



# **CITY OF MONTROSE**

Sales Tax & Groceries in the City of Montrose

**JANUARY 20, 2020**

## BACKGROUND

At the January 6, 2020 City Council Work Session, City Council asked staff to share information regarding how local sales tax applies to groceries in the City of Montrose and what the impacts would be if groceries were exempted from local sales tax. In order to also share this information with the community and offer an opportunity for community members to ask questions about the topic, City Council requested for staff to host a public presentation and discussion on January 20, 2020. This memo and the attached documents offer a summary of the history of this topic as well as current sales tax revenue figures. This information will also be presented at the January 20, 2020 public meeting.

## SALES TAXES IN THE CITY OF MONTROSE

The City of Montrose Municipal Code (Code) Section 5-15-4 outlines that a sales tax is levied on “the purchase price paid or charged upon all sales and purchases of tangible property at retail.” The current sales tax rate levied and collected by the City of Montrose is 3.88%. This rate includes the .58% Public Safety Sales Tax collected by the City of Montrose and paid directly to the Public Safety Fund, as approved by City of Montrose voters in 2019. The rate also includes the .3% Recreation District Facilities sales tax collected by the City of Montrose and paid directly to the Montrose Recreation District, as approved by City of Montrose voters in 2014.

The Code allows for certain items such as farm equipment, medical supplies, and newspapers to be exempt from sales tax. Food for domestic home consumption, often referred to as “groceries”, are not exempt from sales tax. Therefore, other than anyone qualifying for state or federal assistance that exempts their grocery purchases from sales tax, groceries purchased within the City of Montrose are taxed at the rate of 3.88%. This sales tax is not specific to groceries; it is the same tax rate applied when other goods are purchased at retail in the City of Montrose, such as clothing, shoes, books, and cleaning supplies.

Additional sales taxes are also applied to purchases of tangible property within the City of Montrose, by other taxing entities, as outlined in the table to the right.

For the purpose of focusing on the topic of how sales tax applies to groceries, this memo will not outline use tax regulations or collections.

## SALES TAXES APPLIED TO TANGIBLE PROPERTY AT RETAIL IN THE CITY OF MONTROSE

ENTITY RECEIVING TAX	RETAIL SALES TAX RATE	SALES TAX RATE FOR GROCERIES
City of Montrose	3%	3%
City of Montrose Public Safety Sales Tax	.58%	.58%
Montrose Recreation District (collected by the City of Montrose)	.3%	.3%
Montrose County	1%	1%
Montrose County Public Safety Sales Tax	.75%	.75%
State of Colorado	2.9%	Exempt
<b>Total Sales Tax Rate</b>	<b>8.53%</b>	<b>5.63%</b>

## WHY TAX GROCERIES?

Montrose is not unique in applying sales tax to the purchase of groceries. 233 municipalities Colorado, out of 271 total municipalities in the state, also apply sales tax to groceries. This provides a reliable revenue stream that is responsive to growth as well as to the increased government services that may be needed in communities with tourism-based economies. All of the 38 municipalities that exempt groceries from sales tax collect a property tax, which provides a revenue stream in addition to sales tax to fund services. The City of Montrose does not collect a property tax.

*Please see the attached Exhibit A for information about the property tax mill levy collected by each municipality that exempts groceries from sales tax.*

*Please see the attached Exhibit B for a list of the ten municipalities in Colorado that do not collect a property tax.*

## TAX RATES OF NEIGHBORING COMMUNITIES

CITY	SALES TAX	PROPERTY TAX (IN MILLS)
Delta	7.90%	0.00
*Fruita	8.27%	10.146
Steamboat	8.40%	0.00
Durango	8.40%	5.007
*Grand Junction	8.52%	8.00
<b>Montrose</b>	<b>8.53%</b>	<b>0.00</b>
Glenwood Springs	8.60%	6.513
Telluride	8.65%	4.651
Gunnison	8.90%	3.868
Ridgway	9.05%	8.651
Ouray	9.45%	16.25

\* City exempts groceries from sales tax

The table below shows the sales tax rates and property tax rates for neighboring municipalities, and indicates the two neighboring municipalities that exempt groceries from sales tax.

Because the City does not collect a property tax, direct revenue gains related to commercial and residential land development are very limited. The City therefore

relies almost entirely on revenue collected through sales and use taxes to fund City general operations. The City's growth is accompanied by increases in its short- and long-term operational costs for services such as street construction and maintenance, snow removal, law enforcement, and similar functions. These services are paid for primarily through increased collections of sales tax revenue. Similar to the sales tax paid for other essential goods like clothing, sales tax on groceries is a way to consistently receive revenue that is sensitive to economic increasing and decreasing cycles.

