La Plata County
Fiscal Sustainability Community Steering Committee Agenda
Wednesday, July 15, 2015
Meeting Notes

---

1. **Introductions**
   Roger Sherman with CRL Associates called the meeting to order and asked those present to introduce themselves.

2. **Review June 25 Meeting Summary and Follow-up Items**
   Sherman asked if members had any comments or edits to the revised meeting summary. Hearing no edits, Sherman asked Diane Sorensen to go over a number of follow-up items from the meeting.

   First, Sorensen addressed a discrepancy in the presentation regarding the 2014 Road & Bridge (R&B) Fund expenditures whereas slide six showed $9.6 million and slide eleven showed total expenditures for 2014 being $12.2. The presentation incorrectly used 2014 R&B budget figures on slide eleven and not the 2014 actual. Sorensen provided a corrected slide eleven (attached).

   Next, Sorensen reviewed La Plata County's Highway User Tax Fund (HUTF) distribution history from 2005 to 2014 (attached). There was a jump in 2006 over 2005 as a result of the FASTER legislation. The county receives its distribution from the state and then provides an allocation to three metro districts.

   Third, Sorensen reviewed a comparison of residential, commercial and oil & gas (O&G) properties. She highlighted the difference in the assessed ratio for residential (7.96%), commercial (29%) and oil & gas (87.5%). To determine assessed value, the assessor multiplies the value of the property by the assessed ratio. The currently mill levy is then applied to the assessed value to determine actual property taxes owed. Side-by-side comparisons were provided two ways: (1) on properties valued at $500,000 to show the relative tax burden, and (2) using the average assessed valuations for residential, commercial and gas wells (not oil) as provided by the Assessor's office (attached).

   Finally, Sorenson reported she is still working on the request for a list of Energy Impact Grants received by La Plata County.

   <u>Questions/Comments</u>
   - How is the oil & gas valuation arrived at? *It is a calculation of price multiplied by production.*
   - *Is that the average price over the course of a year? The valuation is two years in arrears, but need to clarify with Assessor.*
   - Regarding oil & gas, is there any assumption as to the life of the property? *Assessments are based strictly on price and production, two-years in arrears.*
   - Is the value only calculated on production or is it calculated on production equipment as well? *Equipment would be considered personal property, but will have the Assessor attend a future meeting to address this and related questions.*
   - How does the Gallagher Amendment affect the percentage of overall property tax paid by residential property owners versus everyone else (e.g. is it true the more residential units built, the less expensive it gets for residential owners and more expensive it gets for

commercial property owners)? *Will invite the Assessor to a future meeting to address this question.*

- Is vacant land assessed the same a commercial? *Yes, but the side-by-side comparison provided does not include vacant land in the calculation.*
- If property taxes are raised, what is the impact of the average house or commercial property in various cities? *The side-by-side comparisons shows the relative difference in taxes paid on a $500,000 property.*
- Might be helpful to use the Assessor's abstract that classifies by total assessed value for the entire county by each category: vacant, residential, commercial, industrial, agricultural, natural resources and oil & gas.
- Really need to get my mind around what is the real impact. The cost of a new well was $2.2 million but how does that type of investment relate to what the property tax increase we are talking about? We will ask the Assessor to address personal property taxes and use taxes and how each relates to the mill levy for oil & gas.
- If this moves forward as a ballot question, voters are going to want to know exactly how much it will cost them. We need a chart that shows property values in increments for both residential and commercial in Durango, Ignacio, Bayfield, as well as something for oil & gas – and the associated property taxes under the various increase scenarios.
- How are HUTF distributions determined? Surprised to see the figures increasing each year. Isn't the fund dependent on gas taxes? *The funds do come from both state and federal gas taxes collected. The state takes funds off the top for CDOT projects and then determine allocations to counties. The distribution calculation is complex based on a number of factors including the number of miles of road in the county and the condition of those roads. We have seen declines based on economic conditions (e.g. from 2007 to 2008). Sherman will try to find a summary explanation of HUTF sources, uses and distribution formula.*

Sherman will follow up with Assessor Craig Larson to see if he is available to attend the July 22 meeting and will provide him a list of questions from the committee in advance.

3. Long Term Finance Committee Presentation, Options & Discussion

Rich Butler opened the presentation by reviewing the role of the Long Term Finance Committee (LTFC). The LTFC acts in an advisory capacity to the Board of County Commissioners (BOCC) with respect to long term financial planning; reviews revenues and expenditures trends with a view to identifying potential financial threats and opportunities; makes recommendations to maintain a structurally balanced budget and preserve the county's fiscal soundness; and reviews capital improvement programs and the recommendations for funding those improvements.

