

La Plata County
Fiscal Sustainability Community Steering Committee Agenda
Wednesday, August 5, 2015
Meeting Notes

1. Introductions

Co-chair Jim Tencza called the meeting to order.

2. Review July 22 and July 29 Meeting Notes and Follow-up Items

Jim Tencza began the meeting by reviewing items covered last week for those not in attendance and the results of straw votes. The results were as follows:

- a. Should Committee consider financing options for General Fund and Road & Bridge (R&B) needs? *4 yes votes.*
- b. Should Committee only consider financing options for Road and Bridge (R&B)? *12 yes votes.*
- c. If only considering financing for R&B, should Committee look at all available financing options, i.e. use taxes, mil levy, sales tax, road impact fees? *12 yes votes.*
- d. Do you feel that the County R&B Department needs more funding to continue maintaining roads and bridges to avoid deterioration and/or the need for major reconstruction in the future (5-10 years)? *15 yes votes.*

The Committee had no edits or additions to the meeting notes.

Tencza asked Roger Sherman to review the Committee's schedule through the end of August. The BOCC must refer any items to the ballot by September 2, so the Committee needs to complete its work and prepare any recommendation(s) in advance of that date. The Commissioners have expressed a desire to meet with the Committee to discuss its recommendation(s) and we are holding the 4-5:30 p.m. timeslot on August 26th for this purpose. As such, the Committee has two meetings to complete the work, on August 12th and 19th.

3. Discuss R&B LTFC Funding Options and Alternatives

Rich Butler summarized the work completed by the Long Term Finance Committee (LTFC). The Committee is at a place today similar to what the LTFC proposed to the BOCC in February. At that time, the LTFC was skeptical about the ability to pass a tax increase for both funds (General Fund and R&B Fund) and recommended the County look closely at its General Fund and facilities needs and focus on roads and bridges only.

Butler reviewed additional background on its review of use taxes as an option. The LTFC relied on a retail leakage analysis completed by Buxton that looked at eleven major categories. The study identified approximately \$60 million in retail sales from categories which could be captured under a use tax. Based on a 2% use tax, and assuming the use tax would not be shared with other special funds as is currently done with sales tax, the amount generated for the county would equate to approximately \$1.2 million or \$19.9 million over a fifteen year period. Given the \$70 million R&B

Fund needs over the same period, the LTFC determined the use tax provided insufficient revenues to solve the problem.

Ron Corkish also raised collection and compliance challenges associated with collecting a use tax. Sheryl Ayers stated collection and enforcement issues were a big concern the last time a use tax was on the ballot. Roger Zalneraitis noted nearly half of the counties in the state collect use tax, so it is clear LPC could implement collection procedures. Sherman noted the use tax has been on the ballot three times in La Plata County: 1982 (40.8% in favor, 59.2% against), 1990 (23% / 77%), and 2001 (23.8% / 76.2%).

Questions

- Is a development tax considered a form of use tax? *It isn't a tax but rather a fee (impact fee). Would not require a vote.*

Tencza asked if anyone on the Committee felt we should keep the use tax on the table as a viable funding option? Corkish note the LTFC was concerned about multiple ballot items being on the ballot and asked if the Committee believes we should be considering multiple ballot items and being successful?

Sherman stated a menu approach is generally considered by campaign professionals to be not viable and he was unable to find a single successful example in Colorado. He provided a spreadsheet of all county tax increase elections since 2004. In one case, Las Animas County asked for a sales tax increase to fund three different areas and all three failed. Overall, of the 66 examples, 31 passed and 35 failed. He noted referendum C and D in 2005, while not apples-to-apples does provide a good example of the difficulty of multiple related questions. In this case, voters agreed to give up tax refunds over a period of five years, but voted against allowing the state to borrow money and leverage the amount not being refunded. He also noted the City and County of Denver divided a debt authorization (not a tax increase) to provide bonding capacity to fund several capital projects into nine questions (A-I).

Christi Zeller noted there has been a strong educational effort in the county since the recession focused on live local first and buy local; the county even provided funds to the campaign which indicates there is buy-in by county government on the importance of buying local. Zeller referred to the spreadsheet of county elections and noted Larimer County passed three use tax measures in 2014 and overall, 10 passed statewide funding a wide variety of projects. Sherman responded that he believes buy local is a great program but there may be a difference in the minds of voters between buying local when making small purchases such as produce and major purchases such as automobiles. He mentioned sales flyers from Cortez and New Mexico car dealerships Zeller forwarded to him that highlight how each are leveraging their lower sales tax rates. The use tax is confusing and will require a significant educational effort that goes beyond buy local and focuses on why the use tax is important from an equity perspective and how it works. The most difficult use tax election is the first one to put it in place. There was not an example of a new use tax election since 2004 – only increases or extensions of existing use taxes.

