

## Legislation Text

**File #: 2019-3155, Version: 1**

Review of proposed Use Tax Ballot Language for the April 7, 2020 Election and Discussion Relating to Potential Use of Funds

Issue/Request:

Recently, the City Council has discussed the benefit of a "Use Tax" relating to the shift of economic activity from traditional "brick and mortar" purchases to electronic or "on-line" purchases. As this trend continues to grow, the implementation of a Use Tax, as defined by RSMO 144.757, would help to capture future revenues associated with electronic sales. Attached is the presentation that was made at the November 12, 2019 City Council meeting by Stephen Arbo, City Manager. Based upon this presentation and further City Council discussion, the City Manager received general direction by the City Council to prepare a schedule and documents that would allow the potential placement of a "Use Tax" ballot proposal on the April 7, 2020 General Election. A bill has been prepared for the City Council's consideration that authorizes the placement of a "Use Tax" proposal on the April 7 ballot. A draft of the bill has been attached.

Key Issues:

The State Law indicates that the use tax shall be at the same percentage amount as the local jurisdiction's sales tax. If the local jurisdiction raises or lowers the percentage of the sales tax, in accordance with State Statutes, the corresponding Use Tax will also change. Our current sales tax is 2.25%. The following is the proposed schedule necessary to place the use tax on the April 7, 2020 ballot:

- January 7, 2020 - 1<sup>st</sup> Reading of Ordinance
- January 14, 2020 - 2<sup>nd</sup> Reading of Ordinance
- January 28, 2020 - Final Certification due to Jackson County Election Board

The State of MO already collects a Use Tax. Based upon their collection from eligible economic Use Tax activity, the City of Lee's Summit would have collected approximately \$1.85M in calendar year 2018. If the City Council continues to distribute the Use Tax funds in a similar manner as our local sales tax, the revenues would be assigned as follows:

General	1 cent	\$821,502
Transportation	1/2 cent	\$410,751
Capital	1/2 cent	\$410,751
Parks	1/4 cent	\$205,376
<b>2018 TOTAL for LS</b>	<b>2.25 cents</b>	<b>\$1,848,380</b>

In consideration of this potential new revenue source, there are immediate benefits that may occur if the current sales tax distribution is retained for the Use Tax collection.

**General 1 Cent - \$821,502 (2018 estimate)**

On January 11, 2018, the City Council adopted a "Compensation Philosophy" by Resolution.

The Purpose Statement of the philosophy was as follows: ***"It is vital for Lee's Summit to competitively acquire, retain, and motivate capable, performance-driven employees who seek continuous improvement, foster technological self-sufficiency, and promote fiscal responsibility and accountability now and in the future."***

Further the City Council's Resolution stated the objectives of the Lee's Summit classification, compensation, and total rewards system:

- Allow employees to play a meaningful role in total compensation administration;
- Establish a consistent, objective framework that recognizes job qualifications and the numerous ways positions contribute to the City's mission, vision, and goals;
- Provide total compensation offerings that are market competitive, yet mindful of the City's need for sustainable revenue sources to fund the services provided to residents;
- Afford flexibility in the definition of total rewards to reflect changing financial conditions and support the evolving needs of the workforce;
- Promote the positive work culture and safe working environment valued by employees; and
- Incentivize individuals who exceed identified performance objectives.

The Resolution further described the City's intent to fulfill these objectives by:

- Solicit employee input to assist in evaluating all elements of compensation to include benefits during future compensation studies to ensure competitiveness, relevancy, and effectiveness of the total reward system.
- Maintain a position classification system that recognizes the position's impact to the organization, qualifications, required skills and abilities, and other compensable factors.
- Maintain a classification system where the approved pay plan of pay ranges is at a market competitive position (not lagging or leading) as determined by future compensation studies initiated by the City.
- Maintain a merit based system where all future compensation adjustments reflect the employees performance to include their contribution to a positive work culture and safe working environment.
- Make personnel and human resources decisions on merit; and remain subject to annual appropriation and periodic review.

In general, the City has fulfilled most if not all of these commitments through our negotiations with the represented groups, creation of a pay classification system, development of an employee advisory committee, and enhancement of current compensation levels based upon market conditions and internal equity factors. Through a challenging fiscal management process, the City Council adopted a compensation enhancement program that infused approximately \$4.2M of funding as a part of the FY 2019/20 Operating Budget. Although this was a significant achievement, it did not fully address all of the known challenges that were identified through our pay classification and benefit analysis that we conducted in 2019.

- 1) Compensation compression issues are still remaining in many of our job classification categories
- 2) Pay ranges will need adjustment due to market trends particularly in competitive skills categories
- 3) Upon further review, some positions are currently identified in the wrong skill level category

In accordance to the City Council's commitment to our employee base, we need to continue making these adjustments on a timely basis to maintain our position in the market and more importantly, retain the employee talent base that we have already made a significant investment through equipment, time, and training. The funds captured by the General 1 Cent portion of the Use Tax should finish our multi-phase approach to place all of our positions in a good market position and address the remaining compression issues in our workforce.

**Transportation ½ Cent - \$410,751 (2018 estimate)**

This permanent sales tax currently funds capital maintenance and small transportation projects (generally under \$500,000) for our community. Capital maintenance includes the pavement management and curb replacement programs. These are essential to protecting and maintaining our existing public infrastructure. Examples of the pavement management program is the slurry seal and asphalt overlay activities. The additional revenues could assist us in expanding these efforts to cover more areas quickly. These funds are also eligible for public transit service programs and may be considered for potential expansion of services in this category.

**Capital Improvements ½ Cent - \$410,751 (2018 estimate)**

The Capital Improvement Sales Tax was renewed in 2017 for a 15 year period. This will expire in 2032 if it is not renewed by a successful vote. This temporary sales tax currently funds street and stormwater improvement projects. The significant difference in this tax in comparison to the “Transportation Tax” described above, is that the funds are “project-oriented”. The Transportation Tax is program oriented. The additional revenues could provide the ability to identify more projects that fall within the predetermined categories that were communicated to the citizens during the 2017 election process.

**Parks ¼ Cent - \$205,376 (2018 estimate)**

The Parks and Recreation Sales Tax was renewed in 2016 for a 15 year period beginning in 2018. This will expire in 2033 if it is not renewed by the voters. The temporary sales tax currently funds capital projects for parks and recreation and provides a small operational subsidy for the Gamber Community Center. Capital projects include neighborhood park renovations and development, land acquisition, trail development, community indoor and outdoor facilities, cultural arts in parks, and maintenance needs. The additional revenues would support the current goals and objectives identified in the Parks and Recreation revised strategic plan.

**Proposed City Council Motion:**

I move to direct staff to prepare an Ordinance with the proposed Use Tax Ballot Language for the April 7, 2020 Election and Discussion Relating to Potential Use of Funds.

Stephen A. Arbo, City Manager