La Plata County
Fiscal Sustainability Community Steering Committee Agenda
Wednesday, July 22, 2015
Meeting Notes

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

2. **Review July 15 Meeting Notes and Follow-up Items**
   The Committee had no edits or additions to the meeting notes. Sherman quickly reviewed follow-up info on HUTF collection and distribution process.

3. **Discussion with County Assessor Craig Larson**
   Craig Larson provided a copy of the county abstract that shows the percentages of the entire tax base. He was asked to address a number of questions from the July 22 meeting:

   - **How is oil & gas valuation determined?** *It is a calculation of price multiplied by production based on two years prior production (e.g. the 2014 production will determine the assessment value for 2016). Larson provided recent history of gas prices which have averages $2.41 per million BTU in 2015.*
   - **Is that the average price over the course of a year?** *The valuation is based on a weighted average over the entire year. Prices are verified through the Colorado Oil & Gas Commission as well as operators in the county who report prior-year valuations. Larson provided an example of taxes associated with a well if it began producing in 2013 (attached).*
   - **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. Larson discussed the decreases he has seen in production life of wells. The county has experienced field production drops of approximately 7% per year.
   - **Is the value only calculated on production or is it calculated on production equipment as well?** *Equipment would be considered business personal property. There may be licenses and the operator pays fees associated with that license.*
   - **Is the cost to drill a well and equipment included in calculations?** *The assessment valuation does not have anything to do with the cost to drill the well or the equipment. As noted above, there may be licenses and the operator pays fees associated with that license.*
   - **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)?** *Gallagher Amendment was passed in 1982 and mandated that residential properties will pay no larger share of taxes, statewide, than in previous years. At the time it was passed, residential properties accounted for 45% of taxes and all others paid 55%. Because these ratios are locked, a "ratcheting down" has occurred lowering the assessment rate for residential from 22% in 1986 to 7.96% today. All other properties have an assessment rate of 29%, except O&G production at 87.5%. The next adjustment occurs in 2017 for the period July 1, 2015 to June 30, 2016. Larson provided a chart of assessment rates since Gallagher was passed (attached). Voters would have to*

approve a change in assessment rates and the legislature has been unwilling to refer an adjustment to the ballot.

<u>Comments and Questions</u>

- Aren't severance taxes and assessed values statewide going up? *Yes, when you factor in Weld and Garfield Counties, specifically, the overall rates have been going up for several years. La Plata County has mostly (two-thirds) dry gas wells which do not produce as much gas as wet wells.*
- Do you agree with the LTFC's recommendation given the reduction in price we will see another reduction in O&G taxes in 2017? *Yes.*

4. La Plata County Ballot Measure Polling Presentation & Discussion

Sherman reviewed results from a live survey of 482 likely 2016 voters, including 360 likely 2015 voters, chosen at random from La Plata County. The sample was representative of likely voters in La Plata County based on gender, age, party affiliation, and ethnicity. Interviews were conducted from May 18-21, 2015 by Keating Research. The worst case margin of error for this sample of 482 is plus or minus 4.5%. Cell phone numbers were included such that 52% of respondents conducted the interview by cell phone.

The first questions asked were related to participants' general feelings about LPC. 54% think things in La Plata County are heading in the right direction, and 20% think things are heading in the wrong direction. A two-thirds majority feel they pay the right amount in local taxes and fees for the services and amenities that they receive as a resident of La Plata County in local taxes. 17% felt they paid more than they should, and 14% felt they paid less.

The poll tested two mill levy increases. The first was the mid-range mill level increases from the original LTFC options (4.75 mills) which included funds for both the Facilities and R&B. The second was based on an increase of 2.65 mills exclusively for R&B. In both cases, participants were asked the actual ballot question in TABOR format first, then provided more information and background about the increase. Results of each mill levy question were:

Ballot Test #1							
Increase amount/ question format	Def Yes	Prob Yes	Lean Yes	Und	Lean No	Prob No	Def No
4.75 mills ballot	21%	25%	8%	6%	2%	10%	28%
4.75 mills informed	24%	23%	5%	3%	6%	10%	29%
2.65 mills ballot	19%	32%	8%	6%	2%	10%	23%
2.65 mills informed	24%	32%	4%	4%	4%	8%	24%

Participants were then asked to listen to statements about the ballot measure and state if each statement made them more likely to vote for the measure, less likely to vote for the measure or would it make no difference? The statements that resonated most with voters were: La Plata County can balance its budget without making cutbacks and can fund improvements that increase the safety of county roads and bridges.

Sherman reviewed statements asked about why participants might support a mill levy ballot measure. The reasons with the most favorable responses were LPC is a great place to live and raise a family (69%); low property taxes (67% favorable); and revenue shortfall is due to decreases in natural gas revenues (65%).

