

Memo



To: St. Albans City Council, *City of St. Albans*
Through: Dominic Cloud, City Manager
From: Jeff Carr & Matthew Cooper, *Economic & Policy Resources*
Date: December 9, 2019
Re: Considerations for a Local Option Tax

Potential Action:

Shall the City Council of the City of St. Albans request approval by the Vermont General Assembly of a City Charter change to enact:

- (1) a one percent local option Sales & Use Tax, within the City of St. Albans, and/or
- (2) a one percent local option Meals, Rooms and Alcohol Tax within the City of St Albans?

Consistent with 24 V.S.A. Sec. 138a and to be administered by the State of Vermont.

The Issue

Authorized by Vermont Statute for the purpose of "...affording municipalities an alternative method of raising municipal revenues..." other than property taxes, the Vermont Local Option Tax (LOT) allows communities to adopt a tax on the purchase of items which are already subject to the Statewide Sales, Meals, Alcoholic Beverages, and Rooms Taxes. The local option Sales Tax would be assessed on these items at 1% of gross purchase price, in addition to the baseline Statewide tax. The local option Meals and Rooms Tax would assess an additional 1% on sales of non-exempt retail items, alcoholic beverages, meals, and rooms. By statute the LOT does not apply to items subject to use tax, nor would it be assessed on purchases of motor vehicles.

Currently, the State assesses a 6% Sales and Use Tax on a number of goods (including e-commerce sales) and services (e.g. utility bills and cable TV). The State also assesses a 6% Use tax—which is not a part of the LOT. The State assesses a 9% tax on meals and rooms charges, and a 10% tax on the sale of alcoholic beverages. The LOT for the City would add a percentage point to those qualifying purchases. Therefore, within the City, the LOT Sales tax would be 7% on qualifying purchases—with one percentage point of those taxes inuring to the City on a quarterly basis. The LOT would mean restaurant meals and room charges would be subject to total 10% tax—with one percentage point of those taxes inuring to the City on a quarterly basis. Alcohol beverage purchases would be taxed at the rate of 11%—again with one percentage point of those taxes inuring to the City on a quarterly basis.

In Vermont, the concept of LOT has gained a significant amount of acceptance. As of December 2019, a total of 15 municipalities across the State impose a local option sales tax,¹ and a total of 22 municipalities impose the local tax on meals, rooms, and alcoholic beverages. Burlington (with

¹ Killington rescinded its LOT Sales tax and subsequently imposed a LOT for meals, rooms, and alcoholic beverages.

a 2% LOT) and Rutland (with a 1% LOT) each have a locally administered “Gross Receipts” tax on rooms, restaurants, and entertainment/admissions, on top of the statewide tax applied to these items. A total of 7 municipalities in the State have LOT on meals, rooms, and alcohol only. In total, 15 municipalities have both LOT on Sales tax items as well as meals, rooms, and alcohol, including St. Albans Town, which was implemented in July 2014.

News stories regarding debates about the approval-implementation of LOT throughout the State suggest that there will be both support and opposition within the community to the concept of LOTs. The level of support typically is a function of what the proceeds of any LOT will be used for, and a recognition that LOT can be viewed as user-charges for both residents and visitors who value the assets of the City and patronize those establishments to use the City’s high-quality services offerings and amenities. In other words, because LOT are structured to be elective and consumption-based, they are a way to more directly support the City’s attractions-amenity base instead or relying indirectly on property tax payments by the City’s business. Opposition to any LOT proposal typically comes from parties within the community concerned about the competitive impact on local businesses who must charge, collect, and remit the LOT. There also can be expected to be opposition to any LOT proposal from those who tend to be philosophically opposed to any increase in City taxes or fees.

