

CITY OF ST. LOUIS

EARNINGS TAX  
DISCUSSION

Ways and Means Committee

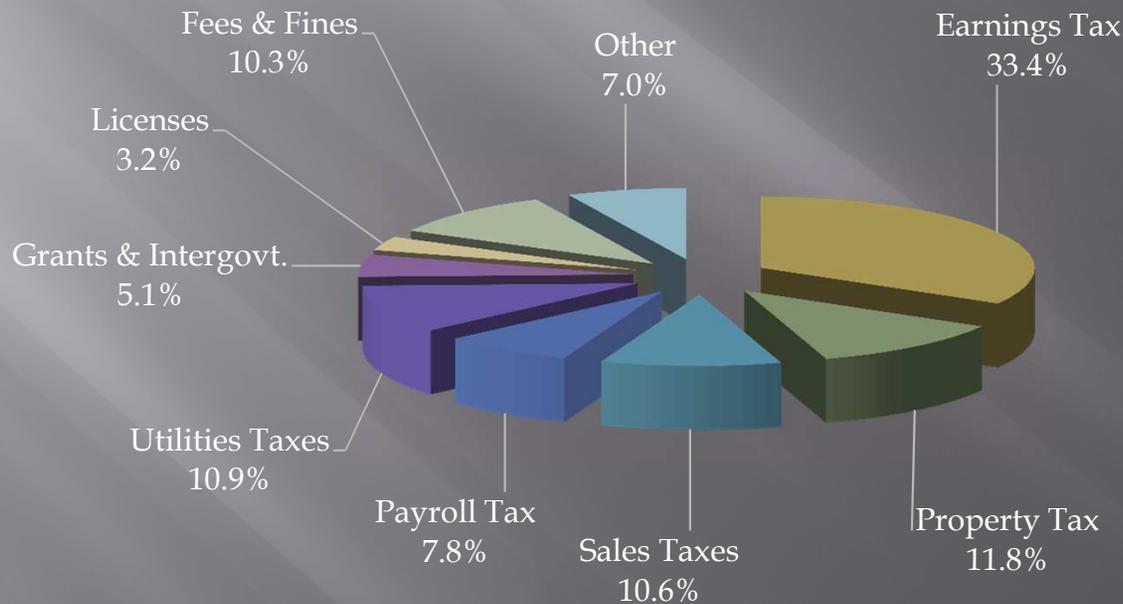
January 13, 2016

# Background

- ▣ In November, 2010, voters in Missouri passed a state law requiring that for the Earnings Tax to continue it would need approval by local referendum every five years. If not successfully passed, the tax would be phased out over a ten year period. City voters approved the first of these retention votes in April, 2011 with an 88% approval rate.
- ▣ A second retention vote is proposed for April, 2016
- ▣ The following is a discussion of how City revenue in general is structured and of the role of the Earnings Tax in particular

# Revenue Structure

Typical of most large municipalities, City revenues are comprised of a mix of taxes, licenses and fees.



**Total FY16 General Fund Revenues = \$492.6 Million**

# Revenue Structure

## Major Sources of General Revenue (actual FY15)

- ▣ Earnings Tax - \$160.7M
- ▣ Property Taxes - \$57.5M
- ▣ Sales Taxes - \$54.2M
- ▣ Payroll Tax - \$38.0M
- ▣ Franchise (Utility) Taxes - \$52.1M
- ▣ Dept. User Fees & Other - \$50.3M
- ▣ Intergovernmental Aid - \$26.0M

# Revenue Structure

- ▣ Goal of revenue structure is to maintain a diverse base that grows with economy at a rate sufficient to maintain City services

# Revenue Structure

- ▣ Desirable characteristics for individual revenues include:
  - Equity and fairness: (e.g. not imposed most heavily on those least able to pay, incurred by users of services, residents and non-residents, etc.)
  - Ability to grow with economy
  - Reasonableness in relation to impact on economic activity
  - Ease of enforcement and collection

# Revenue Structure

- ▣ Approx. 75% of City general revenue is distributed among five top sources
- ▣ Each has strengths and weaknesses in meeting desirable characteristics
- ▣ Collectively represents a diverse base that grows modestly with economy and distributes tax burden among those that benefit from City services