At the end of the survey, respondents were asked, based on everything they heard, would they vote yes or vote no on this ballot measure? The results were as follows:

Ballot Test #2							
Increase amount/ question format	Def Yes	Prob Yes	Lean Yes	Und	Lean No	Prob No	Def No
4.75 mills ballot	26%	23%	7%	3%	4%	12%	30%
Difference	+5%	-3%	-1%	-3%	+2%	+2%	+2%
2.65 mills ballot	29%	28%	8%	5%	3%	8%	24%
Difference	+10%	-4%	--	-1%	+1%	-2%	+1%

Overall, the results are very favorable. As expected, after discussion and hearing more about the measure, positions for or against become more “firm” and there are less undecided voters. The final results for the 2.65 mill increase was 61% for and 35% against. The final results for 4.75 mill increase was 51% for and 46% against. Sherman noted that the general rule for moving forward with a tax measure is you need 58-60% favorability at the beginning of a campaign.

Finally, Sherman reviewed results from a statewide survey conducted in January 2014 to illustrate the challenges with other forms of tax increases. The survey tested a sales tax increase, gas tax increase and a vehicle miles traveled tax. In each instance those opposed far outweighed those in support.

The full survey and topline results is available on the county’s website.

<u>Comments and Questions</u>

- How was the question about building safe bikeable shoulders developed? *The pollster tried to capture a very high level description in general terms of the types of projects that might be funded.*
- Christi expressed concerned that the capital improvement plan includes many roads with prescriptive easements that prevent the roads from being widened. Is the county setting itself up for failure if voters misunderstand what will and won’t be done? *It will be important to have a companion resolution of other action by the BOCC to outline a list of projects or specific improvements contemplated.*
- Tim Blake reiterated his belief that the only way to be successful is to be very specific with the voters.
- Jim Davis explained the difference between bike lanes and bikeable shoulders. Bike lanes are defined by the FHA. Specific width, etc. Typically when LPC reconstructs roads with the goal of adding a 4-foot bikeable shoulder whenever possible. A bike lane has additional requirements to qualify and that usually means the county must acquire additional right-of-way, which adds to the cost of improvements.

- The original options from the LTFC were for increases higher than what was polled. Why? *The polling was conducted before the BOCC gave LTFC direction to factor in the additional reductions projected in O&G revenues for 2017. As noted on July 15, the LTFC updated its recommendation to 3 mills based on the Tech Center property transaction, starting the tax one year earlier, and forecasting over fifteen years instead of ten years.*
- Would there be support for a higher mill levy increase when we polled at a lower level? *The poll is a snapshot in time. Sherman feels the key finding is voters appear to be receptive to an increase for R&B specifically and a small variation in the level of increases likely won't have a huge effect on support as long as there is specificity. Less support when the General Fund was included.*

5. Continue LTFC Options and Alternatives Discussion

There was extensive discussion about the projections by the LTFC. Butler noted the model has its limitations and is based on a set of assumptions developed with the information available and there is no way to predict the future and all the outside factors that could impact revenues for the county.

Rich Butler stated he believes the Steering Committee needs to decide if LPC has a revenue problem or not. The LTFC believes, based on the numbers, there is a problem. Once the group agrees on the problem, then we can look different ways to solve the shortfall. Each of the revenue options have tradeoffs. He noted that even if we take out the entire $44 million for county facilities, LPC still needs to raise $50 million just for R&B. The LTFC believes doing nothing is a disaster for the county.

Comments and Questions

- We should be looking at a smaller increase, say 2 mills, and look at other budgets for savings. The projections on gas prices also seem to be too low. *Rich Butler clarified that the projection assumes the drop in 2017, then stabilizes and prices grow 3-4% annual increase over time. He also noted that the production base in LPC is declining. Costs to drill are much higher in Colorado than other states which makes long-term growth in production unlikely.*
- The O&G projections are too pessimistic. Gas prices are going to rebound and the financial model needs to reflect it. There is too much infrastructure in place here for us not to see a rebound.
- Is the 3-4% increase related to gas prices or tax revenue to the county? *Revenue to the county, based on increasing gas prices after 2017 and reduced production.*
- Feels we are rearranging chairs on the Titanic. We have been living with declining gas prices for several years. We should have been having this discussion three years ago.
- Does the industry have a model for projecting future prices and productions? *No, but Christi Zeller believes we will see a rebound and the projections of ongoing declines is wrong.*
- Zeller reminded the group the O&G industry is living with lower prices now. The industry is already responsible for paying road impact fees, which totaled $1.65 million last year. She is concerned that marginal wells could become uneconomical if the industry has to pay higher taxes due to a mill levy increase. It could spur additional production cuts.
- The committee needs to balance what it thinks is the best way to move forward with what it think might be successful.