The LTFC was tasked with examining county long-term fiscal sustainability. Based on downturns in the O&G property tax revenues, the LTFC has identified a growing structural revenue imbalance that does not allow for long term fiscal sustainability without exploring alternatives. The imbalances include an operating deficit in the R&B Fund of approximately $8.3 million over the next 15 years which makes it impossible for the county to meet its maintenance requirements. Additionally, the General Fund is not able to fund county facility needs or support R&B operating and capital deficits over the next 15 years.

Finally, the county has been actively engaged for the last year to prepare a 10-year Facilities Capital Plan and Road Infrastructure Plan. The Organizational Development Initiative (ODI) for Capital

Improvements includes facilities and R&B infrastructure and maintenance. LTFC forecasts have been updated with the Tech Center properties information which reduced new facilities needs from $53.135 million to $44 million, but increased maintenance costs calculated at $10 per sq. ft. to $6.23 million from $3.207 million. The bottom line is unfunded R&B infrastructure projects total $70.193 million and operating deficits total $8.3 million. The LTFC concluded the ODI cannot be fulfilled without new revenues and R&B will be significantly impacted in a negative manner if a sustainable cure for funding the operating deficit and R&B transportation projects isn't found.

Butler reviewed the mix of county revenues since 2006. Sales tax and federal/state transfers have remained somewhat steady, but property tax revenues have decreased significantly. During this time, the county's population is up 15% and overall revenues down 6%. La Plata's dependence on federal and state transfers is unhealthy and unsustainable in the current tight budget environment. Further, the county has had to rely on spending reserves, which we are fortunate to have had, but it isn't sustainable.

The LTFC developed a model using financial history from 2000 to 2013 to develop its forecast. The forecasts are based optimistic economic projections over next 15 years including moderate growth in La Plata County with two mild recession in 2018 and 2027 lasting one year. Butler noted this is less than historical averages since the last downtown ended in 2009 and there has never been a 10-year period without a recession. Other factors and vulnerabilities in the forecast include:

- The county has done an excellent job managing its finances conservatively. The county's operating expenses on a per-capita bases are down significantly. Back in the mid-2000 the county was spending $1,001 per-capita versus approximately $900 currently. Our projections anticipate Operating expenses grow at rate 10% below projected inflation for 15 years.
- R&B will raise only 25% of its capital plan needs via grants. In the past, nearly 50% of La Plata R&B grants depend on severance tax funds collected by the state. These funds will be impacted by gas prices and are expected to drop rapidly.
- No debt financing is anticipated. La Plata could not access debt markets without tax increases and the 4.15% interest costs make debt unfeasible. The $26M reserved in the General Fund for capital improvements could be used as the financing vehicle to bridge timing gaps in funding projects.
- The 15-year funding needs total $98M: General Fund facilities capital of ~$20M, R&B infrastructure of $70M net, and R&B operating needs of $8.3M.
- No contingency or emergency reserves are built into the model. The county unrestricted reserves are depleted and total approximately $5.1M. This is not sufficient to sustain a major hit (e.g. 2002 fires, 2014 Lyons flood or a 2008-like recession). BOCC recognizes the need to use capital reserves for timing purposes, but believes it to be irresponsible not to have reserves in place for future emergency/timing issues.
- 2015 gas price of $2.42 mcf vs. 2014 price of $4.12 is a 41.3% drop. Average gas production is dropping approximately 7% per year. La Plata depends on gas and the outlook is not positive over medium term.

<u>Questions/Comments</u>

- Does O&G forecast reflect 2 year lag? *Yes. LTFC assumes O&G property tax revenues will drop 45% in 2015 and then stabilize.*

- What kind of growth forecast are you projecting? *Assuming an optimistic economic scenario over the next 15 years including 4-6% retail sales growth and similar residential/commercial property value growth.*
- O&G issues are highly politicized – a decision to allow exporting, for example, could have a major impact on revenues.
- Our county has been living high on the gas hog – it's time we step up to stop relying on O&G in the future. We – all property owners in LPC – have had a sweet deal.
- How was the 4.15% interest rated determined? I have purchased municipal bonds over the last 15 years at much lower interest rates. *The state of Colorado bond advisor provided the rate based on LPC's financial condition. LPC would probably be rated as a BBB- or BBB and that would be the best rate available.*

When the LTFC began this process two years ago it initially looked at six options. The assumptions have changed since then and the BOCC asked us to throw them out and start over factoring in the 40% drop in gas prices. LTFC also determined that financing large capital assets over 10 years was not realistic. By going to 15 years, we are able to lower the tax increase needed to fill the gap. The LTFC also updated economic assumptions based on most recent data:

- 45% decline in O&G prices have locked in a 2017 O&G property valuation decline.
- Sales Tax base has recovered more than anticipated back in January 2014 when the LTFC started the forecasting process.
- Residential and commercial property valuations and additions to property base slightly higher than anticipated as well.

