# Long Term Finance Committee
# Fiscal Sustainability Analysis Report

Fiscal Sustainability Steering Committee - July 15, 2015

# Long Term Finance Committee (LTFC)

The Purpose of the LTFC is to act solely in an advisory capacity to the Board of County Commissioners (BOCC) with respect to long term financial planning.

The duties of the LTFC are to:

a. Review revenues and expenditures trends with a view to identifying potential financial threats and opportunities.
b. Make recommendations to maintain a structurally balanced budget and preserve the County's fiscal soundness.
c. Review capital improvement programs and the recommendations for funding those improvements.

# County Fiscal Sustainability

The LTFC was tasked with Examining  County Operational and Capital Investment Sustainability:

Operational County Fiscal Sustainability: Based on downturns in the Oil/Gas 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 following pages will identify a 15 year forecasted:

- Operating deficit in R&B Fund > $8.3 M.
- Road & Bridge unable to meet maintenance requirements.
- General Fund unable to fund county facility needs or support R&B operating and capital deficits over the next 15 years.

# Capital Improvements

Organizational Development Initiative (ODI) for Capital Improvements – Prepared by staff, includes facilities and roads and bridges infrastructure and maintenance. This presentation has been updated with the Tech Center properties information.

The LTFC concludes that the ODI cannot be fulfilled absent new revenues.

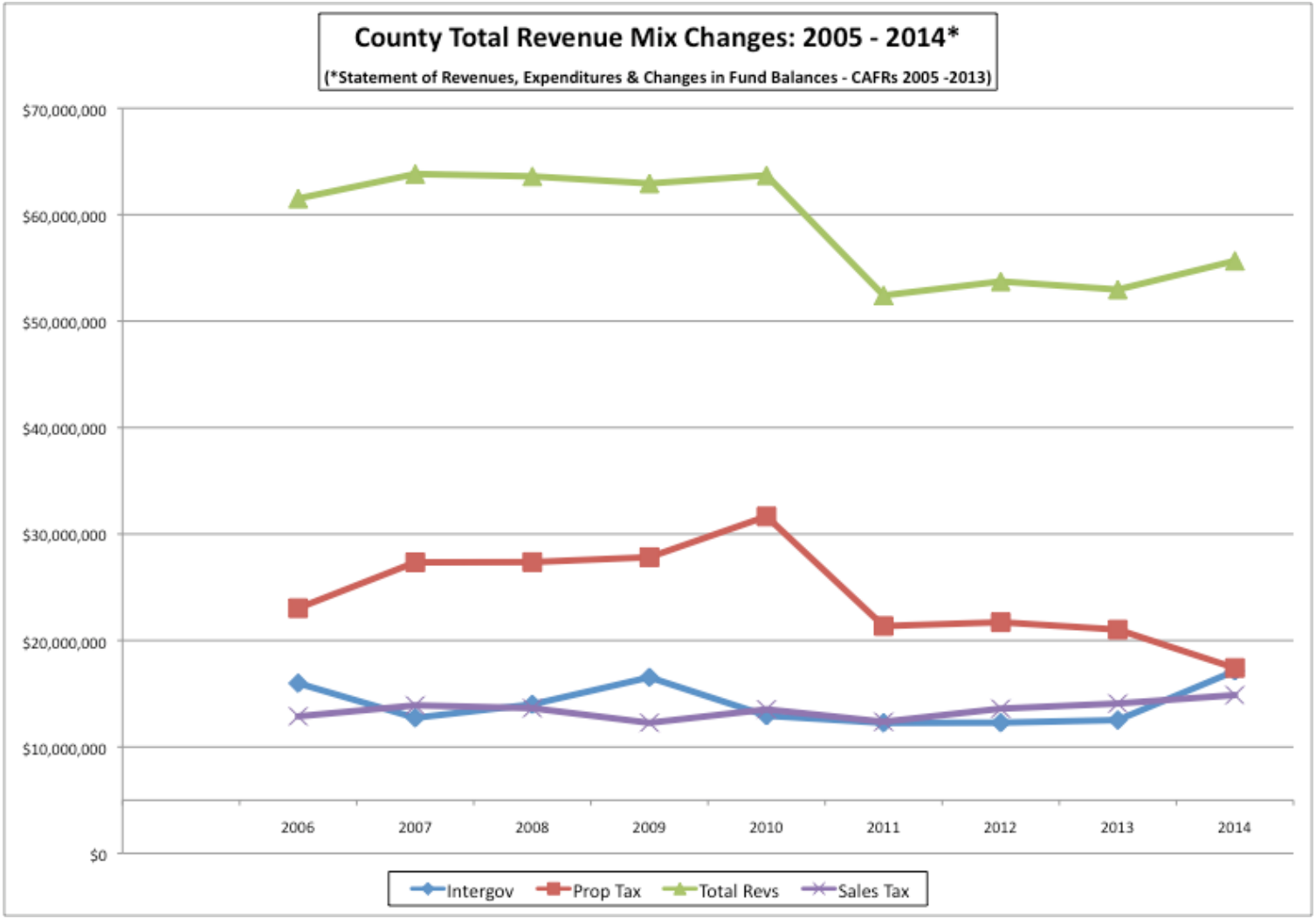
The following pages will highlight new developments:

- The ODI amended for the Tech Center properties:
  - New facilities - $44 M versus $53.135M.
  - Maintenance costs at $10 sq ft: $6.23M vs. $3.207M.

