



November 3, 2006

TO: Mayor and City Council

FROM: Mari E. Macomber, City Manager *MEM*

SUBJECT: Study Session – **November 8, 2006**

The City Council will be hosting their bi-monthly Study Session on Wednesday, November 8, 2006 starting at 5:30 p.m. The Meeting will be held in the second floor conference room of City Council of City Hall.

- 1. CAPITAL IMPROVEMENTS SALES TAX**
- 2. USE TAX**
- 3. SRF WATER AND SEWER PROJECTS**
- 4. AIRPORT MARKETING PLAN**
- 5. REVIEW NEWSLETTER - November 3, 2006**

1. CAPITAL IMPROVEMENTS SALES TAX

The City of Kirksville has had a Capital Improvements Sales Tax since October 1, 1992. It passed with 62% of the voters supporting the measure and was in effect for five years. It was renewed again by the voters for another five years with 84% of the voters supporting the tax. In 2002 the community supported the tax again with 72% in favor of renewing the tax. The tax is set to expire on September 30, 2007, if it is not renewed again by the voters.

The ballot language for the last election was as follows:

Shall the City of Kirksville, Missouri, continue to impose a sales tax of one-fourth of one percent for the purpose of funding capital improvements, which may include the retirement of debt under previously authorized bonded indebtedness, that will begin on the 1st day of October, 2002 and automatically terminate on the 30th day of September, 2007.

The funds from this tax had been dedicated to retire water debt issued to build the Hazel Creek Reservoir, sidewalk replacement, park improvements, playground equipment, purchase a new fire ladder truck, installation of 9-1-1 emergency communications equipment, public safety and public works radio equipment, and traffic signals and traffic controllers.

In 2002, the City had intended on using the funds to continue to pay off the debt for the Hazel Creek Reservoir, purchase another fire truck and use the balance of the funds for capital equipment and projects. In 2003 Standard Register announced its closure and put its building up for sale. The City Council, at the time, reviewed all of its options and chose to purchase the Standard Register building and use it to attract another industrial prospect to the community. In order to purchase this building, it would cost the City the balance of the funds generated from the Capital Improvements Sales Tax. The total cost of the building was \$1.6 million excluding annual operating expenses. The operating expenses through October of 2006 have been \$214,175. Through its partnership with KREDI, the City was successful in finding an industrial tenant who is now operating and employing approximately 30 people.

The City needs the funds generated from the Capital Improvements Sales Tax. The cost of capital equipment continues to rise as does the cost to replace and upgrade our existing public facilities. I have explored various options regarding this tax, including possibly asking the voters to raise the tax amount from $\frac{1}{4}$ of a cent to $\frac{3}{8}$ or $\frac{1}{2}$ of a cent.

Taking all things into account, the need for the funds, the accountability and record of the City to use the funds responsibly, renewing an existing tax versus an increased or new tax, the current economy and citizen sentiment, the City Council should consider asking the community to support the renewal of the tax at $\frac{1}{4}$ cent. Since the tax will have been in effect for 15 years, the City Council should also consider asking the voters to support the renewal as an ongoing tax. The City's record supports such a request.

The $\frac{1}{4}$ cent will generate approximately \$660,000 annually. The funds will be used to purchase a fire ladder truck, purchase capital equipment for general fund operations specifically streets, police, codes and engineering, complete sidewalk replacement, housing demolition and rehab through a loan program, make improvements at each of the City's existing parks, provide cash match for trail projects, and provide capital equipment for other emergency services as needed, airport capital match, and some funds for storm drainage. As you can see from list, we have many demands for these funds.

RECOMMENDATION: Support the placement of an ordinance on that would place the $\frac{1}{4}$ cent capital improvement sales tax question on the April ballot. A possible outline for the use of the funds is attached.

2. USE TAX

This is an item that the City Council has briefly discussed. It is our intent to review the materials with the City Council and discuss whether or not there is interest in proceeding. The idea of a Use Tax is to level the playing field from the local and in state retail providers to those providers out of state. Years ago, all communities had a local use tax; it was set at 1.5% and was not tied to any local retail sales tax rates. The establishment of the rate at an arbitrary amount was found unconstitutional and communities, including Kirksville had to repay the funds received. Communities were given the option to reinstate the Use Tax using their individual local tax levies. For example, our rate would be 2.25% which is equal to each of the city tax rates currently in place – 1% general, ½% transportation sales tax, ¼% capital improvements sales tax and ½% economic development sales tax for Highway 63.