Other changes to the model include the Tech Center properties discussed earlier that lowers ODI facility needs by $9M to $44M. County staff and the BOCC want to reduce R&B reliance on sales tax revenues by freezing sales tax allocation to R&B at 2013 levels. This benefits the General Fund and the LFTC concurred it was an appropriate change. Finally, the model assumes a 25% match for R&B instead of 50%.

<u>Questions/Comments</u>

- Are the options the LTFC is looking at to deal with 100% of the plan for both infrastructure improvements and building facilities including in-town structures with parking? Some of these buildings can't be the most efficient way to approach our building needs. *Yes, that is something the LTFC debated a lot. The task given to the LTFC was "this is what the county thinks it needs, tell us how to finance it." You can see in our model that every 1 mil will raise approximately $30M over a 15-year period. This group may be tasked with recommending what is the right amount – and any recommendation will include some value judgements in determining what new revenues should be invested in by the county.*
- Please explain the 25% match and why it is reduced? In the past, R&B has been able to secure grants in the amount of approximately 50% of capital project costs. *Grants are largely funded from severance tax funds, which we know will be down significantly in coming years. In addition, the county also has received feedback from the state that LPC has been too aggressive in requesting funds for road projects and should focus elsewhere (e.g. facilities). LPC applied for a grant to help pay for the new administrative building.*

- What was the grant for the new administrative building? *The cost of the building was approximately $3.9M; LPC received a $1.5M grant, or approximately 38% of the total. Next week the county will ask the Energy Impact Advisory Committee for a $1.9M grant for the courthouse redevelopment (38% of the total approximate project cost of $5M).*
- In a typical year, what is the average percentage the county receives from grant income for R&B projects? *A ballpark from 2002 to 2013, including HUTF and other grants, would be 60% of project costs.*
- If we are getting less for R&B projects, but more for other projects, will the overall percentage of grants really go down or just be moved from one use category to another? *We anticipate less money in the grant pool, so either way expect a reduction in grant amounts begin awarded.* As noted earlier, Sorensen is working with Jim Davis to come up with an accurate list.
- Are the amounts awarded based on what production value is contributed from our county? *The formula for awarding grants is not tied to the amount contributed by LPC.*
- Are building projects at the Tech Center being funding out of yearly operating budget or are the funding long-term? *The purchases are being paid out of the $26M capital purchase and improvement reserve fund balance.*

Butler next reviewed various options to deal with the structural imbalance the county faces, including a property tax, sales tax, and “do nothing” scenario.

Without new revenues, the General Fund would exhausts reserves, the R&B fund incurs operating deficits of $8.3M., and capital plans cannot be funded with revenues or reserves. While this option keeps the county’s tax burden in the bottom tier in Colorado, the LTFC believes it also cripples the fiscal sustainability of the county and is not realistic.

A property tax increase of 3.75 mills would raise the necessary funds to meet 100% of the $98M operating and capital need. Three mills would be allocated for R&B and .75 mills allocated to the General Fund. Also, the county would uses the current Capital Improvement Reserve; then rebuild it over time. The total LPC mill levy after a 3.75 mill increase would still be less than similar counties in Colorado (median 13.282 mills.) Butler noted one additional dynamic the county is facing is the changing demographic mix. Coming out of the recession, the work-force participation level is changing significantly – people just aren’t going back into the labor force.

A sales tax option would require a .53% increase to raises the exact same amount of money. Weaknesses to the sales tax option are such a tax is more regressive and it represents a 26.5% increase. A sales tax increase by the county would also compete with other government entities that rely on sales taxes (including airport).

The LTFC also explored and considered other options including debt issuance and use taxes. Regarding debt, while generating a funding source for the Capital ODI Plan, incurring debt would require a public vote and the debt service creates an additional operating expense that could only be satisfied by an increase in operating revenue – also requiring a public vote. As for use taxes, the revenue generated is not sufficient in itself to complete the goals – it could raise $13M over a10-year period, requires a public vote, has significant compliance and monitoring requirements for impacted businesses.

