



MEMO From the office of the Town Manager

To: Colchester Selectboard

From: Dawn H. Francis, Town Manager
Aaron Frank, Assistant Town Manager/ CFO

Date: January 21, 2015

Re: Local Option Tax as a Ballot Item for Town Meeting, March 2015

Issue: The issue is whether or not the Selectboard wishes to pursue a town-wide Australian Ballot vote on a Charter Change authorizing the imposition of a local option tax (LOT) on sales, rooms, meals and alcoholic beverages at the March 2015 Town Meeting.

Background:

Public Process and Input

The Selectboard has considered a local option tax on and off since 2006. There has been research and two public presentations done by former CFO/ATM Joan Boehm and current CFO/ATM Aaron Frank over the last two years. Most recently, the Selectboard held two warned public hearings after a town-wide mailing to all taxpayers conducted on January 13 and 27. We also held a joint meeting with the Colchester Community Development Corporation on December 1, 2014 to review staff research and recommendations and discuss the Local Option Tax from the business community perspective. Some outreach has been done to other community businesses as well. A letter from CCDC in support of the Local Option Tax being used for payment of our current debt and to provide resources for major investments when "residents have identified major capital projects that they find necessary" was issued on 12/22/14 and provided at the Selectboard's hearing on 1/13/15.

Staff engaged the services of a qualified independent consultant to review our estimates of revenue potential and "who pays" as well as two attorneys (one specializing in municipal financing) to assist us with the drafting of the warning.

Current Proposal for Proposed Use of the Local Option Tax

The Selectboard seems supportive of using the LOT revenues to reduce the Town's overall debt load. The Town's General Fund supported (paid by property taxes) debt service obligations total \$6,485,931 with annual debt service of \$671,648 for FY 16. This debt was incurred with voter approval for the Bayside/Hazelett property, Town Hall, Police Building Renovations, a townwide street light energy conservation project, and a drainage project in the Belwood neighborhood.

If the LOT were used to reduce the overall debt load it would have the effect of:

- Reducing property taxpayers' burden and reliance on the property tax
- Paying off the Town's debt thereby reducing taxes by at least 5% annually
- Diversifying and expanding revenue sources to pay for same. (87% of tax would be paid by non-Colchester residents)
- Providing future funding and down payments to pay for infrastructure needs or other special projects subject to voter approval.

Tax Savings

If a portion of the ***estimated \$1.3 million received from the*** LOT was used to reduced voter approved debt, the municipal tax reduction for FY 16 would be 4.9%. This would be a savings of \$81 on an average value \$289,000 single family home. The combined savings for business properties would be \$125,713, with the largest reduction for a single business of \$10,016. We would accrue enough money to pay off the debt in 4.8 years.

Based on information currently available—early estimates of both the Education and Municipal tax rates--we might have a net zero tax rate increase (considering the Education Tax and the Municipal Tax) if the LOT were warned by the Selectboard for a vote and that vote was approved by the voters.

Future Use of the Local Option Tax

One of the most significant concerns raised has been what will be done with the remaining money. We propose a reserve fund which would make future **voter approved** strategic capital investments become more viable with a non-property tax funding source (the LOT). It is vitally important for there to be transparency on what the money will be spent on at the time the vote is being considered. Using the LOT for **specific voter approved capital projects** would save the Town money, in that we need not bond for the entire project cost if we have funding available for a good portion of it. Much like a down payment on a home, the more we can pay cash for the down payment, the less we bond for, the less we pay in interest and the less we pay in taxes.

The Town has over \$100 million in capital project needs identified in plans that are currently unfunded.

Recommendations and Motions:

Although Staff had initially recommended taking more time for public input and deferring a vote until a later date (primarily due to a particularly heavy work load during this time of year), we believe we have pulled together the information needed to make an informed decision and that the proposal reflects the input received from the Board and public to date. Therefore, we believe a March vote is appropriate and a Local Option Tax can be sold as a method for lowering the tax rate. Furthermore, the ballot language requires voter control over what the LOT will be used for in the future. Finally, the Selectboard could vote to place the issue before the voters to rescind the imposition of the tax or, with a petition presented by 5 % of the voters, they could also call for a rescission of the tax.

Therefore, Staff recommends the following motions:

Motion 1

The Selectboard moves to support the concept of assessing a one percent Local Option sales, rooms, meals and alcoholic beverages tax, the proceeds of which shall be used to pay for voter approved capital projects within the Town and as well as voter approved inter-municipal financial support related thereto.