Residents and non-residents of a municipality, including tourists, pay sales tax when they purchase goods, regardless of whether they use a local government's services and facilities. Montrose is a regional commercial hub, and citizens benefit from the sales tax paid by non-residents and tourists when they pay retail sales on goods, including on groceries. This topic is explained in detail with associated data later in this memo.

## HOW SALES TAX FUNDS OPERATIONS IN THE CITY OF MONTROSE

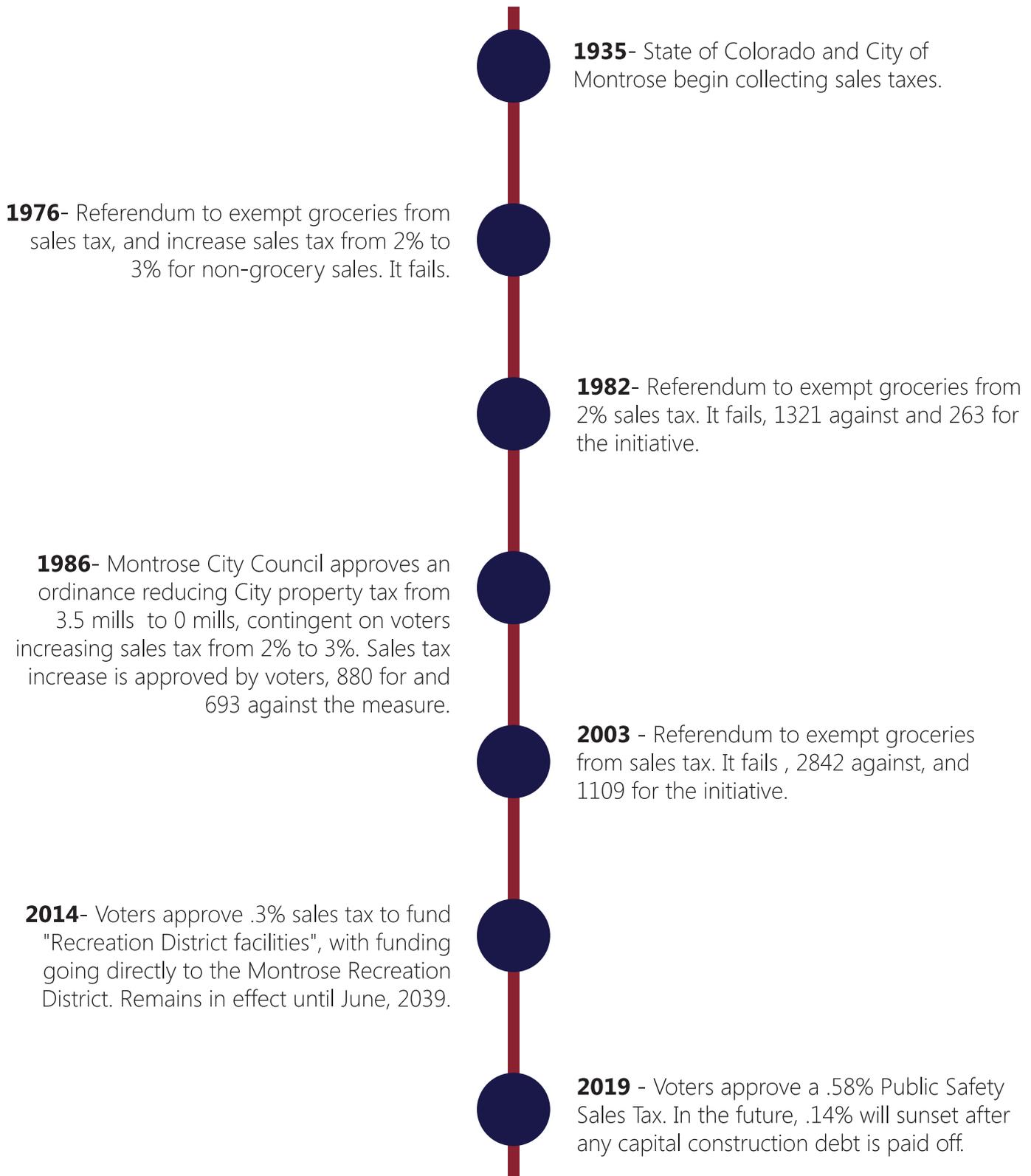
The .58% Public Safety Sales Tax collected by the City of Montrose is directed to the Public Safety Fund, as approved by City of Montrose voters in 2019.