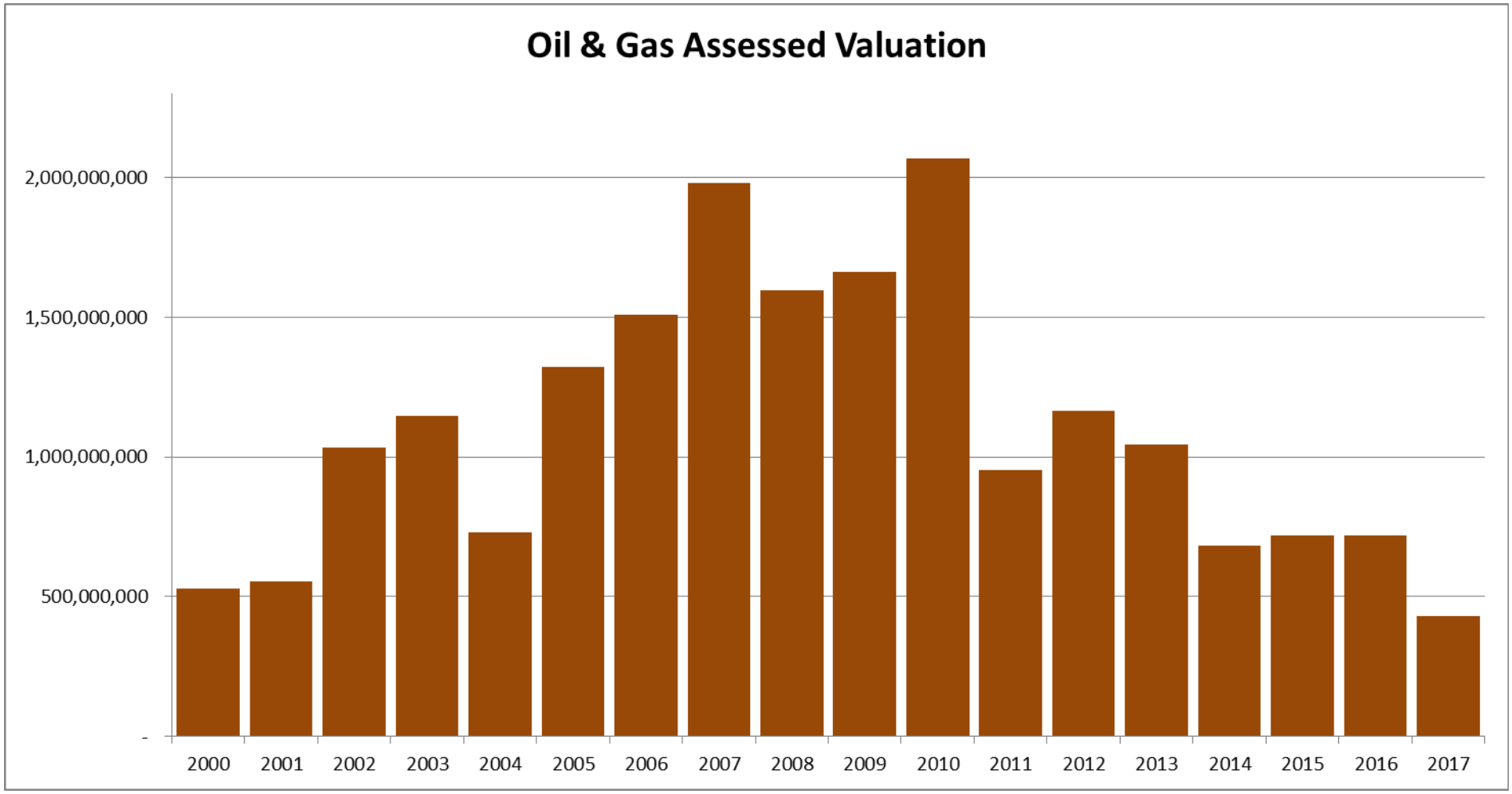
- R&B Infrastructure Projects $70.193M and Op Deficits > $ 8.3M:
  - R&B will be significantly impacted in a negative manner.
  - Finding a sustainable cure for funding the operating deficit and R&B transportation projects is of utmost importance.

# County Revenue Mix Has Changed

Past 9 Yrs: County population +15%/Revenues -6%
Bad Mix: County more dependent on Fed & State transfers

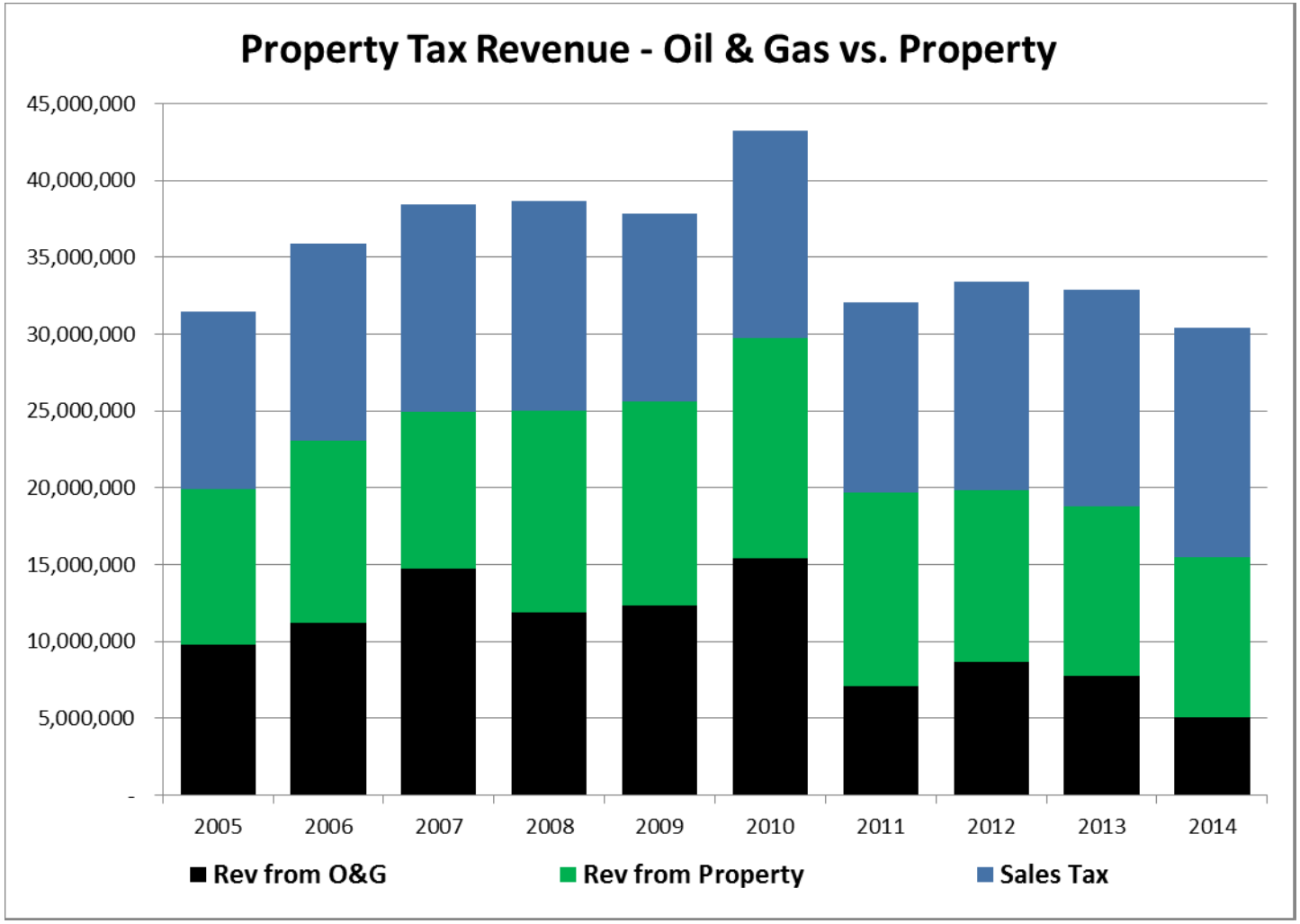


# Oil & Gas Assessed Valuation History



# Property & Sales Tax Revenues History

History: O&G tax revs have sustained La Plata County
Present: O&G tax revs have fallen > 60% since 2010



# Forecasting Limitations

- To quantify potential volatility in the models, note that if the property tax valuations grow at a rate less than we have forecasted the General Fund and Road & Bridge combined operating deficits will increase over the 15-year period.

