

MINUTES

**McCall City Council
Special Meeting
Idaho First Bank Community Room
475 E. Deinhard Lane
September 30, 2014**

Agenda

Call to Order and Roll Call
Work Session
Adjournment

CALL TO ORDER AND ROLL CALL

Mayor Aymon called the Special meeting of the McCall City Council to order at 6:05 p.m. Mayor Aymon, Councilor Giles, Councilor Scott, Councilor Swanson, and Councilor Witte answered roll call.

Staff present Gene Drabinski, City Manager; Linda Stokes, City Treasurer; Dennis Coyle, Parks and Recreation Director; Peter Borner, Public Works Director; Erin Roper, Communications Coordinator; and BessieJo Wagner, City Clerk.

PUBLIC FORUM

Public Forum – 1% Sales Tax Initiative

Mayor Aymon welcomed the attendees and introduced the Council.

Gene Drabinski, City Manager, opened the public forum by describing the process for passing the ordinance for the 1% sales tax. He described the process that began with City departments presenting their high-priority capital needs. The Capital Improvement Committee (CIC) scored each project using a priority matrix. He stated that it was quickly discovered that the streets and sewer and water lines were the most in need of repair or rebuilding. Mr. Drabinski showed slides to the audience of several places in the City where the streets and infrastructure are broken down and in need of replacement. He stated that when the CIC reviewed these slides they immediately began to focus on streets and infrastructure instead of the other departments. Mr. Drabinski stated that a finance advisor was consulted and provided three financing options; one was to cut the budget, the second was to borrow the money, and a third option was to find a new source of revenue. He stated that cutting the budget would not produce enough money to help.

Mr. Drabinski explained that the Council looked at getting a bond, but this would increase property taxes to pay it back. He stated that grants were another option, but matching funds are needed and there are many cities competing for grants. He stated that the Local Option Tax was

also explored and the Capital Improvement Group recommended a 1% sales tax ordinance to fund streets projects. Mr. Drabinski stated that the group wanted to make project-by-project decisions about bonding or local improvement districts and that a bond could be paid off with revenue from a 1% sales tax. He explained that for a local improvement district, it also leaves the City the capability of underwriting the property tax increase with revenue from the 1% sales tax. Mr. Drabinski stated that after discussion it was decided that the City would go forward by making an annual contribution from ordinary city revenue for the replacement and maintenance to extend the life of capital projects funded by the 1% sales tax so that in 20 years the City does not have to raise this money again, but rather, a fund would exist to be able to keep up on maintenance.

Mr. Drabinski explained the details of the ordinance, namely, what would be taxed and for how long. He stated that items for which a 6% sales tax applies would be taxed at 7% for a period of 10 years. This could only be implemented with 60% of the vote and modified with 60% of the vote. He explained that the revenue would be used for direct costs of administering the tax, and only for street replacement and resurfacing, ADA-compliant sidewalks, and repair or replacement of new underground utility infrastructure. Ordinarily the latter is paid for by rate payers, so this is unusual. Also included would be pathways for pedestrians and bicycle, and matching funds for leveraging grants or to underwrite bonds or LIDs for the above uses.

Mr. Drabinski explained how it would be determined what gets fixed. He stated that seven volunteer members would be appointed to a Capital Infrastructure Advisory Committee, which would be comprised of three McCall business owners and four at-large residents. He stated that the members would review the Ten-Year Streets Plan and use it to make funding recommendations to Council for specific projects that would satisfy the above criteria for each year. The Ten-Year Streets Plan describes the remaining service life of asphalt on each street and the cost breakdown to replace, etc. He explained that also, a Capital Infrastructure Budget would be established. There would be a specific line item in each fiscal year's budget apart from revenue that is generated by the 1% sales tax ordinance, taking funds that come from property taxes to set aside for future replacement and maintenance.

Question and Answer Discussion

Steve Gaines is a new resident. He asked how the tax would be collected. Would it be sent to the Idaho State Tax Commission and would they charge a fee for collection? Mr. Drabinski replied that the City would self-administer the tax. The Idaho State Tax Commission would charge about \$160K a year, so the City would save that money and administer it internally.

Mr. Gaines added that being a resident of McCall, this tax would affect him on a daily basis, like when going to the grocery store. He asked if he would have to pay the extra 1% when registering a vehicle that had been purchased elsewhere. Mayor Aymon explained that the beauty of this tax is that the visitors share the brunt of paying it, and she anticipated that approximately 70% of this tax would be paid by visitors. Mr. Gaines asked how she could anticipate 70% of the tax being paid by visitors when people that live here seven days a week are shopping all week long. Mr. Drabinski explained that the tax would be administered locally instead of having it go through the State. When a retailer pays the 6% sales tax they will send the additional 1% directly to the City. Mr. Drabinski said he would research the vehicle tax question and post it later online.

Mr. Gaines asked how it is known that the visitors would pay 70%. Mr. Drabinski explained that this number was derived from experience with other similar cities in Idaho who have the additional 1% sales tax. Of the money collected, about 70% is collected from people who do not live in the City. Mr. Gaines then asked why the money could not come from property taxes, because there are so many second homes that would not qualify for the Homeowners Exemption. Mayor Aymon explained that the City is only allowed to levy a maximum 3% increase in property taxes every year, which would only be \$142K. The sales tax would earn more revenue than that, an estimated \$1 million per year.