The remaining 3% sales tax collected by the City is directed to the General Fund to provide for general operations. 43% of general operations budget is directed to the Public Safety Fund, also as approved by City of Montrose voters in 2019. The remaining revenue is used to fund general operations at the City. These general operations include but are not limited to functions such as general services, street maintenance, park maintenance, building inspection, municipal court, and City facility maintenance.

In 2020, sales tax and use tax combined will comprise 81% of revenue that will fund City general operations. Retail sales tax alone is budgeted to comprise 73% of total general fund revenue in 2020. Any reduction in this primary source of revenue has a direct impact on the City's most important and essential operations.

## HISTORY OF SALES TAX IN THE CITY OF MONTROSE

This timeline describes actual and proposed changes to sales tax rates in the City of Montrose between 1935 and 2019.



## WHO PAYS SALES TAX IN THE CITY OF MONTROSE

Everyone who purchases qualifying tangible property at retail within the City of Montrose pays sales tax at rates outlined earlier in this memo. This includes City of Montrose residents, County of Montrose residents, regional residents and tourists.

In 2016, 116,260 commercial passengers used the Montrose Regional Airport, the majority of which were tourists to the region.\* Additional tourists arrive in the City of Montrose by car. Tourists frequently stop and purchase groceries while in the City of Montrose, pay sales tax on those purchases, and use minimal City resources while they are in Montrose. Similarly, Montrose is an important shopping destination for Montrose County residents and regional residents of Ouray and San Miguel Counties. Ouray County full-time residents do 82% of their grocery and packaged liquor shopping in the City of Montrose, as do 53% of San Miguel County full-time residents.\*

Citizens of the City of Montrose benefit from the sales tax paid on groceries by visitors and regional residents, as the tax funds important City services that are infrequently used by the individuals who pay the tax. Citizens of the City of Montrose pay 31% of sales tax collected on groceries in the City of Montrose, and benefit from 100% of the sales tax collected.

The chart below shows the estimated share of sales tax paid in the City of Montrose by residents of various jurisdictions and tourists.



\*Based on recent studies related to regional and tourism spending

(\* Data from the 2018 Regional Economic Analysis, prepared by Business Research Division of the Leeds School of Business, CU Boulder & RRC Associates)

(Chart is based on Census data and ratios developed on the basis of population, distance, and the availability of alternative shopping areas)

# IMPACTS OF EXEMPTING GROCERIES FROM SALES TAX

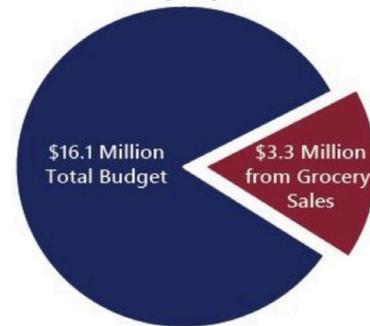
The table below shows actual sales tax collections by year, and the estimated dollar amount that was comprised of sales tax paid on the purchase of groceries, for only the 3.58% sales tax collected and used by the City of Montrose.

CITY OF MONTROSE RETAIL SALES TAX RATE	2016 ACTUAL COLLECTIONS	2017 ACTUAL COLLECTIONS	2018 ACTUAL COLLECTIONS	2019 ACTUAL COLLECTIONS	2020 BUDGETED COLLECTIONS
3% City of Montrose Sales Tax <i>Portion from Sale of Groceries</i>	\$14,413,528 \$2,922,275	\$15,086,814 \$3,051,302	\$16,104,967 \$3,194,968	\$16,720,717 \$3,289,468	\$16,100,000 \$3,274,841
.58% City of Montrose Public Safety Sales Tax <i>Portion from Sale of Groceries</i>	Tax not in Effect \$0	\$3,100,000 \$633,136			
<b>TOTAL RETAIL SALES TAX COLLECTED</b> <i>Total Retail Sales Tax Collected from sale of Groceries</i>	<b>\$14,413,528</b> \$2,922,275	<b>\$15,086,814</b> \$3,051,302	<b>\$16,104,967</b> \$3,194,968	<b>\$16,720,717</b> \$3,289,468	<b>\$19,200,000</b> \$3,907,977

(All annual collections are based on a November – December twelve-month time period, in order to use actual collections for 2019. Portion of tax collected from sale of groceries was calculated using actual sales tax collections at retail stores that sell groceries, and adjusted based on an estimated percentage of grocery sales at those retail stores. This methodology is consistent with methodology used by the City in 2003.)

