

LOVELAND BUSINESS ROUNDTABLE

WHERE QUALITY OF LIFE AND PUBLIC POLICY INTERSECT



Loveland's 2023 Food Sales Tax Initiative

Policy White Paper

September 2023

Introduction

Citizen ballot initiatives are a tool by which individuals are able to effect change in local policies. Individual citizens have the ability to identify a local policy change, circulate a petition among the voting public, and have the item placed on the ballot for the next election. Generally, 5% of eligible voters must sign the petition in order for the initiative to qualify for the ballot.

Through this citizen ballot initiative process, one item that Loveland residents will vote on in the November 2023 election is a ballot initiative regarding the elimination of local sales tax on “human food for home consumption.” What are the implications of this ballot initiative, and what do voters need to know before casting their vote on the issue?



Key definitions

General Fund:

The primary operating fund of a government. The General Fund accounts for all activity, unless required to be accounted for in other funds. City services such as public safety, street maintenance, community services, police, fire, and general government activities are accounted for in the General Fund. About 50% of Loveland's General Fund comes from sales tax revenue. (The remaining half of comes from Use Tax, Other Taxes, Licenses and Permits, Fines and Penalties, and other miscellaneous revenue.) See the chart on page 5.

Sales Tax Revenue:

Citizens of Loveland pay local, county, and state sales tax on every purchase made within city limits. The City of Loveland's sales tax rate is 3.0%; combined with Larimer County's 0.80% sales tax rate and the State of Colorado's 2.9% sales tax rate, the overall combined sales tax rate is 6.70%. Sales tax revenue makes up about 50% of the city's General Fund. Further, 16% of sales tax revenue in Loveland comes from "human food for home consumption." See the chart on page 5.

Key definitions

Human Food For Home Consumption:

“Human Food for Home Consumption” is a category for state and county sales tax purposes. The state and county taxing authorities exempt “human food for home consumption” from sales tax collection. Currently, local taxing authorities do charge sales tax on human food for home consumption, but it’s part of general sales tax revenue; there is no separate local sales tax category.

Generally, “human food for home consumption” is food purchased at grocery stores, convenience stores, and big-box stores (e.g., King Soopers, Circle K, Walmart, Costco, and Sam’s Club). (Colorado Farm-to-Market)

The Ballot Initiative

Amendment to Article 12 of the Loveland City Charter to Prohibit the Imposition of Any Tax or Fee on the Retail Sale of Any Human Food for Home Consumption.

Shall Article 12 of the Loveland City Charter be amended to add Section 12-3 to provide that Council shall make no law, nor continue any law, which imposes any tax or fee on the retail sale of any human food for home consumption, and shall such amendment become effective on January 1, 2024?

What are the arguments against the initiative?

Loveland's Chief Financial Officer, Brian Waldes, presented the projected impact of this ballot initiative at recent city council meetings and at a budget workshop with city council members. He initially projected a \$9 million loss to the city's general fund. Upon further study into Loveland's 2024 budget, he updated the figure to \$10.5 million.

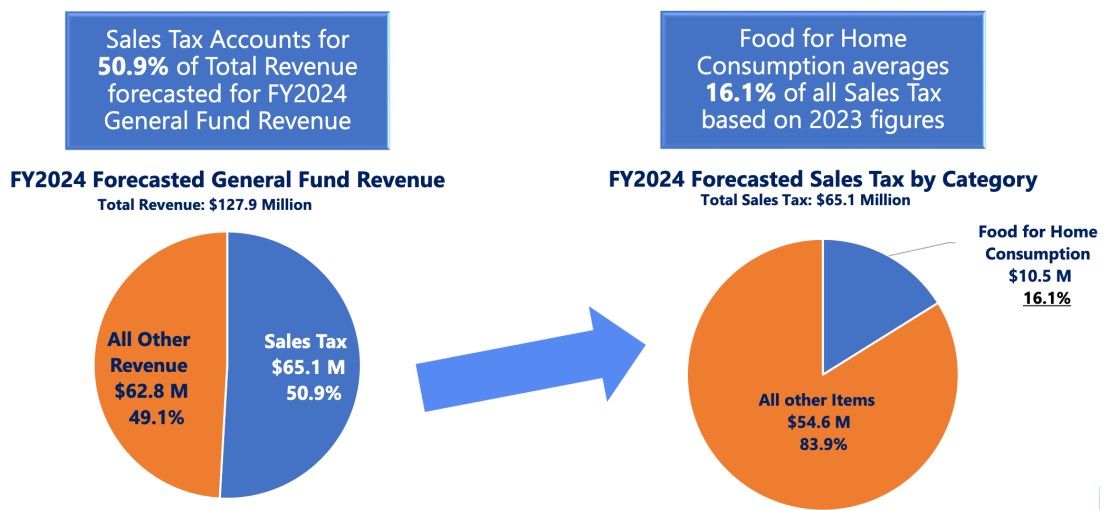
Municipal budgets are driven by sales tax revenue. Unlike county and state budgets, they do not benefit from mill levies based on property tax. Sales tax revenue makes up about half of the General Fund. Food for home consumption averages 16.1% of all sales tax revenue, based on 2023 figures.