# Revenue Structure

## City Services Have a Regional Reach

- ▣ Home to major sports venues, Busch Stadium, Edward Jones Dome, Scottrade Center
- ▣ Arch and Riverfront
- ▣ Forest Park
- ▣ Zoo / Art Museum / History Museum / Science Center and Botanical Garden
- ▣ Grand Center and other performing art venues
- ▣ Convention Center

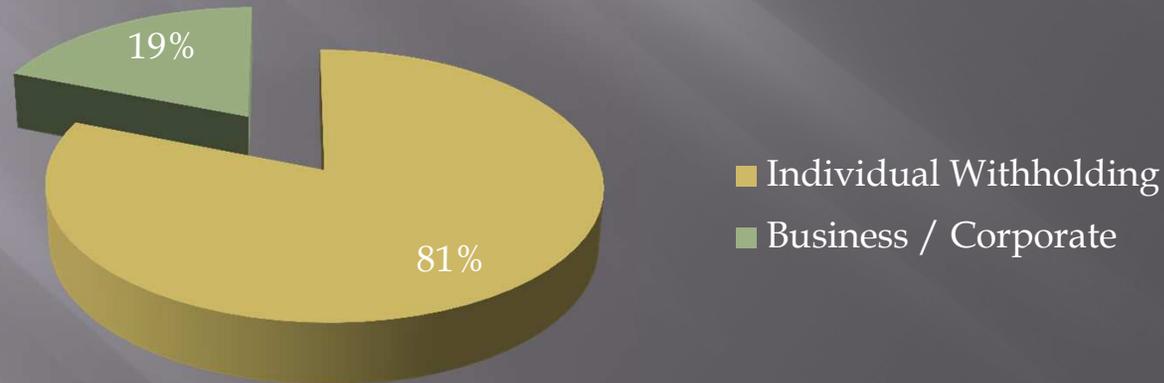
# City Earnings Tax

- ▣ Current Rate imposed in 1959
- ▣ Individual tax of 1% of earnings of residents and non-residents of the City for work done or for services performed in the City
- ▣ Corporate tax of 1% of net business profits from City businesses or business conducted in the City

# City Earnings Tax

- ▣ Individual earnings tax equal to over 80% of total earnings tax receipts

Earnings Tax Receipts By Category



# City Earnings Tax

- ▣ Other Major Cities Imposing Earnings and/or Income Taxes:
  - ▣ Baltimore
  - ▣ Cincinnati
  - ▣ Cleveland
  - ▣ Columbus
  - ▣ Louisville
  - ▣ Kansas City
  - ▣ New York
  - ▣ Pittsburgh
  - ▣ Philadelphia

# City Earnings Tax

- ▣ Growth rate over 3 year, 5 year and 10 year is more consistent than property and sales taxes.

Growth Rates	<u>3yr.</u>	<u>5yr.</u>	<u>10yr.</u>
Earnings Tax	2.1%	2.3%	2.7%
Property Tax	3.3%	1.7%	2.6%
Sales Tax	2.5%	3.5%	1.7%

# City Earnings Tax

- ▣ As the largest source of general revenue (\$160.7M in FY15) the earnings tax provides the most funds for City services.
- ▣ More than:
  - The total FY15 general fund costs of the Police Dept. @ \$152.2M

# City Earnings Tax

▣ Or Equivalent to the costs of these services:

- Fire Department - \$63.8M
- Corrections & Juvenile Detention - \$56.3M
- Forestry Div. trimming / weed & debris - \$7.1M
- Park Maintenance - \$7.6M
- Street Maintenance & Repair - \$6.0M
- Street and Alley Lighting - \$5.8M
- Equipment service vehicle maint./repair - \$15.0M