<u>Questions/Comments</u>

- What are some of the real weaknesses to a sales tax increase? *Many of the items listed are the same on both options. LTFC was concerned about sales taxes being very regressive. They also noted a sales tax increase would put LPC's sales tax rate near to top of similar counties. If the mill levy was increased 3.75 mills, LPC would still be below the median in the state.*
- Concerned expressed that the LTFC didn't considering more seriously a use tax increase. Can we increase the use tax in combination with other revenue sources? Sees the use tax as a fairness issue given our "buy local" focus. *The FSSC is tasked with looking at how can we fund the shortfall? All options require voter approval and the FSSC needs to consider what is realistic and feasible.*
- Can you have three questions on the ballot at the same time? *Yes, each would have to be a separate, single issue.*
- Can we exempt food from the sales tax increase so we do not impact our working poor? *Yes. Butler agreed it would be appropriate, but we would need to determine the impact to sales tax collected and perhaps ask the voters for a slightly larger increase. It is likely the amount that would be attributed to food would be small, but we would need to account for it.*
- Concern that asking voters to select from a menu of tax increases will result in none being approved. *Sherman noted best practices suggest too many options on the ballot make passing any of the options more difficult.*
- Are LPC property taxes low for all categories compared to other counties? *The assessment ratio is set by the state, so we compare mill levy rates to determine where LPC ranks. It was noted that LPC property values may be higher than many similarly-sized counties, so the actual tax dollars paid could be more.*
- Raising sales tax over 8% will result in LPC loosing sales to other counties. We can't risk raising the sales tax.
- Is there a state cap on how high local sales taxes can go? *No, the cap was eliminated many years ago and is left up to local voters.*
- How is the R&B mill allocation shared with other communities? *The state requires that the county share 50% of any property tax revenues allocated to the R&B Fund with cities/towns based on their total assessed valuation. For example, if a jurisdiction's total assessed valuation is $1M it would receive half of the .71 mills times its valuation.*
- There is a benefit to the local jurisdictions from the "leakage" of property taxes allocated to R&B based on the share back requirement. The jurisdictions wouldn't receive any "share" from additional sales taxes.
- There are some really big numbers in capital expenditures. Does the LTFC believe these expenditures are necessary? *The staff may be better equipped to respond to this, but Butler shared an example of a $10-12M acquisition of an existing building for human services that is desperately needed. The cost to purchase (approximately $250/sq. ft.) is significantly less than the cost to build new on land in BODO owned by the county ($350/sq. ft.).*

- There are many alternatives for how to deal with building needs – purchasing, renting, building from scratch, etc. – we need to provide input on how to solve the problem best and whether or not we should be considering just one funding option.
- What is charged a use tax? *Use taxes are not a new tax, but a replacement tax if you buy something elsewhere to use her. Automobiles are common, as are building supplies.*
- It was noted that a use tax increase has been defeated by the voters at least twice.
- The committee needs to balance what we think is the best way to move forward with what we think might be successful.

4. Other Items

Sherman reviewed agenda items for the next meeting:

- Confirm the availability of Assessor and provide list of questions to him in advance.
- Discuss polling and best practices around placing multiple items on a single ballot. The timeline for making a recommendation to the BOCC is tight and set by state law. The county filed a letter of intent as a place holder this week as required, but must certify the ballot by September 2.
- Continue discussing revenue options with an eye on reaching consensus on whether or not there is a fiscal sustainability problem that needs to be addressed and then looking at viable ways to address it.

Finally, Sherman asked the committee to place a hold on their calendars for July 29 in case it is necessary to add a meeting to the schedule. While the group is making good progress establishing a foundation for its discussions, as noted earlier the deadline for making a recommendation to the BOCC is the end of August.

Attendance

Members present:

Bob McLachlan
Bob Kunkel
Buck Skillen
Charley Kier
Christi Zeller
Dale Kneller
Dave Kramer
Garry Hillyer
J. T. Coyne
Jim Wotkyns
Liane Jollon
Rich Butler
Ron Corkish
Shane Dawson
Steve Parker
Steve Schwartz
Ted Hermesman, III
Tim Blake
Tim Walsworth
Wayne Semler

Others present:

Joe Kerby, County Manager
Joanne Spina, Assistant County Manager
Diane Sorensen, Finance Director
Belinda Villanueva, Controller
Jim Davis, Public Works Director
Doyle Villers, Superintendent of Road Maintenance
Roger Sherman, CRL Associates