- Likewise, if the county Retail Sales grow at a rate less than forecasted the combined operating deficits of the General and Road & Bridge funds will increase.

- Road & Bridge "operating" accounts only provide for basic services such as snow removal, grading, mag chloride and personnel. The majority of the Road & Bridge "capital" account includes basic maintenance (road repair, chip seal, resurfacing, bridge maintenance and repair).

- The following options capture the serious need of seeking new revenue sources to sustain the operations of the County and sustain the integrity of the County's transportation network.

# Forecasting

Model developed using financial history from 2000 to 2013 to formulate a forecast. These conclusions are based on an ***optimistic economic scenario*** over next 15 years.

Assumptions include:

- Steady moderate growth in La Plata County with two mild recession in 2018 and 2027 lasting one year (less than historical averages).
- Oil & Gas property tax revenues drop 45% in 2015 then stabilize.
- Operating expenses grow at rate 10% below projected inflation for 15 years.
- R&B raises 25% of its capital plan needs via grants.
- The $26M reserved in the General Fund for Capital Improvements is used as the financing vehicle to bridge timing gaps in funding projects.
- No Debt financing – La Plata could not access debt markets without tax increases and the 4.15% interest costs make debt an untenable alternative.
- 15 Year funding needs total $98M: GF Facilities Capital of ~ $20 M, R&B Infrastructure of $70M net, and R&B Operating needs of $8.3M.
- No contingency or emergency reserves are built into the model.

LTFC does not believe the County can grow out of its structural revenue imbalance

# Key Vulnerabilities: It Could Be Worse…

- 2015 Gas Price of $2.42 mcf vs. 2014 Price $4.12 => 41.3% drop. Average gas production dropping ~ 7% per annum. La Plata depends on gas. Outlook is not positive over medium term.
- Severance taxes are a function of price; expect rapid drops in sev tax revs
- Grants: A significant % of La Plata R&B grants depend on severance tax funds collected by the state. These funds will be impacted by gas prices.
- The last recession ended in 2010. We are forecasting only 2 mild recessions thru 2030. The US averages 3.15 recessions (1 severe) over 15 years.
- We assume La Plata County can manage operating expense growth at approx. 50% of inflation + population growth (~ 90% of inflation).
- La Plata's growing dependence on Fed & State transfers is unhealthy and unsustainable in current tight budget environment.
- County unrestricted reserves are depleted: ~ $5.5M. Not sufficient to sustain a major hit (2002 fires, a 2014 Lyons flood or a 2008 recession).

# Original Options Considered

Beginning in 2014, LTFC considered 7 options:

- Option 0 – Do nothing: Cripples the fiscal sustainability of the County.
- Option 1 – 6.25 Mill Levy Increase: Provides for all county capital & operating needs, replenishes all reserves with 50% R&B reliance on grant financing.
- Option 2 – 4.75 Mill Levy Increase: Provides for all county capital & operating needs, but uses 90% of county reserves and R&B reliance on 50% grant funding.
- Option 3 – 3.95 Mill Levy Increase: Same as above but assumes 50% grant funding for R&B projects and 25% for county facility projects.
- Option 4: Achieves all Option 1 goals but with 1% Increase in Sales Tax.
- Option 5: Achieves all Option 2 goals but with a 0.76% Increase in Sales Tax.
- Option 6: Achieves all Option 3 goals but with a 0.625% Increase in Sales Tax.

# BOCC Requested Additional Options

The following changes have been incorporated into new options:

- Due to the impending impact of gas price declines implement tax alternatives ASAP: 2015 ballot timing => 2016 revenue impact.
- 10 year tax financing of long term capital assets is not realistic: extend the forecast period over 15 years.
- Update 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 & commercial property valuations and additions to property base slightly higher than anticipated as well.
- Tech Center properties lowers ODI facility needs by $9M to $44M.
- Staff & BOCC want to reduce R&B reliance on sales tax revenues. Freeze sales tax allocation to R&B at 2013 levels. This benefits the GF.
- Grant financing is uncertain, reduce assumption to 25% match for R&B.
- 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.

# Option 0 – Do Nothing

Assumes no new taxes.

- Gen Fund exhausts reserves
- R&B incurs operating deficits of $8.3M
- Capital plans cannot be funded with revenues or reserves

<u>Strengths:</u>

- Maintains La Plata tax burden at bottom tier in Colorado

<u>Weaknesses:</u>

- Cripples the fiscal sustainability of the county.

# Doing Nothing Is Not An Option

OPTION 0: MODERATE GROWTH MILD RECESSIONS 2018/2027. 45% O&G VALUATION DROP IN 2017. NO NEW TAX REVS. GEN FUND & R&B FACE OPERATING & CAPITAL DEFICITS > $95mm
General Fund Freezes Sales Tax Allocations to R&B at 2013 Levels. All Sales Tax Revenue Growth Accrues to the General Fund.
Gen Fund Generates Modest Operating Surplus But Cannot Fund Capital Needs or Support R&B. R&B Implodes: Operating Deficits and Capital Shortfalls Exhaust All Reserves by 2018

