2% city sales tax generates approximately \$2.3 million in annual revenue. An incremental 1% would place Salida on equal playing field with many other municipalities in Colorado and bring in an over \$1.0 million in additional revenue! (It is not uncommon to see total sales tax rates of greater than 8.0% (State = 2.9%; County = 2.0%; City/Town/Special Districts = >3.0%.))

2) **Use Taxes on Motor Vehicles:** The City should place a use tax on Motor Vehicles and Building Materials on the ballot in November 2008. It is estimated that a Motor Vehicle Use Tax could generate as much as \$975,000 per year in revenue dedicated to maintaining and replacing streets.

3) **Special Fee for Funding the Fire Department:** The City should place a Special Fee dedicated solely to funding the Fire Department on the 2009 ballot. This would free up \$650,000 currently from the General Fund for other purposes. These funds would allow the City to come close to full funding of the Street Replacement and Maintenance program.

Street Replacement & Maintenance	
Annual Maintenance	\$(175,000)
Annual Replacement	\$(1,800,000)
Total Annual Unmet Needs	\$(1,975,000)
Sales tax increase	\$1,250,000
Repeal of City property tax	\$(250,000)
Motor Vehicle Use Tax	\$244,372
2009-Reallocation of General Fund \$ from FD	\$650,000
Total Annual Revenue Increase	\$1,894,372
Total Shortfall/Overage	\$(80,628)

Projected Consequences of No Action: The consequences for not taking action on increasing funding for street replacement and maintenance are significant. The need is real and cannot be reduced through cutting back on services. The streets will continue to deteriorate until the City is forced to issue bonds to pay for a major street

replacement package. This will increase costs by requiring the City to pay interest on the bonds. Continuing our current state of disrepair results in higher future costs and undermines other efforts to enhance Salida's economy as an attractive place for tourists to visit and spend money with local merchants.

2-Aquatic Center

To fund the improvements to the Hot Water Line and the Locker Room Improvements, the City should place a Lodging Fee on the Ballot in November 2008. In addition, once the improvements are made the City should increase user fees to recover additional revenue.

Aquatic Center	
Hot Water Line	\$(300,000)
Locker Room Improvements	\$(2,500,000)
Total	\$(2,800,000)
Financing-20yr/5.25%	\$(229,466)
Total Annual Unmet Needs	\$(229,466)
\$2/rented night Occupation Tax on Lodging Operations	\$229,466
Total Annual Revenue Increase	\$229,466
Total Shortfall/Overage	\$0

Projected Consequences of No Action: Not repairing the hot water line and replacing the locker rooms will mean that the City misses out on the full potential of the Aquatic Center for providing quality recreation for local residents and attracting visitors and providing for their needs.

3-New City Hall/Police Department

To purchase and renovate the former Salida Hospital building, the City should place a use tax on building materials on the ballot in November 2008.

New City Hall/Police Department	
New City Hall/Police Department	\$1,600,000
Sale of City property	\$600,000
Net Cost	\$1,000,000
Financing-20yr/5.25%	\$(81,952)
Use Tax on Building Materials	\$81,952
Total Annual Revenue Increase	\$81,952
Total Shortfall/Overage	\$(0)

Projected Consequences of No Action: Failing to purchase and renovate the former Salida Hospital building would mean that the City misses the rare opportunity to utilize a historic building that is a Salida landmark to upgrade its facilities at far below the cost of building a new facility.

4-Employee Compensation & Staffing Increases

Passage of the 1% Sales Tax increase, the Motor Vehicle Use Tax, and the Special Fee for the Fire Department would free up approximately \$300,000 per year that is currently dedicated to street maintenance and replacement. These funds could then be dedicated to increasing employee compensation and staffing increases.

Employee Compensation Needs

Total 2008 Payroll	\$(2,365,932)
% Increase	12.00%
\$ Increase	\$(283,912)
Reallocation of General Fund from Streets	\$283,912
Total Annual Revenue Increase	\$283,912
Total Shortfall/Overage	\$0

Staffing Needs

Planner	\$(60,000)
Planning Assistant	\$(30,000)
Degreed Accountant	\$(50,000)
Finance Assistant	\$(30,000)
Increase in Information Technology Budget	\$(30,000)
Total Annual Unmet Needs	\$(200,000)
Reallocation of General Fund \$ from FD	\$200,000
Total Annual Revenue Increase	\$200,000
Total Shortfall/Overage	\$-

Projected Consequences of No Action: Failing to increase employee compensation will mean that the City continues to struggle to fill vacated positions and retain quality employees. Failing to increase staffing in key areas will mean that the City will not be to provide the level of services and protection that the citizens demand.

