



Memorandum

To: Vail Town Council

From: Town Manager's Office, Economic Development Director, Housing Director, Communications Director, Finance Director, Magellan Strategies

Date: August 17, 2021

Subject: Discussion about Proposed Tax Measures for November Ballot as Dedicated Funding for Housing and Year-Round Marketing/Special Events Initiatives

I. SUMMARY

The Town Council is asked to discuss the direction they would like to take regarding the submittal of ballot questions for the November election addressing dedicated funding sources for two initiatives, housing, and year-round marketing/special events. The Town would need to certify ballot questions to the Eagle County Clerk and Recorder's Office no later than September 3. The Town Council is asked to review and approve the ballot text with resolutions if the decision is made to proceed with asking the voters about the measures at the November election. Council is asked to consider making the decision that evening to meet the ballot certification deadline or indicate the need for a special meeting prior to September 3 if further discussion is warranted. The Town Council would consider the sales tax increase question and the Vail Local Marketing District would consider the marketing and promotion tax increase question.

II. BACKGROUND

The Town of Vail engaged Magellan Strategies and Summit Information Services to assist in facilitating community outreach meetings to gather feedback and opinions about the town's housing and marketing efforts as well as opportunities to address additional funding sources. Initial findings were presented to Town Council on June 1. The community outreach plan implemented over the last few months has yielded important insights and opinions about the two town initiatives on housing and year-round marketing. On August 3, Magellan Strategies presented the results of a voter survey on the two ballot initiatives and on June 1, they presented a summary of the input received from the initial outreach meetings.

III. DISCUSSION UPDATE FROM AUGUST 3, 2021

Council directed staff to return at the August 17 meeting with resolutions and ballot text for the two measures initially outlined for voters. In addition, during the August 3 meeting, there was a proposal supported by council members to consider a third ballot measure that would ask voters to impose a new tax on lodging rooms that would generate revenues to pay for housing programs and initiatives. The suggested lodging tax rate to be included in the ballot question is 1.6%. Details of this new concept are included below. Sample draft ballot language is also included in Attachment One.

IV. BALLOT MEASURES CONSIDERATIONS AND FEEDBACK

Housing

A dedicated source of funding for housing programs, developments and initiatives has been recommended. Two proposals for generating a dedicated revenue sources are outlined below:

A. Sales Tax (Resolution No. 36; proposed Ballot Issue No. 1)

- The sales tax proposal includes an increase of 0.5% in the town's sales tax (from 4.0% to 4.5%) and would apply to both local residents and guests when purchasing goods and services in Vail.
- Per \$100 purchase, this incremental tax increase would cost guests and residents 50 cents.
- The proposal **exempts** collecting the increased tax rate on food for home consumption.
- It is estimated that a .05 cent additional tax rate would generate approximately \$4.3 million per year to invest in housing programs, developments and initiatives. While this amount will alone will not solve the housing crisis, it will go a long way when combined with other funding solutions such as a future fee on short term rentals, public-private partnerships, construction mitigation and commercial and residential linkage fees, to name a few.
- Funds collected from the increase in sales tax could be invested in town and down valley.
- The online voter opinion survey provided data measuring support for the ballot measure at 52% before being informed why the measure is being proposed and how the funds would be spent. After being informed, voter support for the sales tax question increased to 57%. Magellan Strategies reported to Council on August 3 the survey findings indicated a good probability the housing ballot measure would be approved by Vail voters.
- Voters in support of the housing ballot measure voiced overwhelming sentiment that “access to housing is at a crisis and caused by the growth of short-term rentals; locals are being driven out of the housing market and out of the Vail community; and their quality of life being seriously at risk”.
- Voter in opposition to the ballot measure held the viewpoints that “short term rentals users and part-time homeowners should be taxed directly rather than increasing the sales tax which hurts locals; increase wages first and require housing to be provided by employers; and current tax burden is too high already”. Other sentiment included taxing locals to pay for housing is burdensome with the increase in cost of living, and in particular childcare.
- Voter approval of the housing ballot measure would require a robust and thorough campaign that educates and informs voters of how the funds would be used to address housing. Voter approval would also be more likely if there is unanimous support from Council.

Town staff and Magellan Strategies recommend asking Vail voters to increase the sales tax to be used as a dedicated funding source for housing considering the favorable results from the online voter opinion survey.