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 15 Year Sum |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***GENERAL FUND*** | | | | | | | | | | | | | | | | | |
| New General Fund Property Tax Revs | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Operating Revs: GF | 34,265,373 | 37,102,488 | 34,586,799 | 34,616,917 | 35,061,153 | 35,479,391 | 36,994,405 | 37,930,600 | 39,018,082 | 40,996,534 | 41,751,676 | 42,712,346 | 42,694,539 | 43,206,199 | 44,093,446 | 45,816,207 | 625,466,074 |
| Total Operating Expenses: GF | 32,092,882 | 33,402,225 | 34,073,099 | 33,527,241 | 33,770,741 | 34,735,309 | 35,729,596 | 36,754,392 | 37,810,865 | 38,900,062 | 40,025,102 | 40,881,723 | 40,872,196 | 41,762,850 | 42,678,236 | 43,931,874 | 600,946,344 |
| GF Operating Surplus/(Deficit) | 2,172,492 | 3,700,262 | 513,709 | 1,089,676 | 1,290,412 | 744,082 | 624,835 | 1,176,208 | 1,207,217 | 1,656,471 | 1,726,574 | 1,830,623 | 1,822,342 | 1,443,349 | 1,415,210 | 1,884,333 | 24,519,730 |
| ***GENERAL FUND CAPITAL ACCOUNT*** | | | | | | | | | | | | | | | | | |
| One Time Grant Funding | - | - | - | - | - | - | - | - | - | - | | | | | | | - |
| Gen Fund Capital & Main. Expenditures | 5,301,700 | 2,827,750 | 353,030 | 11,946,024 | 1,505,950 | 13,846,750 | 1,028,550 | 820,250 | 639,965 | 740,938 | 1,998,750 | 734,750 | 734,750 | 734,750 | 734,750 | 734,750 | 44,283,377 |
| | | | | | | | | | | | | | | | | | |
| GF Net Operating + Capital Surplus/(Deficit) | (3,129,208) | 872,512 | 160,709 | (10,856,348) | (215,538) | (13,102,708) | (403,715) | 355,958 | 567,252 | 915,533 | 129,824 | 1,095,873 | 1,087,592 | 708,599 | 680,460 | 1,149,583 | (19,763,647) |
| ***ROAD & BRIDGE*** | | | | | | | | | | | | | | | | | |
| New R&B Prop Tax Revs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sharing of Prop Tax with Cities (50% levy) | -195,585 | -211,460 | -222,033 | -228,694 | -228,694 | -221,833 | -234,052 | -235,254 | -237,607 | -251,865 | -254,582 | -264,557 | -265,880 | -261,892 | -261,511 | -260,381 | -3,852,677 |
| Total Operating Revenues: R&B | 8,919,950 | 8,425,539 | 8,268,980 | 8,335,272 | 8,311,536 | 8,348,817 | 8,446,215 | 8,567,311 | 8,674,992 | 8,807,521 | 8,917,375 | 9,028,797 | 9,111,981 | 9,172,136 | 9,252,655 | 9,389,341 | 139,978,117 |
| Total Operating Expenses: R&B | 7,636,276 | 8,123,859 | 8,291,504 | 8,223,738 | 8,358,308 | 8,606,522 | 8,852,330 | 9,126,011 | 9,397,890 | 9,678,103 | 9,967,045 | 10,177,637 | 10,126,258 | 10,342,127 | 10,563,326 | 10,881,563 | 148,362,477 |
| Net Operating Surplus/(Deficit): R&B | 1,283,674 | 301,680 | (23,123) | 111,535 | (46,832) | (257,705) | (406,115) | (558,700) | (722,898) | (870,582) | (1,049,670) | (1,148,840) | (1,014,278) | (1,169,991) | (1,310,671) | (1,492,222) | (8,384,360) |
| | | | | | | | | | | | | | | | | | |
| R&B Grant Funding (25% of Project Cost) | 2,097,150 | 1,822,500 | 1,890,000 | 1,552,500 | 2,170,000 | 1,898,000 | 1,283,500 | 1,430,750 | 1,832,500 | 1,395,000 | 1,351,714 | 1,378,748 | 1,364,961 | 1,392,260 | 1,420,105 | 1,462,708 | 24,862,396 |
| R&B Maintenance & Capital Expenditures | 4,394,300 | 7,290,000 | 4,360,000 | 6,130,000 | 8,680,000 | 7,352,000 | 5,134,000 | 5,723,000 | 7,330,000 | 5,580,000 | 5,406,856 | 5,514,993 | 5,459,843 | 5,569,040 | 5,680,421 | 5,850,833 | 95,255,286 |
| NET R&B Capital & Main. Expenditures | (2,097,150) | (5,467,500) | (3,270,000) | (4,577,500) | (6,510,000) | (5,514,000) | (3,850,500) | (4,292,250) | (5,497,500) | (4,185,000) | (4,055,142) | (4,136,245) | (4,094,882) | (4,176,780) | (4,260,316) | (4,388,125) | (70,392,889) |
| | | | | | | | | | | | | | | | | | |
| Net: R&B Oper. & Capital Surplus/(Deficit) | (813,476) | (5,165,820) | (3,293,123) | (4,465,965) | (6,556,832) | (5,771,705) | (4,256,605) | (4,850,950) | (6,220,398) | (5,055,582) | (5,104,812) | (5,285,085) | (5,109,160) | (5,346,471) | (5,570,986) | (5,880,347) | (78,777,250) |
| | | | | | | | | | | | | | | | | | |
| ***Total GF + R&B Op & Cap Surplus/(Deficit)*** | (3,942,684) | (4,293,308) | (3,132,414) | (15,322,314) | (6,772,370) | (18,874,413) | (4,478,316) | (4,494,992) | (5,653,127) | (4,140,029) | (4,974,988) | (4,189,182) | (4,021,568) | (4,637,902) | (4,890,526) | (4,730,764) | (98,540,896) |
| | | | | | | | | | | | | | | | | | |
| Alloc. to R&B from Cap Improvement Res. | 0 | 5,165,820 | 3,293,123 | 4,465,965 | 6,556,832 | 5,771,705 | 4,256,605 | 4,850,950 | 6,220,398 | 5,055,582 | 5,104,812 | 5,285,055 | 5,109,160 | 5,346,471 | 5,570,986 | 5,880,347 | 77,963,774 |
| Cap Purchase & Improve Res ($26mm) | 20,473,000 | 16,507,412 | 13,720,028 | (604,361) | (7,004,682) | (25,232,349) | (28,674,111) | (32,348,852) | (37,361,969) | (40,761,109) | (45,001,348) | (48,455,779) | (51,742,589) | (55,645,745) | (59,801,521) | (63,797,535) | |

***Assumption Summary:***

Growth: Moderate Growth w Mild Recessions 2018 & 2027 Lasting 1 Year. Assumes Oil & Gas Valuations Drop 45% in 2015 (Fact) From O&G Prices Stabilize with Modest Falling Production Losses. Sales tax growth: inflation + a % of Population growth.

15 Year NEW Capital & Fed Mns Assmt ~ $44 mm In the General Fund. General Fund Freezes Sales Tax Allocations to R&B at $2.7 Million (2013 Levels) and ALL Sales Tax Growth is Now Retained by the GF. The Gen Fund Generates Modest Operating Surplus But Fails to Meet County Facility Needs

Tax Funding: No New Taxes ~ O&G tax revenues continue to fall and are not offset by general economic growth until 2022. GF and R&B cannot maintain capital improvements

Reserve Funding: All county retirement reserves are exhausted by 2018.

Grant Funding: Assumes R&B Raises 25% of its Capital Plan Needs Via Grants ($23mm) and Assumes the GF Raises 0% of Its Capital Plan Needs Via Grants.

Assumes the $26mm Capital Purchase and Improvement Reserve is Used As The Financing Vehicle to Bridge Timing Gaps in Funding and Expenditures. The Reserve is Exhausted by 2018. No Debt Financing Permitted in this Scenario.