David Sorensen said he was concerned about the burden of the 1% sales tax on the citizens of McCall. He is going to build a house in the spring, and if the building goods are taxed through Franklin or ProBuild, he would purchase his building supplies in Boise and transport them because 1% of this cost is quite a bit when building a house. If others think like him it would impact local businesses and reduce their sales. Mayor Aymon pointed out that not having the 1% and likewise not fixing our roads would be expensive and cause hardship for our locals because cars may get damaged on our bad roads. Alternatively, if we raised property taxes to fix roads the homeowners would pay more taxes, but in addition the landlords may raise rent and this would likewise affect the renters too. She also mentioned that community safety can be impacted if our water quality and sewer are compromised. Also, economic development would be impacted because the poor infrastructure would impair economic development. Mr. Sorensen also asked if there was something the citizens were willing to do to help make the city better, perhaps by volunteering. Mayor Aymon acknowledged the volunteers that help with some of the City's projects, but when talking about the infrastructure, it has to be done by professionals.

Rebecca Hurd commented that the very nature of this tax is regressive. She wanted to know is there any way to look at this from a very basic human need -- food, and how it would impact people's monthly income. Are there certain exclusions that this tax would include? Councilor Swanson replied that he was probably the lowest income person on the Council and that this tax would personally burden him further. He acknowledged that this tax would hurt everybody, but on the other side, he pays rent, and he noted that if the money was raised by raising property taxes his landlord would be affected by about \$80 for every \$100K in taxable value, so perhaps an increase in \$20 or \$30 per month in rent. In comparison to a sales tax, he would have to spend about \$3K a month on food to be paying more in sales tax on food when compared to the increase in property tax. Councilor Swanson also expressed concern that he would not be able to buy a house someday should property taxes rise. Ms. Hurd once again asked if the tax could be set up to exclude some very basic human needs in the community and reminded the group of low income families living in the area. Councilor Swanson explained that the reason certain categories were not excluded was so that the City could gain the most revenue in a short period of time and not have to continue the tax past the 10-year period. Councilor Witte added that the 1% sales tax spreads out the burden to all people who use the streets instead of just those who pay property taxes and includes those in the impact area.

Mr. Drabinski added that USDA was contacted to see the impact on a family of four, and that impact, depending on how they buy, would be between \$8 and \$11 per month. It was also learned that food stamps are exempt from this and that there is a food tax rebate provided by the

State. Also, there is the possibility that the increased revenue from the sales tax might provide additional employment opportunities.

Christie Grob asked if food was excluded and if it was feasible to supplement the difference by increasing tax elsewhere such as the bed tax or alcohol? Mayor Aymon explained that the ordinance is already fixed for 1% sales tax increase so no amendments can be made to it at this point. It is always a possibility to do that in the future. Mr. Drabinski gave the example of Ketchum where they have a very complex sales tax that excludes food and pharmaceuticals but taxes liquor by the drink, lift tickets, etc. However, there is a very different demographic there and a larger tourist economy and it raises around \$7 million a year.

Dan Krahn asked for clarification about the term "point of delivery." This refers to business that may be outside city limits but may deliver goods to places inside city limits, making the purchase subject to sales tax even though the business is not in city limits. He asked how merchants become responsible for that or are penalized. BessieJo Wagner, City Clerk, replied that State statute says that if delivery is made within city limits then it would be taxed, and if delivery is made outside the city then it would not be taxed. It is much like the tax that citizens are required to pay on internet purchases. Ms. Wagner implied that if the City knows that there is an issue then it would be enforced. If someone delivers within the city from Boise and they do not pay the tax and the City learns about it, then it would be addressed with that vendor. She stated that many vendors do call the City and ask if there is a tax so they know before delivering to McCall. Mr. Krahn also asked if the City was trying to reach other groups that may be impacted by the sales tax, such as senior citizens. Mayor Aymon responded that the City is trying to get in front of every group in the city to talk about the sales tax. He also added that the vehicle registration question comes from a county level, so the additional sales tax may not be relevant. Lastly, as a retailer, Mr. Krahn pointed out that the 1% increase in sales tax would not justify the time and expenses to buy materials from outside the area.

Rick Fereday asked if this would affect people buying homes. The Council replied that it would increase the price of homes, but there is already a considerable difference in taxes when buying inside versus outside city limits.

Mayor Aymon added closing comments, stating that the City is not going to be rescued. The State has a \$500 million backlog of failing infrastructure projects of its own. The Federal government is also cutting funding as well. She stated that the people who live here need to step up and fix the problem. Spreading the cost across all users is the fairest way to come up with the money.

Rick Fereday commented that he tried to help pass a 1% tax 15 years ago. He acknowledged from his observation over the last 40 years that the City's infrastructure has never been properly invested in and it appears that some very poor decisions have been made in the past. He felt that the tax is fair and appropriate.

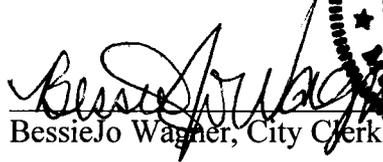
Mayor Aymon stated that the City Engineer has done two surveys of the City's paved roads and it was determined that in order to maintain the existing roads in their current condition it would cost \$700K to \$800K a year just to maintain the roads right now as they are. The current roads

maintenance budget is \$200K to \$300K a year, so the City is way behind. That leaves no money for building or rehabilitating, just maintaining the roads in their current condition. Mayor Aymon reinforced that it is the local citizens' responsibility to do the right thing and support the tax.

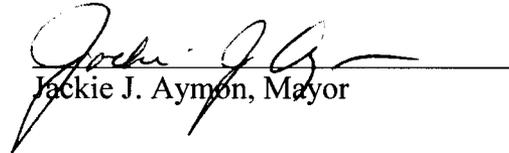
ADJOURNMENT

Without further business, Mayor Aymon adjourned the meeting at 7:51 p.m.

ATTEST:


BessieJo Wagner, City Clerk




Jackie J. Aymon, Mayor