In 2020, if the purchase of groceries were to be exempted from the City sales tax rate of 3.58%, it would result in an estimated loss of revenue equal to \$3.9 million. This is more than the entire 2020 City Street Maintenance budget (\$2.2 million) and 2020 Parks budget (\$1.6 million) combined, and would exceed the \$3.1 million in sales tax revenue that is anticipated to be generated by the .58% public safety sales tax in 2020.

**2020 GENERAL FUND  
RETAIL SALES TAX  
BUDGETED REVENUE  
(3%)**



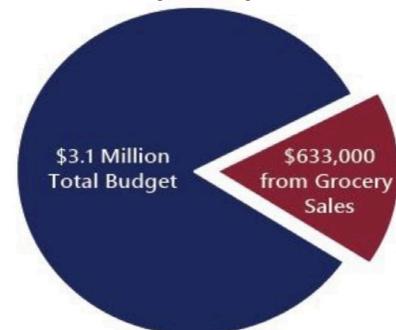
**Revenue  
Gained Under  
Public Safety  
Sales Tax  
\$3.1M\***

**Total Revenue  
Lost Under  
Tax Exemption  
for Groceries  
\$3.9M\***



\*Based on 2020 budget estimates.

**2020 PUBLIC SAFETY SALES  
TAX BUDGETED REVENUE  
(0.58%)**



The City has used anticipated sales tax revenues, including sales tax on groceries, to plan for future improvements, maintenance needs, and the repayment of borrowed money to complete projects such as the Move Montrose Forward improvements. Exempting groceries from sales tax would reduce the City's ability to provide the current and anticipated level of service to community members.

## EXHIBIT A

### Municipalities in Colorado that Exempt Food for Home Consumption

Location	Mill Levy	Mill levy converted to %	County	Home Rule
AVON	8.956	0.8956%	EAGLE	Self-collected
BASALT	11.563	1.1563%	EAGLE	State-collected
BURLINGTON	8.600	0.8600%	KIT CARSON	State-collected
CALHAN	17.563	1.7563%	EL PASO	
CASTLE PINES (PIF)	116.464	11.6464%	DOUGLAS	
CHEYENNE WELLS	41.216	4.1216%	CHEYENNE	
COLLBRAN	7.384	0.7384%	MESA	
COLUMBINE VALLEY (MAIL VIA LITTLETON)	8.133	0.8133%	ARAPAHOE	
CRIPPLE CREEK	2.272	0.2272%	TELLER	
DE BEQUE	9.0180	0.9018%	MESA	
EAGLE	2.423	0.2423%	EAGLE	
FAIRPLAY(IN HEALTH SERVICES DISTRICT)	15.099	1.5099%	PARK	
FIRESTONE	6.805	0.6805%	WELD	
FOUNTAIN	10.239	1.0239%	EL PASO	State-collected
FOXFIELD	4.982	0.4982%	ARAPAHOE	
FREDERICK	6.555	0.6555%	WELD	
FRUITA	10.146	1.0146%	MESA	State-collected
GRAND JUNCTION	8.000	0.8000%	MESA	Self-collected
GREENWOOD VILLAGE (MAIL VIA ENGLEWOC)	2.932	0.2932%	ARAPAHOE	Self-collected
GYPSUM	5.09	0.5094%	EAGLE	Self-collected
HOT SULPHUR SPRINGS	11.95	1.1950%	GRAND	
HUDSON	30.343	3.0343%	WELD	
KEENESBURG	22.000	2.2000%	WELD	
LITTLETON	6.662	0.6662%	ARAPAHOE	Self-collected
MANZANOLA	77.648	7.7648%	OTERO	
MEAD	11.545	1.1545%	WELD	
MINTURN	17.934	1.7934%	EAGLE	State-collected
MONUMENT	6.289	0.6289%	EL PASO	
PALISADE	17.500	1.7500%	MESA	
PALMER LAKE	21.238	2.1238%	EL PASO	
RED CLIFF	33.878	3.3878%	EAGLE	
SAN LUIS	25.740	2.5740%	COSTILLA	
SILVERTON	44.902	4.4902%	SAN JUAN	
SIMLA	17.562	1.7562%	ELBERT	
STRATTON	28.922	2.8922%	KIT CARSON	
VAIL	4.719	0.4719%	EAGLE	Self-collected
VICTOR	16.398	1.6398%	TELLER	
YAMPA	0.018878	0.0019%	ROUTT	

Total Municipalities that Exempt Food for Home Consumption 38

## **EXHIBIT B**

### **Municipalities in Colorado that Do Not Collect a Property Tax**

Delta

Edgewater

Lone Tree

Montrose

Orchard City

Salida

Sawpit

Silverthorne

South Fork

Steamboat Springs