***Note: R&B Operating Account only includes basic service (snow removal, grading, road chip&seal, etc). Repairs, improvements, resurfacing, chip seal, bridge repair are in R&B Capital Acct.***

NOTE: 1 MILL PROP TAX FOR R&B RAISES GROSS REVENUES OF ~ $30 MILLION OVER 15 YEARS ($2.0 million per year). HOWEVER, $6.4 MILLION MUST BE SHARED WITH LA PLATA CITIES ~ NET REVENUE TO R&B of $23.6 MILLION or $1.6 MILLION NET PER YEAR)

NOTE: 1 MILL PROP TAX FOR THE GENERAL FUND RAISES GROSS AND NET REVENUE OF $30 MILLION OVER 15 YEARS: AN AVERAGE OF $2.0 MILLION PER YEAR GROSS & NET

# New Option A – 3.75 Mill Levy Increase

**Property Tax increase in <u>2016</u> to fund 100% of County operating & capital needs:**

- Assumes 100% of the GF and R&B Fund operating & capital shortfalls are paid with a new 3.75 mill increase (0.75 mills to the Gen Fund, 3.0 mills to R&B).
- Mill Levy increases to 12.25 mills.

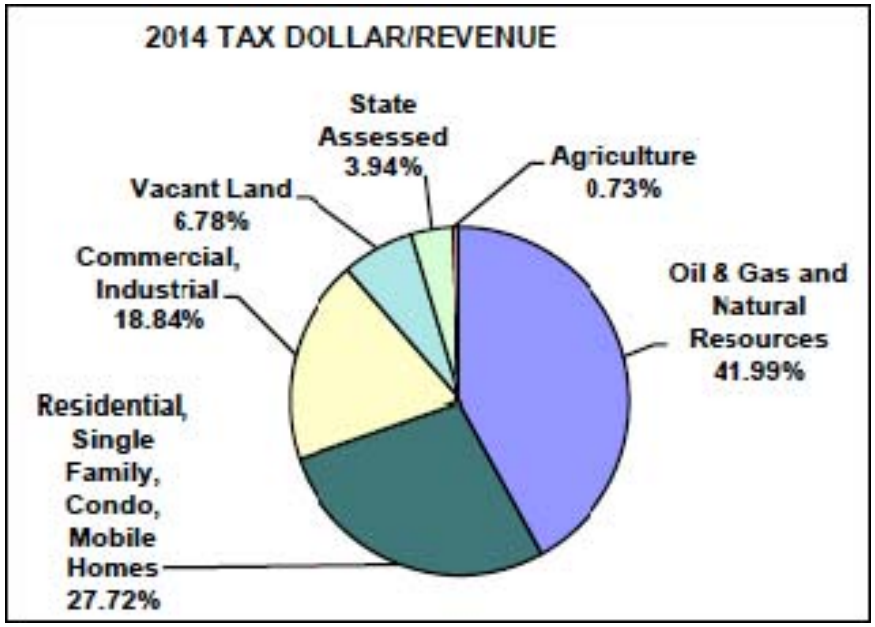
<u>Strengths</u>:

- Meets the funding needs of the revised Capital ODI Plan (Tech Center properties).
- Provides sustainable operating revenues.
- Uses the current Capital Improvement Reserve; then rebuilds it over time.
- Still less than like Counties - median 13.282 mills.

<u>Weaknesses</u>:

- % Increase in the Mill Levy (use average TOTAL millage: county + schools, etc.).
- Uncertain public support for not using the Capital Improvement Reserves of $26M.
- "Allocations to the cities" – a portion (~18%) of the R&B Mill increase is paid to Durango, Bayfield and Ignacio & requires a higher millage to meet La Plata's needs.

**3.75 Mill Increase = 10.5% Increase to "Average" Homes & Businesses. First county increase in more than 25 years**




| *County Property Tax on Median Home & Business* | | |
|---|---|---|
| | Residential | Commercial |
| Property Value | 350,000 | 1,010,000 |
| Assessment Ratio | 7.96% | 29.00% |
| Assessed Value | 27,860 | 292,900 |
| Avg Mill Levy | 35.797 | 35.797 |
| Current Tax | 997 | 10,485 |
| New Millage | 3.75 | 3.750 |
| New Tax | 104 | 1,098 |
| % Increase | 10.48% | 10.48% |

Important to recognize the contribution of both O&G and Commercial Property Taxes to La Plata's revenue base due to higher assessment ratios.

# New Option A – 3.75 Mill Levy Increase in 2016 To Fund 100% of County Operating & Capital Needs

OPTION A: MODERATE GROWTH + MILD RECESSIONS IN 2018/2027. 45% O&G VALUATION DROP IN 2017. NEW PROP TAX OF 3.75 MILLS TO FULLY FUND R&B + GEN FUND NEEDS
0.75 Mill New Prop Tax to the GF Raises $22mm. GF Freezes S Tax Allocation to R&B at 2013 Levels. All Sales Tax Revenue Growth Accrues to the GF. Meets All Facility & Operating Needs.
3 Mill New Prop Tax Increase to R&B Raises ~ $75 mm. Covers Operating Needs and R&B's Capital & Project Requirements.

