



Overview

As discussed in a February 2014 mailer to residents, (available at www.cityoffrontenac.org), our city services are heavily dependent on revenue from sales taxes generated by Frontenac's retail businesses. As sales tax revenue growth has averaged only one third of one percent (0.33%) over the past five years, this revenue source is not keeping up with regular expense growth. This is occurring despite the city's efforts to provide quality services in a fiscally responsible manner. Based on the city's current financial projections and conversations between the Ways & Means Committee and the Board of Aldermen, it is expected that the city may need to consider an increase in property, utility, or use taxes; or some combination of all three. The Board of Aldermen is cognizant

of the need to continue to ensure that quality services are provided in a prudent manner. Unfortunately, current economic trends are forcing the city (with the help of the the Ways & Means Committee and staff) to examine the possibility of raising these taxes.

As a result of a projected budget deficit of \$400,000 for FY 2014-15 (Capital and General Funds), the Board of Aldermen has charged the Ways and Means Committee to examine and make recommendations regarding long and short term revenues and expenses, as well as potential impacts on reserve levels. **While this letter will focus on revenues, our next communication will focus on expenses.**

Property Tax Revenue

(\$1.2 million/14.4% of total revenue)

Of your total property taxes paid, the city tax rate is only 7% of the current total residential property tax bill of \$6.9311 (or 49.6 cents) per \$100 of assessed valuation. Frontenac's rate is lower than all other surrounding cities except Town & Country and Des Peres, which both benefit from heavy retail sales revenue (see chart following).

As a comparison, your portion of taxes for education is considerably higher than the city tax. In 2012 voters in the Ladue School District approved a property tax increase of 49 cents for a total of \$3.63 per \$100 of assessed valuation.

Revenue the city receives from property taxes is limited by state statute, so revenue from new residential and commercial development only produces a one-time revenue increase in the year of development (averaged only \$6,000 annually over the past three years). Thereafter, tax rates automatically adjust and city revenues revert to prior levels.

The last time Frontenac residents were asked to increase property taxes was 22 years ago. At that time voters approved a 54 cent increase from 8 to 62 cents per \$100 of assessed valuation. As stated earlier, the current city rate assessed is only 49.6 cents, actually less than the amount approved in 1992. Current city rates are less than the approved rate primarily due to state law which requires cities to limit revenue gained when assessments increase. The commercial city rate is currently 54 cents. While residential and commercial property taxes are a steady revenue source, they only account for 14% of the city's current total revenue. Residential property taxes contribute approximately \$866,000 and commercial property taxes approximately \$225,400.

2013 Residential Property Tax Rates

Frontenac city tax rate is lower than all cities that assess a property tax for city and fire service. Creve Coeur has both a city and a fire district rate.

	City Rate	Total Rate
Creve Coeur w/Fire	0.927	7.8554
Olivette	0.914	7.3561
Clayton	0.787	7.6093
Webster Groves	0.776	9.4777
University City	0.753	8.6918
Ladue	0.727	7.1621
Kirkwood	0.614	7.7257
Brentwood	0.601	7.8014
Glendale	0.503	7.5627
Frontenac	0.496	6.9311
Des Peres*	0	7.0287
Town & Country*	0	6.7256

*Des Peres and Town & Country have a heavy retail base.

Sales Tax

(\$4.2 million-All Funds/50.7% of total revenue)

As discussed previously, sales tax is by far the largest single source of revenue currently available to support city services. Sales tax revenue has the added benefit of being generated primarily by nonresidents who shop at Frontenac stores or eat at our dining establishments. However, history proves sales tax is not a steady or dependable revenue source. Due to state mandated sharing of revenue with St. Louis County and other St. Louis County municipalities, a pre-determined formula requires shar-

ing of approximately 32% from our current (one cent) sales tax revenue. Further, there is no cap and the sharing grows as our sales tax revenues increase. Sales tax revenues are also variable depending on the success of stores in our city, competition from stores in other cities, new outlet malls, the economy overall and other external factors. Frontenac's sales tax revenues began declining in 2005-06 and have not yet returned to that level.



CITY OF FRONTENAC



10555 Clayton Road
Frontenac, MO 63131
314.994.3200

Presorted Standard
U.S. Postage
St. Louis, MO-
PAID
Permit #4760

Continuation of Previous Page

Residential Utility Tax Revenue

(\$40,000/0.5% of total revenue)

Currently our residential utility tax rate is 0.5% and much lower than most cities as shown below. The current estimate is that residents pay on average, less than \$25 **annually** to the city at the 0.5% rate. Frontenac commercial properties, representing only a small portion of land use, pay a utility tax rate of 8.0% which generates approximately \$530,000 annually.

2014 Residential Utility Tax Rates

City	Elec	Gas	Water	Phone
Olivette	10	10	10	10
Clayton	8	8	8	8
Kirkwood	7.5	7.5	7.5	7.5
Shrewsbury	7.25	7.25	7.25	7.25
Creve Coeur	7	7	7	7
Ladue	6.9	7	7	7
Richmond Heights	5.625	6	6	6
Des Peres*	3.37	4	5	5
Frontenac	0.5	0.5	0.5	0.5
Brentwood*	0	0	0	0
Town & Country*	0	0	0	0

*Brentwood and Town & Country have a heavy retail base.

Miscellaneous Revenues

(\$1.9 million/23.9% of total revenue)

Business licenses, permit fees, court fines and police and fire service contracts with other cities, which have remained relatively constant, make up the majority of the remainder of city revenues. The city also receives grant revenue, when available, to offset infrastructure improvements.

Auto Sales Tax

(\$170,000 annual revenue/2.1% of total revenue)

Like all cities, Frontenac receives a portion of the sales tax on vehicles purchased by Frontenac residents. A state law passed in 2013 will cause sales tax revenue from vehicles purchased out of state to lapse, **unless voters approve** prior to November 2016, maintaining this tax.

Former Revenue Source/ Use Tax

Frontenac no longer has a use tax. Phased out in 1996, this is revenue primarily generated by businesses purchasing from out of state vendors and is estimated to produce \$35,000 annually. The State of Missouri collects a use tax as do approximately half the cities in the state. Voters in neighboring communities such as Des Peres and Kirkwood voted to keep the use tax and Frontenac may want to consider a proposal to reinstate the use tax as well.

Next Steps

The Ways and Means Committee continues to provide periodic updates to the Board of Aldermen, supporting their efforts to find short and long-term solutions to our financial challenges. The summary of those updates will be shared with our residents because we believe our residents want to be engaged and knowledgeable about important financial matters facing our city. Accordingly, our next communication will focus on the city's continued efforts to find cost efficiencies without impacting existing service levels.

Over the last seven years, the city has been able to provide quality services and maintain public infrastructure

while many other municipalities were reducing services and increasing taxes. While the city is still fiscally strong, the challenges of the economic environment are significantly impacting the future of maintaining those excellent services. Ultimately, voters may need to take action by way of a property or utility tax increase, perhaps in combination with maintaining the auto tax and/or reinstating the use tax, in order to sustain Frontenac's solid financial position, strong credit rating, and ability to offer high quality city services.