To implement a Use Tax, the issue would have to be put before the voters. The State of Missouri has already imposed the tax on out of state purchases using the State's tax rate. Keep in mind that this tax is for catalog and internet purchases. It is assessed for those purchases where a local sales tax is not collected.

Recommendation: The Use Tax affects those businesses and individuals who spend more than \$2,000 per calendar year in out of state purchases. This tax has a lot of merit when leveling the playing field for local vendors. The total local tax on the \$2,000 purchase would be \$45.00. The idea of taxes in the first place is to provide the government with the funds needed to provide the services its citizens expect. As more and more sales are taken out of the local community through catalog, internet and direct sales, it will continue to reduce our effectiveness and ability to meet our community's needs.

3. SRF WATER AND SEWER PROJECTS

The City is in the process of submitting two applications to the State of Missouri Department of Natural Resources' Revolving Loan Fund Program. The applications are to allow for the allocation of low interest loan funds for water and sewer projects. The low interest loans will be used to complete those projects approved by the voters in April 2006. The voters approved an additional \$7 million in bond indebtedness. The projects focus on both plant and line improvements. Receiving the low interest loan funds also requires the City to insure that the rates charged for both water and sewer are sufficient to operate the facilities.

Efforts are currently underway to determine the future rate structure for both water and sewer. April 1, 2007 will mark the last year of an approved five-year rate plan. It will be our goal to establish a rate structure for both water and sewer that is reviewed annually as opposed to every five years to insure that it is keeping up with costs to operate the facilities and that the rates provide the funds we need to meet the requirements placed upon us by regulatory agencies.

SRF Projects
Water Fund Projects

Water Treatment Plant – Phase II
Downtown Water lines

Wastewater Fund Projects

Television Inspection and I/I Inspections for Basins C and F
Review Television Inspection and Recommended Repairs to Basins C and F
Replacement of Northeast Force Main

Recommendation: Staff will spend time reviewing the projects with the City Council and answering questions to insure that you are aware of the work that will be done in the near future.

4. AIRPORT MARKETING PLAN

Now that the new air service is in effect, we wanted to take a little bit of time to explain what work has been done to date to inform Kirksville and surrounding communities of this opportunity.

We have also received word that MESA is working to establish air service to Chicago. This will mean that individuals can fly from Kirksville with one stop in Quincy and then on to Chicago each day. MESA will continue its flights back and forth to Kansas City, but it will give our residents another travel opportunity.

Recommendation: Review information on pages 13 and 14 of this packet. Staff will provide a brief update for the City Council.

5. REVIEW NEWSLETTER – - November 3, 2006

Attachments

Capital Improvements Sales Tax Summary – pgs. 5
Use Tax Information – pgs. 6 - 12
Airport Marketing Report – pgs. 13 - 14

CAPITAL IMPROVEMENTS SALES TAX

1/4 cent will generate \$600,000

Set for renewal in April 2007, if not renewed will expire at end of September 2007

This is only a scenario and may not be amount allocated each year. Allocation will depend upon priority of Council, demand, readiness of projects with the exception of the fire truck which will need to be bid out and purchased as soon as the tax is approved by voters as it takes one year to construct a truck. The City will allocate \$100,000 of the CIP tax toward a lease/purchase option which will take about 7 ½ years to pay off.

\$200,000	<u>Capital Equipment</u> – police cars, street equipment and vehicles for general fund operations – streets, engineering, codes, fire and parks
\$60,000	<u>Parks and Recreation</u> – fields, parks, trails, shelters, recreation venues (skate parks, soccer fields), and facility maintenance
\$100,000	<u>New Fire Truck</u> – aerial ladder truck – will take approximately 8 years to pay-off
\$50,000	<u>Storm Drainage</u>
\$25,000	<u>Housing Rehabilitation and Housing Demolition</u>
\$50,000	<u>Airport Capital</u> – vehicles, equipment, city match for projects (reduce General Fund subsidy)
\$50,000	<u>Other Capital</u> – roof repairs, building maintenance, communications equipment, computer enhancements
\$25,000	<u>Sidewalk Replacement</u> – 50/50 program residential and business
\$15,000	<u>Business Improvement Loan</u> – downtown facades
\$25,000	<u>Fund Balance</u> – could be used toward grant matches

\$600,000 TOTAL

KIRKSVILLE

M I S S O U R I

REPORT

DATE: November 15, 2006

CITY COUNCIL

AGENDA ITEM:

RECOMMENDATION: It is recommended that the City Council approve the imposition of a local use tax question be taken to the voters for approval.