2008 Ballot Measures

The following is a summary of the measures proposed for submitting to the voters for approval:

1- Property Tax Repeal & Sales Tax Increase

The City should ask voters to repeal the City Property Tax and increase the sales tax on the 2008 ballot. The City Property tax provides approximately \$250,000 in annual revenue to the City. The Property Tax has many problems that make it ripe for repeal. The Gallagher Amendment to the state constitution forces an allocation of the property tax that places an unfair burden on commercial taxpayers. The City property tax also competes with the School District, which is solely dependent on property taxes for revenue.

In 2008, the Colorado Legislature removed the cap that existed on sales tax. Prior to this point, the total amount of Sales Tax that could be levied by all entities was 6.9%. Of this amount, the state levied a 2.9% sales tax and the county levied a 2.0% sales tax. This left the City with the ability to levy only 2.0% in sales tax. The new legislation would allow the voters to approve a greater amount of sales tax. The City should ask the voters to approve a 1% increase in the sales tax during the November 2008 election.

This measure would repeal a tax paid solely by residents and replace it with a tax that would increase revenue from outside sources such as visitors to the City. As a part of this proposal, all revenue should be dedicated solely to street capital improvement and maintenance projects.

Recommendation: The City should ask the voters to repeal the City property tax and approve a 1% increase in the sales tax on the November 2008 ballot.

Who pays? All individuals who make purchases within the City's jurisdiction, including residents and visitors.

Estimated net annual revenue: \$1,000,000

2-Use Tax-Motor Vehicles

The City should include a Use Tax on Motor Vehicle purchase made outside of the City's jurisdiction on the 2008 ballot. A Use Tax is levied on the retail purchase price of tangible personal property that is purchased outside of the City's taxing jurisdiction, but stored, used, or consumed within the jurisdiction. Under its current status as a statutory city, the City has the authority to impose a use tax only on motor vehicles and building materials.

Ideally, a use tax is structured to complement the sales tax imposed by the City: a city resident pays the same total tax, and the City reaps the same benefit, on all items whether they are purchased within or outside of the City.

One of the primary values of the use tax is that it eliminates any tax advantage for businesses operating outside of the City. The buyer of a motor vehicle can currently pay less tax by purchasing outside of the City's jurisdiction. This is exactly the opposite incentive the City wants to provide. To stem the leakage of money to other communities, the city needs to impose a use tax to complement the local sales tax.

All revenue from the use tax on motor vehicles would be dedicated to the implementation of the annual street maintenance program developed by Director Vance. Part of the real cost of owning and operating a motor vehicle is the maintenance of streets. In this way, those who receive the most benefit of well-maintained streets pay to receive that benefit.

Attempts to get solid information on which to base revenue estimates were unsuccessful. The City offers the following estimate, which is based on the 2002 Economic Census data and a number of guesses.

(http://www.census.gov/econ/census02/data/co/CO015_44.HTM)

2002 Economic Census-Chaffee County MV Sales	\$49,368,000.00
Estimated % of Sales in Salida	33.00%
Estimated \$ Sales in Salida	\$16,291,440.00
% of Sales Currently Not Subject to City Tax	50.00%
\$ Sales Currently Not Subject to City Tax	\$8,145,720.00
Estimated Motor Vehicle Use Tax Revenue	\$244,371.60

Recommendation: The City should ask the voters to approve a use tax on all motor vehicles purchased outside of the City on the November 2008 ballot.

Who pays? City residents who purchase a motor vehicle outside of the City jurisdiction.

Estimated annual revenue: \$250,000

3–Use Tax-Building Materials

In addition to the use tax on motor vehicles, the City's voters should also pass a use tax on all building materials purchased outside of the City. A buyer that purchases building materials outside of the City can currently avoid City sales taxes. One problem with a use tax on building materials is that they can be difficult to collect. To address this problem, the use tax is often imposed at the time that the taxpayer takes out a building permit and then reconciled at the end of the project. The City can raise significant revenue through the imposition of a use tax on building materials and should implement it as soon as possible. Revenue generated from a use tax on building materials should be first applied to the operations of the Planning Department with any excess going to the general fund.