B. Lodging Tax (Resolution No. 37; proposed Ballot Issue No. 3)

- The newly proposed lodging tax would levy 1.6% of the total purchase price paid and impacts overnight guests staying in Vail's lodging.
- It is estimated that a 1.6% new lodging tax would generate \$4.5 million per year. For a room night cost of \$500, this would increase the price paid by \$8.
- A significant disadvantage of moving forward with this ballot measure is that questions were not included as part of the online voter opinion survey of and there is no knowledge of what level of support the question would get.
- The imposition of a new tax on the lodging industry was not supported by the Vail Economic Advisory Council members (discussed at their Tuesday, August 10 meeting) because only one segment of the business community would be impacted.
- Raising taxes on lodging would circumvent a separate increase (or later ballot question) in lodging taxes for the purposes of year-round marketing and special events.

Town staff and Magellan Strategies do not support asking Vail voters to impose a new tax on lodging to be used as a dedicated funding source for housing because the ballot measure has not been tested in a voter opinion survey or discussed in-depth with lodging and business community groups. Even mild opposition to this ballot measure or less than enthusiastic support from these communities would decrease the probability of voter approval.

Year-round Marketing/Special Events

A dedicated source of funding for year-round marketing and special events has been recommended. One proposal for generating additional revenue sources to achieve the objectives of funding year-round marketing and events is outlined below. This tax is collected by the Vail Local Marketing District and has specific statutory guidelines for its use, such as 1) funding the organization, promotion, marketing and management of public events, 2) funding activities in support of business recruitment, management and development, 3) coordinating tourism promotion activities.

A. Promotion and Marketing Tax (Vail Local Marketing District Resolution No. 4; proposed Ballot Issue No. 2)

- The proposed change to the current lodging tax would levy an additional 2.2% of the total purchase price paid and would impact overnight guests staying in Vail's lodging. Total Vail lodging tax would be increased from the current rate of 1.4% to 3.6%.
- It is estimated that the incremental 2.2% would generate \$6.2 million per year. For a room night cost of \$500, this would increase the price paid by \$11.
- The 2.2% tax increase on the lodging **was** supported by the VEAC members (discussed at their Tuesday, August 10 meeting) noting the importance of long-term reliability of marketing and special event dollars as well as the desire to focus on bringing the right guest at the right time, not simply more guests.

- The survey measured voter support for this ballot measure at 54% on the informed and uninformed ballot questions.
- The probability of voter approval for the lodging tax increase is estimated at 50%, considering likely voters are uninformed of an upcoming destination stewardship plan designed to better manage visitation.
- Voter support for the ballot measure was primarily driven by the belief that more tourism would generate a robust local economy, better job market, and funds for town services, and the tax does not directly impact voters (residents).
- Voter opposition to the ballot measure included remarks such as: increasing the marketing budget doesn't make sense with housing and employee shortages at crisis levels; address housing crisis before increasing marketing budget; and growing tourism will only accelerate decline and erosion of the quality of life in Vail.
- The incremental increase in the revenue generated from the tax would help to cover the costs for special event programs and which would free up funds to support core municipal services (estimated \$2.2 M), such as police and fire protection, public works and streets, planning and building, transit and parking, and library services.
- Voter approval for this ballot initiative would require a very robust campaign effort that included messaging educating voters of a forthcoming "visitor mitigation plan" that would focus funding towards sustainably balancing the peaks and valleys of Vail's tourism.

Town staff and Magellan Strategies recommend asking the Vail voters to increase the promotion and marketing tax (aka lodging tax) to be used as a dedicated funding source for year-round marketing and special events. Although there is a risk voters would reject the ballot measure due to the negative impacts of increased tourism, the survey measured a majority of 54% would approve the ballot measure. Council unity for this ballot measure would also increase probability of voter approval.

Regardless of the final language adopted, the town staff recommends strong and robust campaigns to help educate the community about the tax measures which propose dedicated funding sources to be used for housing and marketing/special events.

V. ACTION REQUESTED OF COUNCIL

The Town Council is asked to take formal action or no action on each of the resolutions identified below. Note the Council would meet as the VLMD at the end of the regular evening meeting to take formal action on VLMD Resolution No. 4.

- Resolution No. 36, Series 2021, Sales Tax Increase as Dedicated Funding Source for Housing
- Resolution No. 37, Series 2021, Impose New Lodging Tax as Dedicated Funding Source for Housing
- Vail Local Marketing District Resolution No. 4, Series 2021, Promotion and Marketing Tax Increase as Dedicated Funding Source for Year-round marketing and special events

VI. ATTACHMENTS

- ✓ Attachments include Resolutions with Ballot Language