BACKGROUND: The use tax is a substitute for a state or local sales tax on items that are purchased outside of Missouri. Use tax is intended to negate the sales tax advantage that out-of-state vendors have over Missouri vendors. The State currently levies a 4.225% use tax on out-of-state sales which is equal to the amount imposed on in-state sales.

A statewide flat 1.5% local "in lieu" tax was implemented in 1991 with municipalities receiving distributions from July 1, 1992 through April 1996. The Missouri Supreme Court nullified this tax due to the rate being higher than some in-state local sales taxes. The City collected \$658,939 in taxes over this 46-month period and repaid \$347,491 after the tax was declared unconstitutional to satisfy its share of statewide customer refunds.

The Legislature has since restructured a new local use tax which is on a local-option basis, with the use tax equaling the local sales tax rate. This has offered the opportunity to municipalities to reinstate their own use tax with the majority of voter approval. The tax is designed to protect local retailers who are at a competitive disadvantage with out-of-state vendors, e.g., catalog and direct market, who do not collect local sales taxes.

An out-of-state vendor who has a facility in Missouri will collect the local and state use tax and remit to the Missouri Department of Revenue. If an out-of-state vendor does not have a facility in Missouri, the purchaser of the goods must file a use tax return with the Missouri Department of Revenue only if they have more than \$2,000 in non-taxed purchases during a calendar year.

FISCAL IMPACT: This is extremely difficult to estimate since it is based on purchases made from out-of-state vendors. At the 1.5% rate previously imposed, the City collected on the average of \$14,325 per month. If this issue is placed on the April 2007 ballot and

the voters approve, the use tax would take effect July 1, 2007. No revenues are budgeted in 2007.

The portion of the use tax that is equivalent to the ½-cent Highway 63 sales tax will be remitted to the Highway 63 Corporation to offset any future City liability of covering a shortfall in sales tax monies collected.

Respectfully submitted,

Mari E. Macomber
City Manager

Prepared by:



Laura Guy, CPA
Finance Director

BILL NO. _____

ORDINANCE

NO.

AN ORDINANCE CALLING FOR AN ELECTION IN THE CITY OF KIRKSVILLE, MISSOURI, ON THE QUESTION OF WHETHER TO IMPOSE A LOCAL USE TAX FOR GENERAL REVENUE PURPOSES EQUAL TO THE RATE OF THE LOCAL SALES TAXES IN EFFECT IN THE CITY.

WHEREAS, the City has imposed local sales taxes, as defined in Section 32.085 RSMo., at the rate of 2.25%; and

WHEREAS, the City is authorized, under Section 144.757 RSMo, to impose a local use tax at a rate equal to the rate of the local sales taxes in effect in the City; and

WHEREAS, the proposed City use tax cannot become effective until approved by the voters at a municipal, county or state general, primary or special election;

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF KIRKSVILLE, MISSOURI AS FOLLOWS:

Section 1. Pursuant to the authority granted by, and subject to, the provision of Sections 144.600 through 144.761 RSMo, a use tax for general revenue purposes is imposed for the privilege of storing, using or consuming within the City any article of tangible personal property. This tax does not apply with respect to the storage, use or consumption of any article of intangible personal property purchased, produced or manufactured outside this state until the transportation of the article has finally come to rest within the City of Kirksville or until this article has become commingled with the general mass of property of this City.

Section 2. The rate of the tax shall be two and one-quarter percent (2.25%). If any City sales tax is repealed or the rate thereof is reduced or raised by voter approval, the City use tax rate also shall be deemed to be repealed, reduced or raised by the same action repealing, reducing or raising the City sales tax.

Section 3. This tax shall be submitted to the qualified voters of Kirksville, Missouri for their approval, as required by the provisions of Section 144.757 RSMo, at the municipal election hereby called and to be held in the City on Tuesday, April 3, 2007. The ballot of submission shall contain substantially the following language.

QUESTION

Shall the City of Kirksville, Missouri impose a local use tax at the same rate as the total local sales tax rate, currently at a rate of 2.25%, provided that, if any local sales tax rate is

repealed, reduced or raised by voter approval, the respective local use tax rate also shall be repealed, reduced or raised by the same action? A use tax return shall not be required to be filed by persons whose purchases from out-of-state vendors do not in total exceed two thousand dollars in any calendar year.