# Property Tax As Replacement?

- ▣ Est. Earnings Tax Receipts (FY16 est.) (A) \$164,295,000
- ▣ Estimated Property Tax Revenues (incl. City, schools, library, zoo/museum, etc..) (B) \$290,447,617
- ▣ City Property Tax Rate\* per \$100 AV (C) \$7.585  
\*City portion (excl. debt) = \$1.47
- ▣ Additional Rate to Compensate for Earnings Tax  $A / (B/C) =$  \$4.291
- ▣ Would exceed current statutory cap – of \$1.49 limit

# Property Tax As Replacement?

Homeowner #1



Homeowner #2



Business



Appraised Real Prop Value	\$100,000	\$200,000	\$800,000
Appraised Personal Property Value(s)	\$15,000	\$35,000	\$120,000
Current Tax Burden (2015)	\$1,822	\$3,770	\$22,466
New Total With Tax Increase	\$2,851	\$5,901	\$35,167
<b>Additional Property Taxes</b>	<b>\$1,029</b>	<b>\$2,131</b>	<b>\$12,701</b>
Tax % Increase	56.5%	56.5%	56.5%

# Sales Tax As Replacement?

- ▣ The sales tax is similarly restricted as City's current rate reflects most sales tax options
- ▣ Historically weak growth rate

# Sales Tax As Replacement?

## Current Sales Tax Rate In City

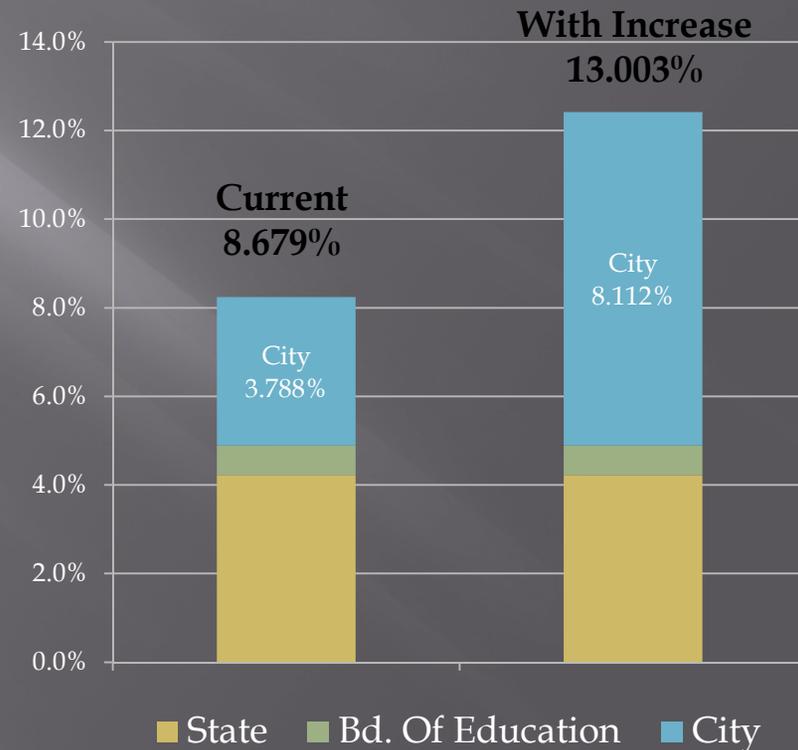
State:	4.225%
Board Of Education:	0.666%
City:	
General Fund (1 & 3/8 cent)	1.375%
Capital Fund (1/2 Cent)	0.500%
Transportation (Metro 1/2 & 1/4 cent)	1.000%
Regional Parks (1/10 & 3/16 cent)	0.288%
Local Parks (1/8 cent)	0.125%
Public Safety (1/2 Cent)	0.500%
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	3.788%

**Total Current Rate** **8.679%**

Est. Earnings Tax Receipts	\$164,295,000
Est. Receipts - 1 Cent Sales Tax	\$38,000,000
Sales Tax Equiv. - Earnings Tax	4.324%

**New Rate With Tax Increase** **13.003%**

## SALES TAX INCREASE NECESSARY TO REPLACE EARNINGS TAX



# Other Considerations

- ▣ Credit risks related to uncertainties in revenue stream and continued need to reauthorize tax (higher borrowing costs?)
- ▣ Impact on financed TIF developments
- ▣ Existing & continuing budget challenges