Motion 2

The Selectboard moves to approve the following language to be included on the March, 2015 Town Meeting Warning to be voted upon by Australian Ballot:

Shall the Town of Colchester amend its Charter to add Section 703, to allow the annual assessment of a one-percent (1%) Local Option sales, rooms, meals, and alcoholic beverages tax, the proceeds of which shall be used to pay for voter approved capital projects within the Town and as well as voter approved inter-municipal financial support related thereto, effective 10/1/15, pending approval of the Charter change by the Legislature?

DRAFT Proposed Charter Language (To be placed in voter booths for more information)

Section 703. Local sales, rooms, meals and alcoholic beverages tax.

- (a) The Town of Colchester may impose a tax on those transactions in the Town involving sales, rooms, meals, or alcoholic beverages which are subject to taxation by the State of Vermont. Imposition of any tax by the Town under this section shall be at the rate or rates specified in 24 V.S.A. § 138 and shall be imposed in accordance with the requirements of 24 V.S.A. § 138(a)(2), (c) and (d).*
- (b) Upon resolution of the Selectboard, or upon receipt of a petition submitted by five percent of the registered voters of the Town, at an annual or special meeting warned for the purpose by a majority of those present and voting, assess any or all of the following: (1) a one-percent sales tax; (2) a one-percent rooms tax; and, (3) a one-percent meals and alcoholic beverage tax.*
- (c) A tax imposed under the authority of this section shall be collected and administered and may be rescinded as provided by the general laws of this State.*
- (d) Revenues received through the imposition of a tax imposed under this Section shall be used for expenses or financing of voter approved capital projects within the Town and voter approved inter-municipal financial support related thereto.*

Debt Service (Governmental Debt) *

Year	Total Principal	Total Interest	Total Debt Service	Reduction each year	Street Light Capital Lease		Highway Bond		Sewer Study RFL		Bellwood Drainage RFL		Bayside Property Bond		Building Bonds	
					Principal	Interest	Principal	Interest	Principal	Int	Principal	Int	Principal	Interest	Principal	Interest
FY 09	575,420	317,731	893,151				150,000	15,187	10,778	0	49,642	0	55,000	39,963	310,000	262,581
FY 10	575,419	293,699	869,118				150,000	5,063	10,777	0	49,642	0	55,000	38,145	310,000	250,491
FY 11	425,419	274,382	699,801						10,777	0	49,642	0	55,000	36,198	310,000	238,184
FY 12	425,419	259,808	685,227						10,777	0	49,642	0	55,000	34,133	310,000	225,675
FY 13	425,419	244,920	670,339		54,284				10,777	0	49,642	0	55,000	31,955	310,000	212,965
FY 14	566,420	238,977	805,397		151,778	9,613					49,642	0	55,000	29,295	310,000	200,069
FY 15	473,602	215,014	688,616		58,960	2,695					49,642	0	55,000	25,300	310,000	187,018
FY 16	471,684	199,963	671,648	(16,969)	57,042	4,614					49,642	0	55,000	21,538	310,000	173,812
FY 17	467,804	183,061	650,865	(20,783)	58,162	3,494					49,642	0	55,000	18,992	305,000	160,575
FY 18	468,946	166,159	635,105	(15,760)	59,304	2,352					49,642	0	55,000	16,500	305,000	147,307
FY 19	470,111	148,948	619,059	(16,046)	60,469	1,187					49,642	0	55,000	13,965	305,000	133,796
FY 20	409,642	131,267	540,909	(78,150)							49,642	0	55,000	11,288	305,000	119,979
FY 21	409,642	114,669	524,311	(16,598)							49,642	0	55,000	8,765	305,000	105,904
FY 22	409,642	97,621	507,263	(17,048)							49,642	0	55,000	6,007	305,000	91,614
FY 23	409,642	80,394	490,036	(17,228)							49,642	0	55,000	2,916	305,000	77,478
FY 24	409,634	64,691	474,325	(15,711)							49,634		55,000	1,152	305,000	63,539
FY 25	360,000	45,063	405,063	(69,262)									55,000	(4,461)	305,000	49,524
FY 26	305,000	23,921	328,921	(76,141)										(11,528)	305,000	35,449
FY 27	305,000	21,312	326,312	(2,609)											305,000	21,312
FY 28	305,000	7,114	312,114	(14,198)											305,000	7,114
FY 29	0	0	0	(312,114)											0	0
FY16-29	5,201,747	1,284,184	6,485,931		234,977	11,646	0	0	0	0	446,770	0	550,000	85,134	3,970,000	1,187,403

* This schedule does not include the Septic Revolving Loan Fund or the Windemere Mobile Home debt, which are legally general fund debt but supported with payments from others.

General Fund Debt Service