Yes

No

If you are in favor of the question, place an “X” in the box opposite “Yes.” If you are opposed to the question, place an “X” in the box opposite “No.”

Section 4. If a majority of the votes cast on the proposal by the qualified voters voting thereon are in favor of the proposal, then the ordinance and any amendments thereto shall be in effect on the first day of the calendar quarter, which begins at least 45 days after the Director of Revenue receives notice of adoption of the City use tax.

Section 5. Within ten (10) days after the approval of this ordinance by the qualified voters of the City of Kirksville, Missouri, the City Clerk shall forward to the Director of Revenue of the State of Missouri by United States registered mail or certified mail, a certified copy of this ordinance together with certifications of the election returns and accompanied by a map of the City clearly showing the boundaries thereof.

Section 6. This Ordinance shall be in full force and effect from and after the date of its passage and approval.

PASSED by the City Council and **APPROVED** by the Mayor this 15th day of November, 2006.

Martha Rowe, Mayor

ATTEST:

Vickie Brumbaugh, City Clerk

DOR FACT SHEET

Use Tax

Use tax is imposed on the use, storage or consumption of tangible personal property shipped into Missouri from out of state. The state use tax rate is also imposed at a rate of 4.225%. In addition, cities and counties may impose local use tax. The amount of use tax paid on the transaction will depend on the combined local use tax rate in effect at the Missouri location to which the tangible personal property is shipped. Either the out-of-state seller will collect and remit the use tax directly to Missouri or the purchaser is responsible for remitting the tax to the department if the out-of-state seller does not collect use tax on the transaction. Local use taxes are distributed in the same manner as sales tax. Missouri cannot require out of state companies that do not have nexus or "direct connection" with the state to collect and remit use tax.

Any vendor and its affiliates selling tangible personal property to Missouri customers should collect and pay sales or use tax in order to be eligible to receive Missouri state contracts, regardless of whether that vendor or affiliate has nexus with Missouri.

Effective August 28, 2003, Section 34.040.6 states, "The commissioner of administration and other agencies to which the state purchasing law applies shall not contract for goods or services with a vendor if the vendor or an affiliate of the vendor makes sales at retail of tangible personal property or for the purpose of storage, use, or consumption in this state but fails to collect and properly pay the tax as provided in chapter 114, RSMo. For purposes of this section, "affiliate of the vendor" shall mean any person or entity that is controlled by or is under common control with the vendor, whether through stock ownership or otherwise."

CITY USE TAX FACT SHEET From Missouri Municipal League

Municipalities May Enact A Use Tax

Sections 144.757.144.761 RSMo. authorizes any incorporation city, town or village to impose a local use tax.

What is the Local Use Tax?

The local use tax is applied, in lieu of the local sales tax, on transactions that individuals and businesses conduct with out-of-state vendors, including catalog and direct market sales.

Is This a Fair Tax?

Yes, the main purpose of the local use tax is to create a level playing field for your local retail businesses that must collect the city sales taxes. Currently, your local retailers are at a competitive disadvantage with out-of-state vendors who do not have to collect local sales taxes. The local use tax will fix this "loophole."

City Adopting a Use Tax Must Submit Ordinance to Voters

The governing body of any city may adopt a local use tax ordinance. However, the proposal must be submitted to the voters of the city at either a city, county or state general, primary or special election and receive a majority of the votes cast on the proposal.

What Use Tax Rate is Authorized?

The city may impose a use tax only at the same rate as its city sales tax rate. If the city's sales tax rate is repealed, reduced or increased, by voter approval, then the city's use tax rate is similarly repealed, reduced or increased.

What if the City's Voters Turn Down the Use Tax?

If the voters of the city do not authorize a local sales tax, the legislative body of the city may submit the sales tax proposal again at the later election. There is no limitation as to how many times the local sales tax proposal may be submitted to the electorate.

When Does a City Use tax Ordinance Take Effect?

If the city voters approve the use tax on August 6, 1996, then the tax becomes effective October

1, 1996, as long as the Director of Revenue receives notice of adoption of the local use tax on or before August 16.

If the city voters approve the use tax after December 31, 1996, then the tax becomes effective on the first day of the calendar quarter which begins at least forty-five days after the Director of Revenue receives notice of adoption of the local use tax.