The General Fund budget is designed to run on a near-break-even basis. Removing \$10.5 million in sales tax revenue will create the need for serious cuts from the annual budget, every year from now on. Rather than a temporary loss, this would be a permanent loss of revenue that our city is accustomed to having at its disposal. (City of Loveland)

SALES TAX

ALL FIGURES - FY2024 FORECASTS

Sales Tax is the **largest single source of revenue** in the General Fund: **\$65.1 Million** FY2024 Forecast



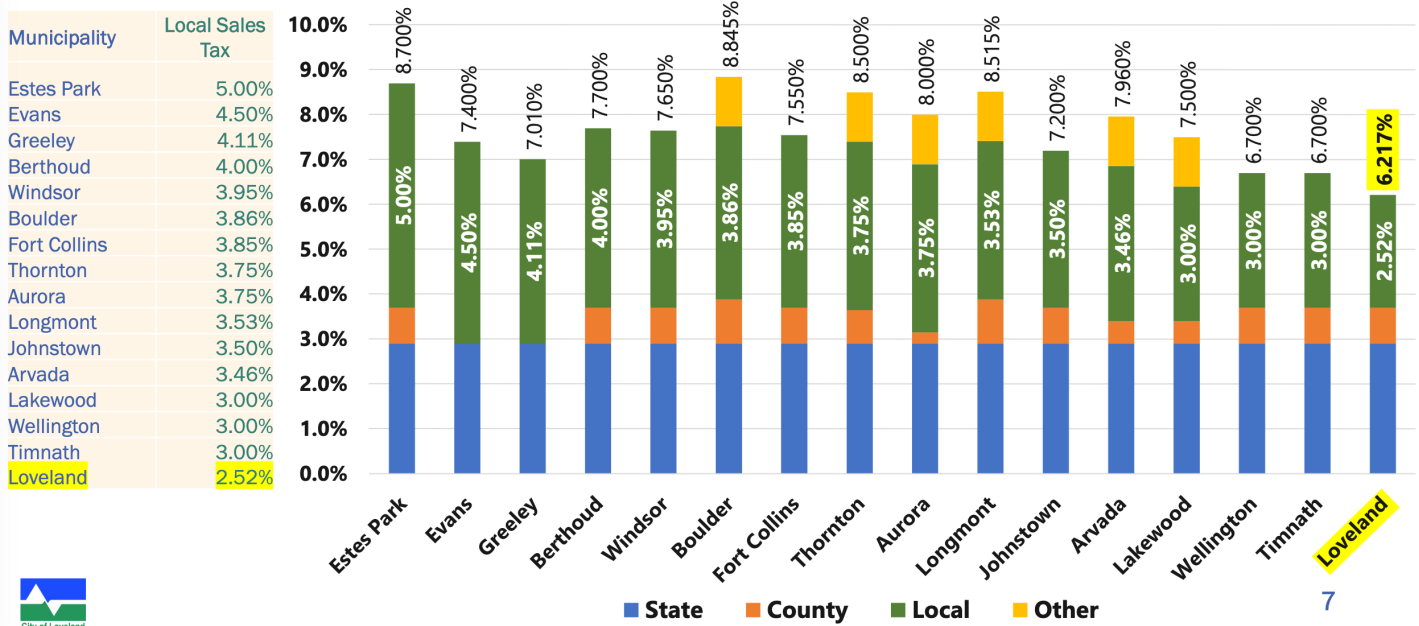
What are the arguments against the initiative? (cont'd)

Loveland's sales tax rate is already the lowest in the region, at 3.0%.

EFFECTIVE SALES TAX RATE W/O FOOD TAX

NEIGHBOR COMPARISON

Municipal Tax Rates



The city's last sales tax increase was approved by voters 32 years ago. Opponents of the food tax initiative say that Loveland is already a "tax haven." If food for home consumption becomes tax-free, then Loveland's effective sales tax rate will drop to 2.52%. That would be lower than the tax rates of both Timnath and Wellington, which are considerably smaller communities that do not provide as many amenities as a city the size of Loveland. ([City of Loveland](#))

Opponents of the initiative argue that this large new exemption would severely limit the city's ability to provide services that Loveland residents are accustomed to. It could also lead to new or increased fees associated with many public services, including the rec center, library, and park facilities. It could also lead to layoffs, since full-time positions are one of the city's largest expenditures.

What are the arguments in favor of the food tax initiative?

Proponents of this initiative “contend that it will reduce grocery costs by hundreds of dollars per year, bringing much needed relief to Loveland’s low and fixed income households who are struggling with inflation” ([Reporter-Herald](#)).

The core of the argument for the initiative is that “it will provide financial relief to residents at a time when prices for just about everything are rising sharply. Since 2020, inflation has boosted the cost of food consumed at home by around 20% and those prices aren’t coming back down soon, according to the Bureau of Labor Statistics.” The group spearheading the initiative estimates that a food tax exemption would save an average family \$400-500 a year, and individuals could save around \$150 a year ([Reporter-Herald](#)).

Proponents believe the city is overstating the impact of the tax exemption on the city budget - and that population growth and increased non-food spending in Loveland will decrease the amount of revenue loss. They also believe more out-of-town shoppers will come to Loveland for groceries, providing a boost in other types of revenue.

Final Thoughts from Loveland Business Roundtable

Loveland Business Roundtable urges residents to vote “No” on this food tax initiative. While it is true that inflation has increased the prices of food and almost everything else, a broad new tax exemption for everyone is a disproportionate remedy for the issue at hand. The incremental nature of the cost savings (a few dollars from every grocery trip) may not make a noticeable difference in the lives of those who stand to benefit most from the exemption. But even if it does, it will still result in large and difficult adjustments to the services our city can provide, and expenditures it will be able to cover. Rather than create a new exemption that will lead to unrecoverable losses for the city budget, we believe relief efforts should focus on providing targeted relief to assist residents on tight budgets. We welcome conversations on vouchers, rebates, and other programs targeted toward those struggling the most with cost-of-living issues.

As Loveland continues to grow, and because Lovelanders expect a full-service city with well-maintained surroundings and low-cost or free city services, we should not vote to limit our city government’s resources by putting them at the disadvantage of holding the lowest effective sales tax rate in northern Colorado.