2007 Census-Chaffee County Building Permits	\$46,000,000.00
Estimated % of Sales in Salida	25.00%
Estimated \$ Sales in Salida	\$11,500,000.00
Estimated % of Sales for Building Material	50.00%
Estimated Value of Sales for Building Material	\$5,750,000.00
% of Sales Currently Not Subject to City Tax	50.00%
\$ Sales Currently Not Subject to City Tax	\$2,875,000.00
Estimated Building Material Use Tax Revenue	\$86,250.00

Recommendation: The City should ask the voters to approve a use tax on all building materials purchased outside of the City on the November 2008 ballot.

Who pays? Anyone who purchases building materials outside of the City jurisdiction.

Estimated annual revenue: \$85,000

4-Occupation Tax on Motel Operations

Colorado law allows a statutory municipality like Salida to impose what is referred to as an Occupation Tax. An Occupation Tax is a tax imposed for the privilege of operating a business or practicing an occupation or profession within the City jurisdiction. One common type of Occupation Tax is a fee applied to hotel/motel/lodging type businesses based on the number of rental accommodations available.

The City should impose an Occupation Tax of \$2.00 per room for each day occupied on the November 2008 ballot. This revenue stream should be earmarked for use only for capital improvements and operations of the Aquatic Center and SteamPlant.

Who pays? Visitors who rent rooms in motels within the City's jurisdiction.

Estimated annual revenue increase: \$ 230,000

Summary of Proposed 2008 Ballot Measures

Street Replacement & Maintenance	
Annual Maintenance	\$(175,000)
Annual Replacement	\$(1,800,000)
Total Annual Unmet Needs	\$(1,975,000)
Sales tax increase	\$1,250,000
Repeal of City property tax	\$(250,000)
Motor Vehicle Use Tax	\$244,372
2009-Reallocation of General Fund \$ from FD	\$650,000
Total Annual Revenue Increase	\$1,894,372
Total Shortfall/Overage	\$(80,628)
Aquatic Center	
Hot Water Line	\$(300,000)
Locker Room Improvements	\$(2,500,000)
Total	\$(2,800,000)
Financing-20yr/5.25%	\$(229,466)
Total Annual Unmet Needs	\$(229,466)
\$2/Rented Night-Occupation Tax on Lodging Operations	\$229,466
Total Annual Revenue Increase	\$229,466
Total Shortfall/Overage	\$(0)
New City Hall/Police Department	
New City Hall/Police Department	\$1,600,000
Sale of City property	\$600,000
Net Cost	\$1,000,000
Financing-20yr/5.25%	\$(81,952)
Use Tax on Building Materials	\$81,952
Total Annual Revenue Increase	\$81,952
Total Shortfall/Overage	\$(0)
Total Annual Unmet Financial Needs	\$(2,204,466)
2008 Proposed Revenue Increases	\$2,205,790

2009-Transform the Revenue Source for the Fire Dept.

Unfortunately, a 1% increase to the Sales Tax and a Motor Vehicle Use Tax will not produce the full funding necessary to fully implement the street maintenance and repair plan. To close the final gap, this report recommends implementing a new special fee dedicated solely to funding the fire department and then using the General Funds freed from this new fee to fully fund the street maintenance and replacement plan.

The Fire Department provides two essential services to City residents: 1) Fire emergency and prevention services, 2) Emergency and ambulance services. In terms of the allocation of time, the Fire Department spends far more time in its role of providing emergency and ambulance support services. The Fire Department's annual budget is as follows:

Total 2008 Budget:	\$ 556,526
2008 Revenue Budget	\$ 77,400
2008 Capital Budget:	\$ 15,900
2008 Operations Budget:	\$ 633,926

The Fire Department is currently funded from the General Fund, which receives its revenue from Sales Tax. This creates two problems. First, during budgeting, the Fire Department is competing with the other departments for funding. Second, the sales tax does not create an effective economic feedback loop. When a resident purchases groceries, he or she probably does not recognize that the tax paid is used to fund the Fire Department. Few residents are aware that each resident pays over \$100 per year in sales taxes to pay for the Fire Department. In addition, there is no relationship between the benefit received and the amount paid for fire protection. The young family of five living in a small home could easily be contributing far more for fire protection than the retiree and certainly more than the non-resident second-home owner.

One alternative would be to fund the Fire Department through a property tax. This would make good sense if it were not for the allocation restraints created by the Gallagher Amendment. The Gallagher Amendment has created a property tax that is inherently unfair; commercial property tax payers shoulder a disproportionately large portion of the burden in comparison to residential payers.

