

AGENDA ITEM SUMMARY

FORT COLLINS CITY COUNCIL

ITEM NUMBER: 30

DATE: December 2, 2003

STAFF: Alan Krcmarik

SUBJECT

First Reading of Ordinance No. 174, 2003, Continuing a Temporary Manufacturing Equipment Use Tax Rebate Program for Fort Collins Manufacturers.

RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

FINANCIAL IMPACT

Based on prior year's actual rebates, staff anticipates that the Manufacturers Rebate program could cost the City approximately \$500,000 in 2003 and \$500,000 in 2004. Costs can vary greatly depending on the purchasing activity of local manufacturers. Payment will be made from the Use Tax Carryover Reserve. The reserve currently has a balance of \$2.4 million.

EXECUTIVE SUMMARY

In March 1996, City Council approved a temporary rebate program for use tax paid on manufacturing equipment. The goal of the program was to maintain the local economic base by providing modest tax relief to manufacturing concerns located in Fort Collins. The program has provided rebates to manufacturers for taxes paid during the calendar years 1996 through 2001. The rebate program was discontinued for calendar year 2002 due to economic conditions. Staff is proposing that the program be reinstated for 2003 and 2004, so that rebates may be made of taxes received by the City during those two years.

Payments are made in arrears. This is a "rebate" of tax paid in the previous year. It is not a tax exemption. If approved for calendar years 2003 and 2004, staff will ask manufacturing companies to submit applications by late March of each year – as prescribed in the program. Rebates will be paid upon review of the applications. Historically, many of the companies have requested extensions to file at an even later date. Modifications were last made to the program in 1999 to reflect several requests made by the manufacturing community. Staff is now requesting that Council approve the program without any changes or modifications for 2003 and 2004.

BACKGROUND

The Manufacturers Use Tax Rebate Program was initiated in 1996, and was intended to focus on encouraging the reinvestment made by local manufacturing firms in new manufacturing equipment. This type of investment used to be made every three or four years. The standard today is that the reinvestment in equipment occurs every fifteen to eighteen months. This type of continual reinvestment could result in a relative windfall for the community since there is little added cost or impact associated with existing firms.

The program has provided the following results:

	<u># of Companies Applied</u>	<u>Amount Rebated</u>
1996	10	\$ 373,600
1997	17	\$ 439,917
1998	10	\$ 385,845
1999	13	\$ 329,135
2000	14	\$ 332,780
2001	11	\$ 440,905
Total	75	\$2,302,182

SUMMARY:

With the suspension of the Street Oversizing Fee Exemption Program and the Development Impact Fee Rebate Program in the late 1990s, the Manufacturers Use Tax Rebate Program remains as an economic incentive for retaining local manufacturers.

The City of Fort Collins has experienced strong growth in sales tax revenues over the past several years with the past two being an exception. Our manufacturing concerns have remained a very important element of our tax base. Staff recommends that the City continue the program for taxes received by the City in 2003 and 2004 as approved by Council while carefully monitoring return tax collections. The City Manager can recommend, at any time, that the program be suspended should the City encounter economic conditions that would make the program cost prohibitive. In the event that a revenue shortfall should occur, the program will be reevaluated for continuance.

ORDINANCE NO. 174, 2003
OF THE COUNCIL OF THE CITY OF FORT COLLINS
CONTINUING A TEMPORARY MANUFACTURING EQUIPMENT
USE TAX REBATE PROGRAM
FOR FORT COLLINS MANUFACTURERS

WHEREAS, the City Council authorized a Temporary Manufacturing Equipment Use Tax Rebate Program (the "Rebate Program") with Ordinance No. 29, 1996; and

WHEREAS, such Rebate Program was authorized for calendar years 1996, 1997, 1998, 1999, 2000 and 2001; and

WHEREAS, the Rebate Program was not in effect for the year 2002, so that there was no 2003 rebate of taxes received by the City in 2002; and

WHEREAS, it is the intent of the City Council to now continue the Temporary Manufacturing Equipment Use Tax Rebate Program (the "Rebate Program") so as to apply to taxes paid during the period from January 1, 2003 through December 31, 2003 and to taxes paid during the period from January 1, 2004 through December 31, 2004, unless otherwise modified and extended.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS as follows:

Section 1. That the City of Fort Collins Manufacturing Equipment Use Tax Rebate Program, as described and previously approved by the Council by Ordinance No. 30, 1999, is in the best interests of the City.

Section 2. That the Council hereby approves the Rebate Program for taxes paid in calendar year 2003 (for rebates in 2004) and for taxes in calendar year 2004 (for rebates in 2005), except to the extent, if at all, that the Rebate Program is theretofore modified, extended or terminated by the Council.

Section 2. That the Council may at any time modify, extend or terminate the Rebate Program.

Section 3. That the City Manager shall continue to monitor the Rebate Program and its projected costs and impacts throughout 2003 and 2004, and if the City Manager determines from that review, or from any other information, that the Rebate Program poses a financial, environmental or other threat to the well-being of the City, the City Manager shall report such determination to the Council.

Section 4. That the Rebate Program may be discontinued, at the discretion of the Council, upon finding that the costs of the Program are contrary to the financial well-being of the City or upon finding the Program is not compatible with the City's Economic Policy.

Section 5. That the provisions of this Ordinance shall not be construed as establishing any right or entitlement to a rebate of any taxes on the part of any applicant and that the actual rebate of use taxes under such Rebate Program shall be entirely discretionary with the City Council and shall be subject to the appropriation of funds for such purpose.

Introduced and considered favorably on first reading and ordered published this 2nd day of December, A.D. 2003, and to be presented for final passage on the 16th day of December, A.D. 2003.

Mayor

ATTEST:

Chief Deputy City Clerk

Passed and adopted on final reading this 16th day of December, A.D. 2003.

Mayor

ATTEST:

City Clerk