Behaviorally, a one percentage point change in the total charges on a bill for taxable sales, taxable meals, taxable rooms, and/or purchases of alcoholic beverages tend to be very small (e.g. \$1.00 per every \$100 dollars spent). Generally speaking, experience with LOT through the State indicate that differences in total bills of that magnitude have not been reported to be enough to significantly alter consumption behavior-habits. This is especially true because the City is already a destination for many residents throughout the upper northwest Vermont in the region and for Canadian visitors. In addition, the Town and other potentially competing commercial-destination centers in northwest Vermont also have LOT on the books (e.g. the City of Burlington, The City of South Burlington,² Town of Williston, Town of Colchester, City of Winooski, and Town of Stowe, etc.).

“Second Round” Estimate of Revenue Potential (Subject to Further Confirmation):

Following up on the initial estimates by LOT source presented last month, the following table sets forth the estimated LOT tax receipts by major LOT source for previous fiscal years dating back to FY 2006, based on actual gross sales data for those historical time periods, collected from the Vermont Department of Taxes. The proposed LOT tax was applied to the historical sales data for items and services subject to sales, meals, rooms, and alcohol tax.³ These estimates of past revenues assume no diminutive impact associated with the imposition of the 1% LOT taxes and that the reported sales data as reported by the Vermont Department of Taxes is substantially

² Note the City of South Burlington recently discussed the possibility of requesting the addition of a second percent to its existing 1% LOTs.

³ Please note that the Vermont Department of Taxes does not publish gross sales data by municipality when there are fewer than ten taxpayers for confidentiality reasons. Since St. Albans City contains fewer than ten rooms taxpayers, the historical data used for this analysis does not include estimated rooms tax for the historical period back to FY 2006. This means that this analysis likely underestimates LOT revenue to the City that was calculated based on this non-reported historical data.

correct—which is still subject to confirmation. Attachment A (below) takes this historical data forward with conservative assumptions. We also believe that the suppressed data for room receipts historically makes this past estimate and the future guesstimate “likely conservative.” It is possible that the LOT revenues from the Meals, Rooms and Alcohol LOT could be significantly higher than estimated in the Table below and in the forward looking table in Attachment A. The 2019 number is based on three quarters of fiscal year 2019 using 180-day (or six month) data.

Fiscal Year	FY Total City LOT Revenue	Annual % Growth	Total Sales	Annual % Growth	Total Meals, Rooms, & Alcohol	Annual % Growth	Sales Share of Total Estimated LOT Revenue
FY 06	\$671,822		\$585,241		\$86,581		87.1%
FY 07	\$595,666	-11.3%	\$527,089	-9.9%	\$68,577	-20.8%	88.5%
FY 08	\$522,391	-12.3%	\$427,376	-18.9%	\$95,015	38.6%	81.8%
FY 09	\$606,016	16.0%	\$515,665	20.7%	\$90,350	-4.9%	85.1%
FY 10	\$550,515	-9.2%	\$480,200	-6.9%	\$70,316	-22.2%	87.2%
FY 11	\$527,732	-4.1%	\$505,175	5.2%	\$22,556	-67.9%	95.7%
FY 12	\$650,497	23.3%	\$548,960	8.7%	\$101,537	350.2%	84.4%
FY 13	\$689,755	6.0%	\$577,305	5.2%	\$112,450	10.7%	83.7%
FY 14	\$637,019	-7.6%	\$528,149	-8.5%	\$108,870	-3.2%	82.9%
FY 15	\$628,442	-1.3%	\$516,895	-2.1%	\$111,547	2.5%	82.3%
FY 16	\$670,469	6.7%	\$536,102	3.7%	\$132,403	18.7%	80.0%
FY 17	\$708,747	5.7%	\$565,444	5.5%	\$143,303	8.2%	79.8%
FY 18	\$779,187	9.9%	\$616,345	9.0%	\$162,842	13.6%	79.1%
FY 19 - Prelim.	\$855,256	9.8%	\$684,422	11.0%	\$170,834	4.9%	80.0%
Average % 10 YR/19 YR Growth				1.9%		2.6%	
1. FY 10 and FY 11 include time periods for which historical gross activity data is not available for Meals and Alcohol sales activity. Gross sales activity data is complete for all analyzed years, and therefore the most accurate time series. 2. Sales Tax uses a 10 YR Average Growth less one pct. Pt./M&R Tax uses a 19 YR Average % Growth less one pct. pt.							
<i>Prepared by Economic & Policy Resources, Inc.</i>							

Recommendations by Decision-Point for LOTs

The following represents EPR’s and City staff’s recommendations by decision-point for the City Council’s review-potential action.