The answer is to operate the Fire Department in a manner similar to that of our utility enterprises by raising revenue through "special fees" rather than taxes. All city properties would be required to be customers of the Fire Department. To become a customer of the Fire Department, each covered property would first pay an impact fee set at an amount that anticipates future capital needs. All current residents would be considered to be customers without paying the impact fee. Once a property has paid the impact fee, it is then assessed an annual service fee.

Summary Recommendation: The City should ask the voters to approve a restructuring of the Fire Department so that it has its own dedicated revenue source special fees rather than taxes.

Who pays? All owners of improved property.

Estimated annual revenue increase: \$ 640,000

Appendix One: Guiding Values & Principles

The City has a number of options for how to raise additional revenue. (See information in the appendices for perspective on the City's current revenue sources. The City currently receives approximately two-thirds of its general funds from sales taxes. Each other source of revenue including business fees and licenses, the City's allocation of county property taxes, etc. is relatively small.) To assist in choosing the best options, the City has identified the following values and principles as important guides for formulating solutions to the City's needs:

Increase Incentives to Support Local Businesses & Reduce Leakage

As a small community with limited resources, many buyers have a powerful incentive to purchase items outside of the City. Buyers can often find increased selection and lower prices by traveling to larger markets. The result is that tax dollars are lost to other communities and local businesses lose sales. The City's revenue policies need to reverse the incentive to purchase items outside of the community.

Increase Revenues from Second Homes

Salida has a steadily rising number of second homes. Because most City revenue is derived from sales tax, the owners of second homes pay a disproportionately small portion to the burden of providing City services. The result is that local residents who live and work in the City are subsidizing the services provided by the City to second homeowners. In restructuring the City's revenue system, the City should view second homeowners as an important source of revenue. All new revenue proposals should be structured to maximize the contribution made by second homeowners, and thus reduce the burden placed on full-time residents.

Transparency

City residents and taxpayers often have little understanding of what benefit they are receiving when paying a tax or fee. The individual spending \$100.00 for groceries has little way of knowing that the \$2.00 in City sales tax paid contributes to maintaining streets and public facilities, fire protection, police protection, and council and administrative costs. It is far easier to criticize and resent a tax when the benefit it provides is not clear and easy to understand. Whenever possible, taxes and fees should be structured so that the payer understands what benefit he or she is receiving through paying the tax or fee.

Economic Feedback Loops

Economic feedback loops are an important aspect of free market economics and wherever possible should be incorporated into government policy. An economic feedback loop is simply a link between a benefit realized by the end user of a service and the cost paid to purchase the service. Economic feedback loops build inherent efficiencies into an economic system.

For example, both the Water and Wastewater Departments are run as enterprises and are effective at utilizing economic feedback loops. Water and Wastewater Departments are run as enterprises that derive at least 90% of their revenue from user fees rather than taxes. The fees are based on the actual cost of providing services. The result is that the benefit provided to customers accurately reflects the actual cost of providing the benefit. When costs, and thereby fees, rise, the customer has the opportunity to alter his purchasing behavior in response. When the cost of water service rises, a customer might decide to install more efficient fixtures or cut

back on irrigation to reduce the amount of water used and thus reduce the amount paid for the service.

Fairness—Equitable Distribution of the Tax Burden

Fairness is an important consideration in allocated the responsibilities for the payment of municipal services. Those who reap the benefits provided by a municipal service should also pay the costs incurred to provide the service, and those who reap no benefit from a municipal service should not be asked to shoulder the costs. For example, a second-home owner should be paying an equal tax for the provision of the municipal services such as streets and fire protection as the full-time resident next door.

Growth Should Pay for Itself

Without careful economic planning and policy, the costs of growth can easily end up being carried by existing members of the community rather than by the new development. Whenever possible, the costs of growth should be allocated to the new development and not shouldered by the existing members of the community. At the same time, new growth should not be asked to shoulder the burden of the past underfunding of city government that has already occurred.

Eliminate Indirect Taxes—Unfunded Depreciation

All City infrastructure is subject to depreciation in value from age, use, and wear. From the moment a street is paved, it has a useful life before it will need to be repaved and ultimately replaced. With good maintenance, the useful life can be significantly extended. However, depreciation is a real cost. It must be included in budgeting.

