

# AGENDA

## CITY COUNCIL WORK SESSION

April 20, 2021

6:00 PM, City Council Chambers  
130 S Galena Street, Aspen



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### I. WORK SESSION

I.A. WRETT Part 1 – Financial Models



**MEMORANDUM**

**TO:** City Council  
**FROM:** Pete Strecker, Finance Director  
**THROUGH:** Sara Ott, City Manager  
**MEETING DATE:** April 20, 2021  
**RE:** Repurposing RETT Discussion – Session 1

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**REQUEST OF COUNCIL:** Staff is looking for direction as it prepares draft ballot language for consideration around public support for a repurposing of future real estate transfer tax revenues generated by the 0.5% tax currently in place. As part 1 of this multi-session discussion with Council, staff is looking for direction around the financial parameters desired to be included in the ballot language.

**SUMMARY AND BACKGROUND:** The 0.5% real estate transfer tax was first adopted by voters in 1979 and was uniquely pledged as financial support to the Wheeler Opera House, plus an annual set aside of \$100,000 for arts grants. Since this initial adoption, the tax has been reaffirmed by voters twice, as the tax has a periodic sunset provision every 20 years. The most recent extension provided approval of the tax through December 2039. To date, these renewals have been focused on extending the tax, and have not considered adjusting the allowable uses for the tax.

**DISCUSSION:** At a Council work session on February 23, 2021, staff was directed to explore and present opportunities to expand the application of future tax collections for other community benefits. This direction reflects today’s reality that the dedicated Wheeler Opera House fund balance has grown to more than \$32M and represent a level that is essentially five times the average annual expenditure authority.

With Aspen having been in a period of significant real estate activity of late, with 2020 sales and dollar volume setting new records and early 2021 continuing at elevated levels, fund balance continues to escalate. Bolstered further by a recent singular \$68M transaction as the Mountain Chalet transfers to new ownership, the current fund balance can allow for a “holiday” from new collections funneling into the Wheeler Fund, and therefore further emphasizes that the opportunity exists for future collections to be redirected for Community benefit.

Expenditure Needs: With major renovations having now been performed on the lower offices and leased spaces (2010-2011), the auditorium balcony rebuild (2012-2014), HVAC replacement, roof replacement, second floor bar, restrooms and artist / dressing rooms, and first floor lobby (2014-2016), freight elevator (2020) and most recently the

exterior façade restoration (2020-2021); the extent of necessary and significant capital projects on the physical building are limited over the next number of years.

Including all annual expenses at the Wheeler, projected subsidy levels over the next ten years averages roughly \$4M annually. This is barring any changes to programming levels, ticket subsidies and includes capital improvements totaling \$9.5M, thereby not neglecting necessary maintenance or large equipment purchases.

Using the base assumptions of current fund balance at \$32M and a subsidy need of roughly \$4M after programming revenues and lease income is applied, a straight-line reduction of the current fund balance would take 8 years:

|      | Ending Balance | Annual Subsidy |
|------|----------------|----------------|
| 2021 | \$32,000,000   |                |
| 2022 | \$28,000,000   | (\$4,000,000)  |
| 2023 | \$24,000,000   | (\$4,000,000)  |
| 2024 | \$20,000,000   | (\$4,000,000)  |
| 2025 | \$16,000,000   | (\$4,000,000)  |
| 2026 | \$12,000,000   | (\$4,000,000)  |
| 2027 | \$8,000,000    | (\$4,000,000)  |
| 2028 | \$4,000,000    | (\$4,000,000)  |
| 2029 | \$0            | (\$4,000,000)  |

**FINANCIAL IMPACTS:** To ensure that historical voter support for the preservation and operation of the Wheeler Opera House is not placed in jeopardy, staff requires Council input around the aspects of program duration and Wheeler reserves.

Currently, City Financial Policies require reserve levels equal to 12.5% of annual expenditure authority be held in reserve for *most* City funds. However, for the two utilities (water and electric) and for the General Fund and Wheeler Opera House Fund, reserve requirements are twice this level, or 25% of annual budget authority. These higher levels were established due to greater capital / maintenance needs (utilities and Wheeler specifically) and as the General Fund is the only fund with discretionary resources.

Option A - Baseline: To place the 25% reserve requirement into context for the Wheeler Opera House Fund, over the next 10-year period, the highest annual projected budget need is roughly \$7.6M which therefore demands a reserve of \$1.9M be maintained. This would be the most dramatic fund balance reduction option for the Council to consider – maintaining the 25% reserve and allowing all of the revenue from the 0.5% RETT to be redirected until fund balance was reduced to this level.

Option B – Increasing Reserve Requirement: Reflecting on the volatility of capital improvements made to the building over the last decade, while there are not necessarily major structural or building mechanical needs in the immediate future that staff is aware

of, other theater-related capital upgrades – both wants and needs – still exist and are likewise expensive. As such, a more generous target could be applied to the reserve held in this Fund, to create room for these items. This could be established as a flat amount or as a percentage of annual spend - the below table outlines the status quo and three alternative possibilities (using the highest projected annual spending authority need in the 10-year period):

|                       | Reserve as Percentage of Annual Spend | Flat Reserve Requirement Amount |
|-----------------------|---------------------------------------|---------------------------------|
| Option A – Status Quo | 25%                                   | \$1.9M                          |
| Option B – 1          | 50%                                   | \$3.8M                          |
| Option B – 2          | 75%                                   | \$5.7M                          |
| Option B – 3          | 100%                                  | \$7.6M                          |

Note: Option B-1 at \$3.8M is equal to approximately 75% of the annual subsidy that is needed to supplement other production / box office revenue and lease income from the restaurant and art gallery. Option B-3 is roughly equivalent to 150% of the annual subsidy need.

Duration: Regardless of the option supported by the Council, staff would also request that a sunset is considered *for the expanded uses language* for the 0.5% real estate transfer tax. By establishing this duration as part of the ballot question, a pronounced commitment shall be made to the Community, that the benefits of the program will be evaluated and that the opportunity for pivoting to establish alternative outcomes will be required. Staff recommends a term between 5 and 10 years for consideration – this is prior to the sunset on December 31, 2039 for the tax itself, and allows for a check in with the public.

**RECOMMENDATION:** Council may select from the presented options around either a percentage or flat amount, or recommend its own recommendation, for how significant a reserve should be maintained for the Wheeler Opera House. With this decision, staff would recommend a duration of somewhere between 5 and 10 years, as the annual “consumption” of existing fund balance (if future collections are reallocated) will be gradual and many years will be necessary to align to a new benchmark.

**CITY MANAGER COMMENTS:**

**ATTACHMENTS:**