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 15 Year Sum |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***GENERAL FUND*** | | | | | | | | | | | | | | | | | |
| New General Fund Property Tax Revs | - | 1,604,409 | 1,415,295 | 1,447,273 | 1,450,767 | 1,117,830 | 1,437,302 | 1,491,881 | 1,500,469 | 1,508,901 | 1,619,981 | 1,608,829 | 1,695,119 | 1,675,973 | 1,681,358 | 1,708,548 | 23,524,116 |
| Total Operating Rev: GF | 34,265,173 | 38,752,898 | 36,002,014 | 36,084,190 | 36,511,920 | 36,897,221 | 37,991,706 | 39,421,682 | 40,589,544 | 41,545,434 | 43,371,657 | 44,321,175 | 44,380,657 | 44,882,112 | 45,777,804 | 47,576,255 | 648,990,121 |
| Total Operating Expenses: GF | 32,092,682 | 33,462,225 | 34,073,699 | 33,527,241 | 33,770,741 | 34,735,339 | 35,728,566 | 36,754,392 | 37,840,865 | 38,908,062 | 40,023,182 | 40,881,723 | 40,872,196 | 41,752,890 | 42,673,236 | 43,931,674 | 608,946,318 |
| Operating Surplus/(Deficit): GF | 2,172,492 | 5,390,663 | 1,928,005 | 2,556,949 | 2,741,179 | 2,161,882 | 2,262,140 | 2,667,290 | 2,717,677 | 2,637,372 | 3,348,475 | 3,439,453 | 3,512,461 | 3,115,291 | 3,093,568 | 3,644,581 | 40,043,817 |
| ***GENERAL FUND CAPITAL ACCOUNT*** | | | | | | | | | | | | | | | | | |
| One Time Grant Funding | - | - | - | - | - | - | - | - | - | - | | | | | | | - |
| Gen Fund Capital & Maint Expenditures | 5,301,200 | 2,827,750 | 953,000 | 11,946,034 | 1,909,950 | 13,846,750 | 1,038,950 | 820,750 | 649,986 | 740,918 | 1,908,750 | 734,750 | 734,750 | 734,750 | 734,750 | 734,750 | 44,289,377 |
| GF Net Operating + Capital Surplus/(Deficit) | (3,129,208) | 2,562,913 | 1,976,005 | (9,389,085) | 1,831,229 | (11,684,868) | 1,223,190 | 1,847,840 | 2,067,692 | 1,904,454 | 1,439,805 | 2,704,703 | 2,782,711 | 2,380,541 | 2,358,818 | 2,910,131 | 3,760,440 |
| ***ROAD & BRIDGE*** | | | | | | | | | | | | | | | | | |
| New R&B Prop Tax Revs | 0 | 6,031,602 | 5,061,182 | 5,709,091 | 5,809,066 | 5,671,120 | 5,749,206 | 5,964,326 | 6,081,972 | 6,355,603 | 6,479,925 | 6,675,518 | 6,700,474 | 6,703,250 | 6,757,432 | 7,042,150 | 94,056,496 |
| Sharing of Prop Tax with Cities (50% loss) | -199,585 | -1,804,953 | -1,687,201 | -1,195,087 | -1,195,007 | -1,159,157 | -1,170,748 | -1,229,286 | -1,241,579 | -1,316,673 | -1,329,234 | -1,382,484 | -1,389,316 | -1,388,476 | -1,382,161 | -1,465,090 | -19,288,177 |
| Total Operating Revenues: R&B | 8,919,950 | 14,133,647 | 12,991,394 | 13,198,050 | 13,148,289 | 13,882,814 | 13,248,725 | 13,537,605 | 13,752,868 | 14,098,913 | 14,322,496 | 14,586,268 | 14,708,029 | 14,708,712 | 14,872,437 | 15,346,622 | 218,638,982 |
| Total Operating Expenses: R&B | 7,636,276 | 8,123,859 | 8,291,594 | 8,223,778 | 8,356,308 | 8,206,522 | 8,882,320 | 9,126,811 | 9,397,850 | 9,678,103 | 9,967,043 | 10,177,607 | 10,126,258 | 10,342,127 | 10,563,326 | 10,881,563 | 148,362,177 |
| Net Operating Surplus / (Deficit): R&B | 1,283,674 | 6,009,788 | 4,699,800 | 4,984,312 | 4,792,921 | 4,676,291 | 4,366,404 | 4,411,994 | 4,355,011 | 4,420,810 | 4,355,452 | 4,408,661 | 4,582,761 | 4,427,645 | 4,309,111 | 4,465,059 | 70,276,805 |
| R&B Grant Funding (25% of Project Cost) | 2,097,150 | 1,812,500 | 1,090,000 | 1,532,500 | 2,170,000 | 1,338,000 | 1,288,500 | 1,430,750 | 1,812,500 | 1,395,000 | 1,351,714 | 1,398,748 | 1,364,961 | 1,392,260 | 1,423,105 | 1,462,208 | 24,062,396 |
| R&B Maintenance & Capital Expenditures | 4,294,300 | 7,290,000 | 4,360,000 | 6,130,000 | 8,680,000 | 7,352,000 | 5,154,000 | 5,723,000 | 7,300,000 | 5,580,000 | 5,406,856 | 5,594,998 | 5,459,843 | 5,569,040 | 5,692,421 | 5,850,833 | 95,255,296 |
| NET R&B Capital & Main. Expenditures | (2,097,150) | (5,477,500) | (3,270,000) | (4,597,500) | (6,510,000) | (5,514,000) | (3,865,500) | (4,292,250) | (5,487,500) | (4,185,000) | (4,055,142) | (4,196,248) | (4,094,882) | (4,176,780) | (4,268,316) | (4,388,125) | (70,392,889) |
| Net R&B Oper & Capital Surplus/(Deficit) | 813,779 | 972,288 | 1,429,800 | 386,812 | (1,720,079) | (1,837,709) | 585,904 | 119,744 | (1,142,489) | 235,810 | 300,310 | 272,415 | 547,878 | 250,865 | 40,795 | (22,916) | (116,084) |
| Total GF + R&B Op & Cap Surplus/(Deficit) | (1,942,484) | 3,695,701 | 3,885,895 | (9,052,767) | (484,858) | (17,777,568) | 1,769,494 | 1,966,584 | 995,201 | 2,740,264 | 2,890,066 | 3,817,111 | 3,930,589 | 2,635,306 | 2,411,613 | 2,887,305 | 3,644,895 |
| Alloc. to R&B from Cap Improvement Res. | 0 | 0 | 0 | 0 | 1,726,079 | 1,337,779 | 0 | 0 | 1,142,489 | 0 | 0 | 0 | 0 | 0 | 0 | 22,866 | 3,923,143 |
| Cap Purchases & Improvements ($26mm) | 20,473,000 | 23,323,665 | 25,252,698 | 16,559,636 | 16,740,716 | 4,364,880 | 6,927,020 | 9,594,310 | 11,179,498 | 14,424,870 | 16,909,425 | 20,436,877 | 23,926,358 | 27,845,630 | 30,145,197 | 33,767,212 | |

***Assumption Summary:***

Growth: Moderate Growth with Mild Recessions in 2018 & 2027 Lasting 1 Year. Assumes Oil & Gas Valuations Drop 45% in 2015 (Fact) From O&G Prices Stabilize with Modest Falling Production Losses. Sales tax growth at inflation + a % of Population growth.

15 Year A&W Capital & Rd Mts Assoc ~ $44 mm Hit to General Fund. General Fund Freezes Sales Tax Allocations to R&B at $2.7 Million (2013 levels) and All Sales Tax Growth is Now Retained by the GF. 1 Mill New Prop Tax Raises

Tax Funding: No New Taxes ~ O&G Tax revenues continue to fall and are not offset by general economic growth until 2022. GF and R&B cannot maintain capital improvements

Reserve Funding: Lapid County Reserves Used to Finance Taking Shortfalls. Reserve Funds are Replenished From GF Operating Surpluses. No Debt Financing Required. Reserve Levels Depleted by $21 mm (to $5 mm) In 2020. Fully Replenished by 2028

Grant Funding: Assumes R&B Raises 25% of its Capital Plan Needs Via Grants ($22mm) and Assumes the GF Raises 0% of Its Capital Plan Needs Via Grants

Assumes the $26mm Capital Purchase and Improvement Reserve is Used As The Financing Vehicle to Bridge Timing Gaps In Funding and Expenditures. No Debt Financing Required in this Scenario.