Decision Point #1:

- The City Council must decide on which LOT to pursue (Meals, Rooms, Alcohol; OR Sales) or decide to pursue both. **EPR and City staff recommend that the City pursue a charter change both LOT options.**

Decision Point #2:

- The City needs to decide and have a policy for how to use the proceeds of the LOT:
 - To fund general governmental services (e.g. add new “high efficacy service;” and/or replace some funds used for municipal services paid for by the property tax;
 - To fund “Pay As You Go” expenditures for City infrastructure or amenity investments;
 - To fund “debt service” for City infrastructure or amenity investments; or
 - To fund a combination of some or all of the above.

EPR and City staff recommend that the proceeds from both LOT options be used to fund future investments in the City’s infrastructure and amenities—with a small

portion (suggested at 5% of the total proceeds from both LOTs in any given year) be set-aside and used to provide assistance to low income households in the City to better afford the City's programs (e.g. recreation programs).

Decision Point #3:

- The City staff needs to engage the City attorney to draft charter change language for review and possible approval. **EPR and City staff recommend the City attorney be asked to draft charter change language for City Council review-approval/City vote.**

Decision Point #4:

- Engage local stakeholders in outreach regarding the LOT issue and its implementation. The Council will need an active factual Voter/Stakeholder outreach or information meetings on proposed change to City charter to allow LOT. **EPR and City staff recommend that outreach begin immediately after a City Council decision to move forward on the LOT.**

Next Steps

In order to place a LOT item on the 2020 Town Meeting Day ballot (March 3rd, 2020)—assuming an affirmative City Council consensus to take the next step, the following series of steps are required through January 2020:

1. **Through Mid-December through January:** Assuming the City Council is agreeable to moving forward with the LOT proposal:
 - a. Request that the City Attorney draft the Charter change language for potential submission to the 2020 VT General Assembly, including proposed effective date on which LOT will begin collections for City Council review-decision. At this point, it remains possible to **target the implementation of the LOT for July 1, 2020, corresponding to the beginning of Fiscal Year 2021**, assuming the City council and voters elect to proceed. This includes conforming changes to existing local taxing authority currently in the City's charter.
 - b. Continue to refine the analysis of LOT "Sources" (LOT revenue estimates—confirm list with Vermont Department of Taxes⁴) and potential "Uses" (possible infrastructure projects; Develop-refine eligibility criteria for low income households for the selected City program or programs); Begin community outreach
 - c. **Warning of LOT ballot measure & charter change required between 30-40 days prior to Town Meeting Day which is on March 3, 2020 (likely in late January)**
2. **February:** Voter/Stakeholder Outreach and Information Meetings on proposed LOT Charter Change.
3. **Town Meeting Day – March 3, 2020:** City-wide vote
4. **Post-Town Meeting Day:** Assuming LOT is approved by local voters, City charter change will need to be submitted to the 2020 VT General Assembly, the latest possible legislative session prior to a July 1, 2020 implementation date.
 - a. Continue implementation and outreach efforts.
 - b. Continue implementation tasks-systems development

⁴ This request has been made but is pending as of December 9, 2019 with the Department of Taxes.

Attachment A: Early “Guess-timate” of Long-Term Revenue Potential

Using a conservative long-term weighted average growth rate of between 2.0 percent and 2.1 percent average growth per year (which is about the current rate of consumer price inflation), a preliminary “guess-timate” of LOT revenues was developed for the period through fiscal year 2050 as presented in the table below.