- Christi Zeller stated she feels the Committee is being steered to a property tax increase. She feels the use tax increase hasn't been looked at sufficiently.
- Rich Butter and Ron Corkish stated the LTFC has looked at use taxes and will again in the near future but the potential revenue generated is not enough to solve the county's revenue problem.
- It was noted that a use tax increase has been defeated by the voters at least twice.
- Suggestion that the county try to set a budget based on a gas price target and when prices are higher, put money into a rainy day fund for use when prices are below the target.
- Need to clarify the mission: are we talking about the General Fund or R&B or both? If we are talking about the General Fund, wants a lot more information on other departments and be able to look for savings before agreeing to a General Fund increase. Nothing should be sacrosanct.
- Has LPC ever instituted a development impact fee? Joe Kerby stated he believes past BOCCs have looked at them in the past, but have not implemented them so far.
- We have seen the numbers from the county and it is clear they have done an excellent job balancing service needs with revenues.
- Gary Hillyer noted the small adjustments in the model assumptions made a significant difference when projected out fifteen years ($41 million difference). Skeptical about the assumptions. What is the true extent to our problem? What does the county need versus what does it want?
- Rich Butler noted the 2015 adjustments occurred because we have actual numbers and when the LTFC began its work nearly two years ago it had to make assumptions based on the information available at the time.
- Two things we need to focus on: (1) do we believe the predictions about our R&B Fund and if so what are the scenarios for solving that problem and (2) do we believe there is a problem with the General Fund, and if so, how do we solve it. It appears there is support for the R&B, but more questions about the General Fund.
- It is important to not be skimping on maintenance now to the point that we have major reconstruction costs later.
- If we focus on R&B only, are we assuming everything else in the General Fund budget is necessary and being wisely spent? Need to look at the entire budget. The BOCC chooses how much it wants to allocate to R&B. Can it reduce costs in other areas and choose to allocate more to R&B?
- What is LPC per-capita data expenditures compared to similar counties? Rich Butler noted the average of similar counties is $723 per capita and LPC spends $635 per capita (or 10% less).
- What was the justification for including the General Fund? Would like more discussion.

The July 29 meeting will focus on road and bridge needs and it was suggested the committee focus on R&B Fund first and then discuss General Fund. It was suggested most of the group believe there is a need to address the R&B Fund. Some members disagreed.

Rich Butler noted the LTFC was tasked with "how can finance everything" – not that the BOCC wants to do everything. The LTFC was not asked what was needed. He also reiterated small adjustments in the model can have major impacts on the projections.

Tim Blake reviewed a handout about the hidden costs of not maintaining our roads, including vehicle damages and insurance rates (attached). The average added cost for poor roads in Colorado, per an article in the Washington Post, is $572 per year. This should be looked at as a savings rather than a cost.

6. Other Items

Roger Sherman reviewed the agenda for next week. Jim Davis has prepared two presentations on R&B needs which will be distributed to the Committee in advance. We will review the executive summary on the 29th. The meeting will be held at the La Plata County - Durango Road & Bridge Shop Conference Room, 1365 Camino del Rio, from 4-5:30 p.m. Also, Jim Davis and Doyle Villers will be leading a field tour for those interested from 2-4 p.m. prior to the meeting. Staff has reserved two vans for this purpose. Please let Roger know if you will be attending the tour.

Jim Kerby clarified statements about how the county has managed funds and how it identifies needs. Staff does not approach this lightly. In 2012, the county completed a facilities study to identified needs over the next twenty years including three options. The BOCC provided feedback and asked for a long-term analysis of R&B needs, which was completed by Jim Davis and his team. Staff then developed a holistic picture of all county needs. They also discussed a longer view, given the life-cycle of major infrastructure projects. The BOCC then asked staff to ask the LTFC to take the holistic picture of needs and suggest ways to finance it. The BOCC has not taken a position on the relative importance of specific projects.

Attendance

Members present:

Sheryl Ayers
Tim Blake
Bruce Baizel
Rich Butler
Ron Corkish
J.T. Coyne
Shane Dawson
Garry Hillyer
Liane Jollon
Dave Kramer
Bob Kunkel
Martha Mason
Barbara McLachlan
Steve Parker
Marsha Porter-Norton
Buck Skillen
Jim Tencza
Bob Volger
Buck Skillen
Bob Volger
Jim Wotkyns
Roger Zaineraitis
Christi Zeller
Sidny Zink

Others present:

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