***Note: R&B Operating Account only includes basic service (snow removal, grading, mag chloride, etc). Repairs, improvements, resurfacing, chip seal, bridge repair are in R&B Capital Acct***

NOTE: 1 MILL PROP TAX FOR R&B RAISES GROSS REVENUES OF ~$30 MILLION OVER 15 YEARS ($2.0 million per year). HOWEVER, $6.4 MILLION MUST BE SHARED WITH LA FUND CITIES ~ NET REVENUE TO R&B of $23.6 MILLION or $1.6 MILLION NET PER YEAR)

NOTE: 1 MILL PROP TAX FOR THE GENERAL FUND RAISES GROSS AND NET REVENUE OF $30 MILLION OVER 15 YEARS: AN AVERAGE OF $2.0 MILLION PER YEAR GROSS & NET

Tod Center Facility Assumptions: Assume Facility Needs Total $44 mm (down from $56mm). Production assumes $10/sq ft and transaction costs of the Tod Center properties.

***OPTION A-1: 3.75 Mills raises $90 million. Apply all 3.75 mills to R&B, reduce the sales tax allocation from the GF to R&B by $1.54 mm from $2.77 mm to $1.23 mm, to compensate the GF. The additional 0.75 Mill to R&B offsets the loss of sales tax revenue.***

# New Option B – .53% County-Only Sales Tax

**Sales Tax to fund 100% of County operating & capital needs:**

- Assumes 100% of the Gen Fund and R&B operating & capital shortfalls are paid with a new 0.53% county only Sales Tax (all to the GF). This raises $98M over 15 years. BOCC agrees to allocate revenues to cover $78M R&B needs.
- Combined La Plata sales tax rises to 2.53%.

Strengths:

- Meets the needs of the ODI Plan and Provides Sustainable Operating Revenues.
- Sales Tax is collected by all purchasers of goods – not just LPC residents and there is no allocation to the other cities in the county.
- Uses the Capital Improvement Reserve; then rebuilds it over time.

Weaknesses:

- 26.5% Increase in the Sales Tax, and it is more regressive/aggressive.
- Reduces the Capital Improvement Reserves but it is replenished.
- Uncertain public support for not using the Cap Improvement Reserve of $26M.
- Competes with other government entities that rely on sales taxes (including airport).

# Option B: Sales Tax Requires BOCC to Allocate Revenues to R&B To Maintain R&B Sustainability

OPTION B: MODERATE GROWTH + MILD RECESSIONS IN 2018/2027: 45% O&G VALUATION DROP IN 2017. NEW 0.53% SALES TAX TO GEN FUND. GF ALLOCATES REVENUE TO MEET R&B NEEDS
New County Specific Sales Tax of 0.53% Raises $98 mm for the GF. GF Must Fund $78 mm Operating & Capital Needs of R&B Over the 15 Year Period
Gen Fund Uses New Sales Tax Revs To Meet All Operating & Facility Needs. Capital Fund Used To Finance Timing Shortfalls.

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 15 Year Sum |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***GENERAL FUND*** | | | | | | | | | | | | | | | | | |
| New General Fund Sales Tax Revs | - | 5,548,305 | 5,631,530 | 5,498,741 | 5,573,102 | 5,706,027 | 6,406,828 | 6,344,476 | 6,999,115 | 6,859,049 | 7,129,103 | 7,236,096 | 7,091,325 | 7,300,401 | 7,555,077 | 7,077,106 | 98,118,097 |
| Total Operating Revs: GF | 34,285,373 | 42,650,793 | 40,218,278 | 40,127,658 | 40,634,256 | 41,275,418 | 42,640,233 | 44,275,676 | 45,617,197 | 47,416,383 | 48,882,785 | 49,948,392 | 49,785,865 | 50,906,690 | 51,649,423 | 53,693,313 | 723,585,071 |
| Total Operating Expenses: GF | 32,094,894 | 33,404,225 | 34,019,039 | 33,547,241 | 33,770,741 | 34,765,399 | 35,729,566 | 36,751,992 | 37,810,865 | 38,900,064 | 40,015,032 | 40,881,725 | 40,872,196 | 41,864,890 | 42,678,196 | 44,931,874 | 600,946,644 |
| Operating Surplus/(Deficit): GF | 2,172,492 | 9,248,567 | 6,145,239 | 6,600,417 | 6,863,515 | 6,540,069 | 6,910,667 | 7,520,684 | 7,806,332 | 8,516,320 | 8,867,683 | 9,066,669 | 8,913,667 | 9,243,780 | 8,971,187 | 9,761,440 | 122,638,727 |
| ***GENERAL FUND CAPITAL ACCOUNT*** | | | | | | | | | | | | | | | | | |
| One Time Grant Funding | - | - | - | - | - | - | - | - | - | - | | | | | | | - |
| Gen Fund Capital & Main. Expenditures | 5,301,700 | 2,837,750 | 353,000 | 11,946,084 | 1,505,950 | 13,646,750 | 1,038,950 | 820,250 | 639,985 | 740,918 | 1,598,750 | 734,750 | 734,750 | 734,750 | 734,750 | 734,750 | 44,283,377 |
| GF Net Operating - Capital Surplus/(Deficit) | (3,129,208) | 6,410,817 | 5,792,239 | (5,345,667) | 5,357,565 | (7,106,681) | 5,882,117 | 6,700,434 | 7,166,347 | 7,775,402 | 7,268,933 | 8,331,919 | 8,178,917 | 8,509,030 | 8,236,437 | 9,026,690 | 78,355,350 |
| ***ROAD & BRIDGE*** | | | | | | | | | | | | | | | | | |
| New R&B Prop Tax Revs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shortfall of Prop Tax with Claim (50% levy) | -195,565 | -211,469 | -222,035 | -226,654 | -226,654 | -221,835 | -224,052 | -233,234 | -237,607 | -251,865 | -254,582 | -264,337 | -263,860 | -261,852 | -264,511 | -280,561 | -3,652,077 |
| Total Operating Revenues: R&B | 8,919,950 | 8,425,539 | 8,268,980 | 8,335,272 | 8,311,536 | 8,348,817 | 8,446,215 | 8,567,311 | 8,674,992 | 8,807,521 | 8,917,373 | 9,028,797 | 9,111,981 | 9,172,436 | 9,252,655 | 9,389,341 | 139,978,117 |
| Total Operating Expenses: R&B | 7,636,276 | 8,123,859 | 8,291,584 | 8,223,738 | 8,358,368 | 8,606,522 | 8,862,320 | 9,126,011 | 9,397,850 | 9,678,103 | 9,967,043 | 10,177,607 | 10,126,258 | 10,342,127 | 10,563,326 | 10,881,563 | 148,362,477 |
| Net Operating Surplus/(Deficit): R&B | 1,283,674 | 301,680 | (23,123) | 111,535 | (46,832) | (257,705) | (416,105) | (558,700) | (722,858) | (870,582) | (1,049,670) | (1,148,810) | (1,014,276) | (1,169,691) | (1,310,671) | (1,492,222) | (8,384,360) |
| R&B Grant Funding (25% of Project Cost) | 2,097,150 | 1,832,900 | 1,000,000 | 1,512,900 | 2,170,000 | 1,828,000 | 1,283,900 | 1,430,750 | 1,812,900 | 1,395,000 | 1,351,714 | 1,378,748 | 1,364,961 | 1,392,260 | 1,420,106 | 1,462,708 | 24,862,396 |
| R&B Maintenance & Capital Expenditures | 4,194,300 | 7,290,000 | 4,360,000 | 6,130,000 | 8,680,000 | 7,352,000 | 5,134,000 | 5,723,000 | 7,330,000 | 5,580,000 | 5,406,856 | 5,514,993 | 5,459,843 | 5,569,040 | 5,680,421 | 5,850,833 | 95,255,286 |
| NET R&B Capital & Main. Expenditures | (2,097,150) | (5,457,100) | (3,360,000) | (4,617,100) | (6,510,000) | (5,524,000) | (3,850,100) | (4,292,250) | (5,517,100) | (4,185,000) | (4,055,142) | (4,136,245) | (4,094,882) | (4,176,780) | (4,260,316) | (4,388,125) | (70,392,889) |
| Net R&B Oper. & Capital Surplus/(Deficit) | (813,476) | (5,165,820) | (3,293,123) | (4,485,965) | (6,556,832) | (5,771,705) | (4,266,605) | (4,850,950) | (6,220,359) | (5,055,582) | (5,104,812) | (5,285,055) | (5,109,160) | (5,346,471) | (5,570,986) | (5,880,347) | (78,777,250) |
| Sales Tax Alloc. From GF To R&B | | 5,165,820 | 3,293,123 | 4,485,965 | 6,556,832 | 5,771,705 | 4,266,605 | 4,850,950 | 6,220,359 | 5,055,582 | 5,104,812 | 5,285,055 | 5,109,160 | 5,346,471 | 5,570,986 | 5,880,347 | 77,963,774 |
| ***Total GF + R&B Op & Cap Surplus/(Deficit)*** | (3,942,684) | 1,254,997 | 2,499,115 | (9,831,572) | (1,199,268) | (13,878,386) | 1,615,511 | 1,849,484 | 945,988 | 2,719,820 | 2,164,121 | 3,046,864 | 3,069,757 | 2,662,559 | 2,665,451 | 3,146,342 | (421,899) |