How is the Tax Collected?

If the out-of-state vendor has a facility in Missouri, the vendor will collect the local use tax, along with the state use tax, and remit both to the Missouri Department of Revenue (DOR). If the out-of-state vendor does not have a facility in Missouri, the purchaser must file a use tax return with DOR but only if the individual or business has more than \$2,000 in such purchases during the calendar year.

The State Director of Revenue Collects the tax for the City.

Under the law, the State Director of Revenue collects both the state and city use taxes. City taxes, less charges for collection, are sent back to the city imposing the tax. A city receives only the amount of tax imposed by it and collected from it. Thus, while the state is not sharing any of its revenues with a city imposing a local use tax, the state is providing its collection machinery, and no additional collection machinery or additional personnel will be required by the city in order for the city to receive a city use tax.

What Does the State Charge for the Collection of the City Use Tax and How is the City tax Accounted For?

The Director of revenue is required to deposit all city use taxes collected in a special City Use Tax Trust Fund, less one percent for the cost of collection. The one percent deducted, less the cost of premiums on surety bonds, is deposited in the State General Revenue Fund. The Director of Revenue of the state is to keep an accurate record of the amount of money collected from each city.

When is Local City Use Tax Money Distributed to the City?

The law provides that not later than the tenth day of each month the State Treasurer will distribute all moneys deposited in the City Use Tax Trust Fund during the preceding month to the city treasurer or to any other officer as may be designated by city ordinance of any city imposing the use tax.

What Purchases are Exempt From the Use Tax?

If an item is exempt from the state and local sales tax, it is also exempt from the state and local use tax, including raw materials and component parts used in manufacturing, machinery used in manufacturing, farm equipment, etc.

How much will My City Receive from a Local use Tax?

It is very difficult to estimate the revenue from a local use tax because it is based on the purchases made by individuals and businesses in your city from out-of-state vendors. There is no information available on such sales in prior years.

An airport marketing plan was developed by a Truman State intern last spring. The plan focused on Corporate Air's operations and the challenges of scheduling out of St. Louis. With the change in the air service carrier and the new flight destinations the plan will need to be modified to change the focus from St. Louis to Kansas City. Staff is working on this as information from the new carrier becomes available.

Our first step was to meet with some community leaders and look at opportunities that currently exist and solicit opinions about increasing passengers on the service. That meeting went well, the group had good ideas that we can follow-up on.

What have we done:

1. Information in Chamber newsletter
2. ½ sheet information available in the terminal building with new schedule
3. Information given to parents during Parents Weekend
4. Information on Area Scene
5. Will devote future Area Scene programs to promoting the new service
6. Brad Wilson, the new terminal manager for MESA was introduced to City staff, the chamber office and the local travel agents.
7. Press release from US Airways Express
8. Requested that airline and travel internet sites be updated.

However, before we can start running a lot of ads, and producing promotional materials we need to know what Mesa's phone number will be in the terminal and what hours their office will be open. We don't think we can keep doing promotions with the FBO phone number, because then all they can do is refer people to the web, the 800 number or to a travel agent. While we want to get off to a good start, we also need to acknowledge that the new service/procedures will likely have some bugs to work out and may need to make modifications in the marketing materials and plans once they get here.

Time Line:

For November we plan on finalizing the marketing materials and distributing them to target audiences and the surrounding communities; continue to meet with community leaders to assess marketing ideas; keep local and surrounding media apprised of the air services changes and continue to refine the long range marketing plans.

Now that MESA has staff on site we can work with them to establish visibility in the community and surrounding area; MESA and City staff will speak at service clubs throughout the region, ads will be produced for local media and also placed in newspapers/shoppers in surrounding counties; we will partner with the chamber to provide information to surrounding chambers; obtain Kansas City

area mailing list of students from Truman and direct mail to these addresses; continue to solicit ideas and information from local and surrounding community groups.

This past week, the City was given an opportunity to participate as one of 25 customers with an image advertising campaign with KTVO. Because of the target audience that is reached by KTVO, the volume of the number of placements to be provided and the affordable price, the City has selected to implement this advertising program starting in January for a 12 month period. Additional details will be presented at the Study Session.

From December on we will monitor the success or failure of marketing efforts and make changes as necessary. We will continue to provide promotional materials to area businesses and organizations. Develop a survey instrument to assess customer satisfaction and the effect of marketing efforts.