Fiscal Year - Forecast	FY Total City LOT Revenue	Annual % Growth	Total Sales	Annual % Growth	Total Meals, Rooms, & Alcohol	Annual % Growth
FY 19	\$855,256	9.8%	\$684,422	11.0%	\$170,834	4.9%
FY 20	\$872,579	2.0%	\$697,232	1.9%	\$175,347	2.6%
FY 21	\$890,260	2.0%	\$710,282	1.9%	\$179,979	2.6%
FY 22	\$908,308	2.0%	\$723,575	1.9%	\$184,733	2.6%
FY 23	\$926,731	2.0%	\$737,118	1.9%	\$189,613	2.6%
FY 24	\$945,536	2.0%	\$750,914	1.9%	\$194,622	2.6%
FY 25	\$964,732	2.0%	\$764,968	1.9%	\$199,763	2.6%
FY 26	\$984,326	2.0%	\$779,286	1.9%	\$205,040	2.6%
FY 27	\$1,004,328	2.0%	\$793,871	1.9%	\$210,457	2.6%
FY 28	\$1,024,746	2.0%	\$808,729	1.9%	\$216,016	2.6%
FY 29	\$1,045,588	2.0%	\$823,866	1.9%	\$221,723	2.6%
FY 30	\$1,066,865	2.0%	\$839,285	1.9%	\$227,580	2.6%
FY 31	\$1,088,585	2.0%	\$854,994	1.9%	\$233,591	2.6%
FY 32	\$1,110,758	2.0%	\$870,996	1.9%	\$239,762	2.6%
FY 33	\$1,133,394	2.0%	\$887,298	1.9%	\$246,096	2.6%
FY 34	\$1,156,502	2.0%	\$903,905	1.9%	\$252,597	2.6%
FY 35	\$1,180,092	2.0%	\$920,822	1.9%	\$259,270	2.6%
FY 36	\$1,204,175	2.0%	\$938,057	1.9%	\$266,119	2.6%
FY 37	\$1,228,762	2.0%	\$955,614	1.9%	\$273,148	2.6%
FY 38	\$1,253,863	2.0%	\$973,499	1.9%	\$280,364	2.6%
FY 39	\$1,279,490	2.0%	\$991,719	1.9%	\$287,770	2.6%
FY 40	\$1,305,653	2.0%	\$1,010,281	1.9%	\$295,372	2.6%
FY 41	\$1,332,364	2.0%	\$1,029,189	1.9%	\$303,175	2.6%
FY 42	\$1,359,636	2.0%	\$1,048,452	1.9%	\$311,184	2.6%
FY 43	\$1,387,479	2.0%	\$1,068,075	1.9%	\$319,404	2.6%
FY 44	\$1,415,907	2.0%	\$1,088,065	1.9%	\$327,842	2.6%
FY 45	\$1,444,932	2.0%	\$1,108,430	1.9%	\$336,502	2.6%
FY 46	\$1,474,567	2.1%	\$1,129,176	1.9%	\$345,391	2.6%
FY 47	\$1,504,825	2.1%	\$1,150,310	1.9%	\$354,515	2.6%
FY 48	\$1,535,719	2.1%	\$1,171,839	1.9%	\$363,880	2.6%
FY 49	\$1,567,264	2.1%	\$1,193,771	1.9%	\$373,493	2.6%
FY 50	\$1,599,473	2.1%	\$1,216,114	1.9%	\$383,359	2.6%
FY 51	\$1,632,362	2.1%	\$1,238,876	1.9%	\$393,486	2.6%

Prepared by Economic & Policy Resources, Inc.

It is important to note that, as with any long-term forecast, it is unlikely that revenues will grow at a constant annual rate. The historical data table shows that annual growth rates of total estimated revenues in the hypothetical LOT Sales Tax and Meals, Rooms, and Alcohol Tax can increase and decrease significantly year to year based on a number of local and external factors—including cycles in the economy. It is likely that at least three economic recessions will take place

between the current fiscal year and the period through fiscal year 2050—or roughly three decades from now—with the next recession likely in the gray-shaded area of the table. Using the data in the historical data table for the fiscal year period around the “Great Recession” (fiscal years 2007-08) for illustrative purposes, it is possible that LOT receipts could decline by as much as one-fifth (e.g. -22.2% corresponding to the two-year period including fiscal years 2007 and 2008) in and around that period.