***Assumption Summary:***

Growth: Moderate Growth w Mild Recessions in 2018 & 2027 Lasting 1 Year. Assumes Oil & Gas Valuations Drop 45% in 2015 (Fact) From O&G Prices Stabilizing with Modest Falling Production Levels. Sales tax growth or stagnation is a % of Population growth.

15 Year NEW Capital & Fed Mns Assn ~ $44 mm in the General Fund. R&B Capital Needs ~ $78 mm. GF Allocates Portions of New Sales Tax to Cover R&B Operating and Capital Needs.

Tax Funding: New County Gov 0.53% Sales Tax Raises $98 mm Over 15 Years. Funds Cover All County GF and R&B Operating and Capital Needs. Capital Improvement Reserve is Depleted by 2028.

Reserve Funding: $26mm Capital Improvement Reserve is Used to Fund Reserve Timing Shortfalls. Room Fund Could Replenish the Reserve by 2028.

Grant Funding: Assumes R&B Raises 25% of its Capital Plan Needs Via Grants ($23mm) and Assumes the GF Raises 0% of Its Capital Plan Needs Via Grants.

Assumes the $26mm Capital Purchase and Improvement Reserve is Used As The Financing Vehicle to Bridge Timing Gaps In Funding and Expenditures. No Debt Financing Possible in this Scenario.

***Note: R&B Operating Account only includes basic service (snow removal, grading, mag chloride, etc). Repairs, improvements, resurfacing, chip seal, bridge repair are in R&B Capital Acct.***

NOTE: 1 MILL PROP TAX FOR R&B RAISES GROSS REVENUE OF ~ $50 MILLION OVER 15 YEARS ($2.0 million per year). HOWEVER, $4.4 MILLION MUST BE SHARED WITH LA PLATA CITIES ~ NET REVENUE TO R&B of $45.6 MILLION or $1.8 MILLION NET PER YEAR)

NOTE: 1 MILL PROP TAX FOR THE GENERAL FUND RAISES GROSS AND NET REVENUE OF $30 MILLION OVER 15 YEARS: AN AVERAGE OF $2.0 MILLION PER YEAR GROSS & NET

Note: 0.1% Sales Tax Increase Raises ~ $1.2 mm per Year

# Other Options Considered

The LTFC also explored and considered other options:

- **Debt Issuance** – 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 – requiring a public vote. We modeled $25M issuance with a 20 year repayment.

- **Use Tax** – was reviewed but not found sufficient in itself to complete the goals – could raise $13M over the 10 year period, requires a public vote, has significant compliance and monitoring requirements for impacted businesses.

- **Fees** – Each fee category assessed by LPC should be reviewed for opportunities. The accumulation of all fee categories was not found sufficient to complete the goals. Fees to be reviewed include, but are not limited to:
  - Charges For Services
  - Lodgers Tax
  - Real Estate Transfer Tax
  - User Fees
  - Building Fees
  - Impact Fees

# Additional Considerations

- The Options presented here are based on two key premises:
  - An optimistic economic scenario through 2030.
  - Funding 100% of the ODI for Capital Improvements.

- The LTFC believes the Board of County Commissioners should carefully evaluate the ODI Capital Improvement Plans as a means of mitigating the significant new revenue required over the period and to provide a buffer in the event actual economic conditions are worse than that presented in this scenario.

- Due to the likely continued drop in oil & gas tax revenues, the LTFC recommends the county develop a community wide campaign to educate county residents about the structural revenue shortfalls and the infrastructure challenges facing the county over the next 10 years.

- The LTFC examined several economic scenarios as part of this process. We are available to the BOCC to explore other scenarios that would impact the county's differently if the Commissioners so wish.

# Conclusions

- Absent new revenue sources, La Plata General Fund and R&B Operations and Capital needs are unsustainable.

- LTFC does not believe the County can grow out of its structural revenue imbalance.