When the City fails to reinvest in infrastructure in an amount equal to the amount of future replacement costs of depreciating assets, the City incurs what is best recognized as a depreciation debt. In reality, someone will pay depreciation debt at sometime. The only real question is when and by whom? In summary, the failure to provide for the funds to pay for replacing depreciating assets is an indirect tax that is deferred onto the next generation of taxpayers who will have to find a way to finance paying for the under-funding of capital infrastructure by the current generation of taxpayers.

For example, City residents currently are paying a depreciation debt in the form of a \$225,670 annual payment on a tax revenue bond that was first taken out in the early 1990s to pay for infrastructure needs that had accrued at that time. City taxpayers will continue to pay for these improvements until 2011 when a final payment of \$435,000 is due. The City was forced to bond the improvements because it lacked the funds to pay for the accumulated depreciation of infrastructure. Much of the improvements made possible by this bond are already in a state of disrepair due to inadequate maintenance. The end result is that we struggle to maintain our infrastructure today because we are still paying off the depreciation debt that was incurred through underfunding in the 1970s and 80s.

To reverse this trend, the City needs to make the following changes:

1. Perform an annual economic evaluation of the City's infrastructure needs for both the short and long term.
2. Establish the minimum investment that must be made every year to keep the City from incurring any depreciation debt.
3. Set the amount of taxes and fees to bring in the minimum revenue necessary to break even on all infrastructure costs: direct and indirect.

4. Set the amount of taxes and fees at a rate that will allow the City to pay off all past debts, direct and indirect, within a reasonable time frame.

Limited Government

The size of government should be limited to the minimum size necessary to fulfill its essential functions effectively and efficiently. The City cannot and should not attempt to be all things to all people. Instead, the City needs to identify those things that it can and should do, and not venture into areas that could be served by more suitable government agencies, the private sector, non-profits, or citizens.

Appendix Two: Revenue Sources

As a statutory city, Salida is limited in the types of measures it can use to generate revenue to pay for the City's operations and capital infrastructure. The most common means of generating revenue include: 1) Property tax, 2) Excise tax, 3) Special assessment, 4) Special fee, and 5) Occupation Tax.

Property Taxes: A property tax, also known as an *ad valorem* tax, is a tax on the value of real and personal property located within the jurisdiction of the City. The recognized purpose of the property tax is to generate revenues to pay for the general expenses of government, as distinguished from the expense of a specific function or service. Property taxes must be applied uniformly to each class of property and allocated in accordance with the assessed valuation of the property subject to the tax. The amount of a property tax is calculated by multiplying the assessed value times an Assessment Rate Adjustment (Gallagher Amendment) times a mill levy. The mill levy assessed by Salida is 4.138. A residential property valued at \$200,000 pays \$65.92 in property taxes per year. A commercial property valued at \$200,000 pays \$231.72 per year.

Excise Taxes: An excise tax is not based on the assessed value of the property subject to the tax but, instead, is imposed on the performance of an act, the engaging in an occupation or the enjoyment of a privilege. As a practical matter, the term "excise tax" has come to mean and include practically any tax that is not assessed on the basis of the value of property. The purpose of an excise tax, like that of the property tax, is to provide revenue for the general expenses of government.

Sales Tax: The sales tax is the City's primary source of revenue. A sales tax is an excise tax that is levied on retail sales of tangible personal property and some services at the time and place of sale.

Use Tax: A Use Tax is levied on the retail purchase price of tangible personal property that is purchased outside of the City's taxing jurisdiction, but stored, used, or consumed within the jurisdiction.

Special Assessment: In contrast to property and excise taxes that are applied to equally to all classes of taxable entities within a taxing jurisdiction and are used to pay the general expenses of government, the revenue generated by a special assessment must be used only for payment for capital improvement directly benefiting the assessed properties. The special assessment must benefit the assessed property in an amount that at least equals the amount of the special assessment and the funds generated cannot be diverted to other purposes.

Special Fee: In contrast to property and excise taxes that are applied equally to all classes of taxable entities within a taxing jurisdiction and are used to pay the general expenses of government, the special fee is a charge paid for a particular governmental service from which the payer receives some direct benefit. Special fees do not need to be voluntary. The revenue generated by a special fee must only be used to pay for the specific service for which it is assessed and the amount charged must be reasonably related to the overall cost of providing the service. In Salida, both the water and wastewater treatment enterprises use special fees to generate at least 90% of their revenue.

