

October 12, 2020

Honorable Mayor and
Members of the City Council
City of Warrensburg, Missouri

Dear Mayor and Council Members:

INTRODUCTION

This memo is to provide an outline of tax revenue available to Warrensburg in response to Mr. Harris email to Councilman Brooks on Tuesday, August 11, 2020. It outlines voter requirements, timing, tax capacity by State Law, types of tax available and some estimates of increase in revenue based on the type of tax. A recommendation is provided along with estimates of what revenue could be collected in Fiscal Year 2021 based on voter approval.

DISCUSSION

As everyone is aware, any increases in taxes either property or sales tax requires a vote of the citizens. These taxes are specific to City of Warrensburg. Some sales taxes have specific purposes and requirements for use of those taxes. The following is a short summary of some of the options the Council has available.

Timing

Certification of a ballot for the April 2021 election is required by January 26th, 2021. Therefore, an ordinance will need to be passed at the January 11, 2021 Council meeting. Possibly the January 25th meeting at the latest. The cost of the April election is included in the 2021 budget.

Tax Capacity available by State Law

1. General sales tax can be increased up to 2% by voter authorization. The current General Sales tax rate is 1% of sales that leaves an opportunity to increase another 1%. This 1% generates approximately \$3+ million annually based on the receipts over the past 10 years. Therefore, an additional increase of 1% (double) will generate an additional \$3+ million yearly for general fund. This revenue helps to provide for all general government services, including fire, police, animal shelter, administration, public works, and community development.

April 2021 election results in collection to begin October 1, 2021 by the retailers. City first receipts will be December 2021.

Sales tax can be increase in increments of $\frac{1}{2}$, $\frac{7}{8}$, or 1%.

An increase of $\frac{1}{2}$ cent would generate approximately \$1.5 million in additional general fund revenue.

An increase of $\frac{7}{8}$ cent generates approximately \$2,625,000

2. Property tax levy has a maximum capacity up to \$1 per \$100 of assessed value. The 2019 tax levy was 0.003608 or \$0.3608 and has been that rate since 2014. The property tax levy can be increased by \$0.6392 to maximize the \$1 limit. The 2019 levy calculated to generate about \$808,500 in revenue. The City has collected approximately \$759,700, 94% of allowed revenue through July 2020, 98% of Fiscal Year 2020 budget of \$775,000. The 2020 levy appears to calculate the same levy of \$0.368 generating about \$810,321. Notice there is not much change in the amount of revenue collected from year to year. \$808,500 for 2019 and \$810,321 for 2020.
3. There are some options for an additional sales tax for specific purposes. These sales taxes are to be used for special purposes/projects. They do not provide for general operating expense except for Public Safety.
 - a. Capital Improvement Sales tax limited to $\frac{1}{2}$ cent. Warrensburg currently has this sales tax to pay debt and is scheduled to sunset (expire) 2025. Debt payments extend to 2029 so recommendation is to renew this tax.
 - b. Transportation Sales tax limited to $\frac{1}{2}$ cent. Warrensburg does not currently have a Transportation Sales tax. This tax is defined to provide solely for transportation projects such as streets, including sidewalk and storm water. Like Capital, it can be used to make dept payments associated with transportation improvements. Based on current sales tax collections over the past ten years, this tax would generate approximately \$1.5 million annually.
 - c. Public Safety Sales tax limited to $\frac{1}{2}$ cent. This tax requires State Legislative approval to place on the ballot. It can be used to fund Police, Fire, and Emergency Medical services operations and equipment.

Warrensburg combined current City sales tax rate is 1 $\frac{7}{8}$ %. 1% General Fund, $\frac{1}{2}$ % Capital Improvement, and $\frac{3}{8}$ % Parks/Storm water.

RECOMMENDATION

My recommendation is to consider a combination of property tax and sales tax to sustain and grow revenue to better meet growing expenses. Warrensburg runs a lean organization, so there is little to no opportunity to cut expenses without affecting services. The Fiscal Year 2021 budget development has defined this with the proposal to eliminate the Animal Shelter services and cut positions.

Combining both property tax and sales tax allows for the revenue sources to be shared among the citizens of Warrensburg as well as those traveling into and through our town. Warrensburg draws people from around the area to shop and is on the way to the Lake. So, a sales tax lets those travelers share in providing revenue. A property tax puts the revenue generation solely on Warrensburg citizens and property owners.

Fiscal Year 2021 budget development initially shows a deficit of nearly \$1,000,000. Doubling the property tax levy to \$0.7216 would nearly provide the required revenue to close the deficit gap by generating about \$810,000. An \$0.18 increase in property tax would generate approximately \$405,000, not quite half of the \$1,000,000. Unfortunately, a property tax levy increase will not be realized until 2021 – 2022 fiscal year.

- a. A median home value of \$172,855 currently pays City property tax of \$118.50. To double the current levy of \$0.3608 to \$0.7216 would double the property tax from \$118.50 to \$237.00 annually or \$19.75 per month.

As stated above, implementing an additional ½ cent of general sales tax generates more than enough to close the nearly \$1,000,000 gap. Placing this initiative on the November ballot and it passing, will let the City receive revenue in June 2021. The sales tax would begin April 1, 2021 providing 5 months of revenue for Fiscal Year 2021 or approximately \$600,000 based on historic trends.