Occupation Tax: An occupation tax is a tax imposed for the privilege of operating a business or practicing an occupation or profession within the City jurisdiction. One common type of occupation tax is a fee applied to hotel/motel/lodging type businesses based on the number of rental accommodations available.

Appendix Three: City of Salida–Financial Structure

The City’s financial structure is managed as five funds: 1) the General Fund, 2) the Water Enterprise Fund, 3) the Wastewater Treatment Enterprise Fund, 4) Conservation Trust Fund, and 5) the SteamPlant Fund.

City of Salida: 2008 Summary Revenue Budget				
	Total	%	Capital	Operations
General Fund	\$5,293,046	58.3%	\$1,385,603	\$3,907,443
Water Enterprise	\$1,774,442	19.6%	\$704,965	\$1,069,477
Wastewater Enterprise	\$1,085,775	12.0%	\$126,000	\$959,775
Conservation Trust	\$52,100	0.6%	\$52,100	\$-
SteamPlant	\$866,996	9.6%	\$600,800	\$266,196
Total Revenue	\$9,072,359		\$2,869,468	\$6,202,891

General Fund

The General Fund covers the majority of the City’s operations including: General Government, City Clerk, Finance Department, Municipal Court, City Administrator, Community Development, Police Department, Fire Department, Public Works, Recreation, Aquatic Center, and Parks & Trails.

2008 General Fund Revenue Budget		Amount	% of Total
Taxes	Property Taxes	\$248,497	4.39%
	Specific Ownership Taxes	\$52,000	0.92%
	Sales Tax-City	\$2,389,528	42.25%
	Sales Tax-County	\$1,297,788	22.95%
	Cigarette Tax	\$26,000	0.46%
	Franchise Tax	\$196,000	3.47%
	Delinquent Tax	\$100	0.00%
	Motor Vehicle Tax	\$26,000	0.46%
	Total Taxes	\$4,235,913	74.89%
Other	Licenses & Permits	\$11,850	0.21%
	Intergovernmental Revenue	\$485,815	8.59%

Aquatic Center Revenue	\$255,000	4.51%
Recreation Revenues	\$33,200	0.59%
Fees for Services	\$43,875	0.78%
Fines & Forfeitures	\$61,000	1.08%
Interest Income	\$120,000	2.12%
Planning & Zoning Fees	\$25,000	0.44%
Misc. Revenue	\$56,167	0.99%
Other Revenue	\$328,000	5.80%
Total Other Revenue	\$1,419,907	25.11%
Total General Fund Revenue	\$5,655,820	

Water Department

The Water Department operates as a government enterprise: it derives at least 90% of its revenue from fees for services. The 2008 Budget anticipates total revenue at \$1,069,477, with \$769,477 coming from water sales and related fees and \$300,000 coming in one-time grants.

Wastewater Department

The Wastewater Department operates as a government enterprise: it derives at least 90% of its revenue from fees for services. The 2008 Budget anticipates total revenue at \$959,775.

Appendix Four: City of Salida—Revenue

Property Tax

The City assesses a Mill Levy of 4.138 on all real property. In addition, the City receives an allocation of approximately 10% of the total property tax collected by Chaffee County.

- The total revenues received by the City from City property taxes and the allocation of Chaffee County property taxes in 2007 was \$236,000.
- Property taxes are used by the general fund.
- A residential property valued at \$200,000 pays \$65.92 in property taxes per year.
- A commercial property valued at \$200,000 pays \$231.72 per year.
- The property tax accounts for 4.4% of General Fund Revenue and 2.7% of total revenue.

Sales Tax

All retail sales of tangible personal property within the City’s jurisdiction are subject to a 6.9% sales tax. Of the overall 6.9% sales tax, the City’s share is 2%, with the State taking 2.9% and the County 2%. The County also rebates a significant portion of sales tax it collects to the City.

- The total anticipated revenue from all sales tax for 2008 is 3,687,316.
- The total anticipated revenue from City sales tax for 2008 is \$2,389,528.
- The total anticipated revenue from County sales tax for 2008 is \$1,297,788.
- Sales taxes are used by the general fund.
- Sales Taxes account for 65.1% of General Fund revenue and 40.6% of total revenue.

Water Service & Usage Fees

The Water Department is operated as a government enterprise and therefore charges fees for the services it provides and receives less than 10% of its operating and capital budget from taxes.

Wastewater Service & Usage Fees

The Water Department is operated as a government enterprise and therefore charges fees for the services it provides and receives less than 10% of its operating and capital budget from taxes.