Tencza asked for a vote of whether or not the Committee wanted to continue to consider a use tax now for 2015? 22 opposed considering a use tax for R&B at this time. 2 supported considering a use tax. Tencza noted the group can always recommend the county consider a use tax later.

Butler moved on to discussing road impact fees. Road impact fees are paid by the oil and gas industry basis based on memorandums of understanding when permits are issued. The annual revenue is not significant enough to and are to be used on the roads impacted by the industry. The LTFC has recommended to the county that it review each and every development and impact fee to make sure that developers are paying a fair share for using county services. Again, the anticipated revenue that might be raised by impact fees is not enough to backfill the shortfall LPC faces. However, the LTFC still believes it is important, from a fairness perspective, that the BOCC implement impact fees. It was noted again that impact fees do not require a vote. The Committee may wish to make a recommendation on this matter as well.

Comments and Questions

- Supports a development impact fee. Development has impacted many areas in the county, not just roads and bridges. *Sherman noted impact fees must have a “direct nexus” to what it is being assessed for and where the county intends to spend the revenue. Without a nexus, a fee would be considered a tax and not allowable without a vote.*
- Zeller noted that Three Springs had agreed to pay road impact fees and paid \$1 million but the county didn't collect another \$2 million it could have collected. *Jim Davis explained there was a development agreement in 2005 between Three Springs and the County agreeing to pay road impact fees contingent on the County adopting a road impact fee county-wide by the end of 2010. In November of that year, the BOCC voted against imposing a road impact fee. The county was able to retain \$1 million that had been paid, but wasn't able to collect the remaining amount. The BOCC decided not to move forward with the road impact fee due to economic conditions and slow recovery following the recession.*
- Buck Skillen stated he felt an impact fee was not sufficient to make a dent in our shortfall and we should move on. It was also noted the fees were paid on a one-time basis.

Butler reviewed LTFC options for property and sales tax increases, which assumes funding the full \$70 million needed for roads and bridges. A property tax increase of 3 mills would raise the necessary funds to meet 100% of capital needs identified by the county. This does not include the .75 mills for the General Fund. The sales tax option would require a .44% increase to raises the exact same amount of money for R&B funding. This is down from the projected .53% increase when the General Fund was included.

Questions and Comments

- How much does 1 mill generate? *A mill generates approximately \$30 million but if it is directed to road and bridge you need to pull out what is shared (18% goes to municipalities) resulting in approximately \$26 million net. A sales tax increase would need to be written to allocate the full amount be directed to the county only and not be shared, or we would need a larger percentage increase.*

- Ted Hermesman expressed concern, as one of the largest land owners in the county, that the county isn't receptive to changing agricultural uses to commercial uses which would increase revenue to the county. If the county took a different look at development, we could grow the tax base.
- Butler noted there are many factors influencing land use decisions by the county. One person's desire to develop runs up against another person's desire to keep land agricultural. We can't lose sight of the fact LPC's mill levy is the 4th lowest of like counties in the state.
- Roger Zalneraitis stated we are heavily dependent on natural gas for our revenues and nature gas is either going away or pricing will remain unstable and make it hard for the county to plan. Without finding a way to incentivize and grow our commercial base, we will be back in this room facing another shortfall. The county needs to look at policies in place and take a hard look at both the use tax and to implement impact fees to both create certainty and ensure fairness.
- Is it possible to just raise property taxes on residential property? *No, the Gallagher Amendment dictates how property taxes are assessed.*
- Patrick Morrissey stated the Southern Ute Growth Fund is at the table because it understands this is a shared responsibility. LPC has many needs ahead and voters are going to be asked to consider a lot of increases in the coming years. We need to be thoughtful about how we move forward and only pursue what we believe can be passed, perhaps taking an incremental approach.

The Committee discussed the sales tax option. The combined sales tax in Durango's would be 8.34% assuming the increase. Bayfield would be the same. Tencza asked if a decision has been made to place an airport sales tax increase on the 2016 ballot? Joanne Spina responded that no decision has been made. Polling indicated a sales tax increase was more favorable than property tax increase, but the governing bodies determined timing was right for 2015 and haven't made a determination about 2016. Butler reiterated why the LTFC placed sales tax as the second option behind a property tax increase. Besides competing with other entities that rely on sales taxes the including airport, sales taxes are regressive and if we did exempt groceries the increase necessary would be higher than .44%. Weaknesses to the sales tax option are such a tax is more regressive and it represents a 26.5% increase.

Questions and Comments

- Why are sales taxes considered regressive? Can you define that for us? *Taxes that apply to essentials such as food and medicines are generally considered to be regressive. These taxes take a larger percentage from low-income people than from high-income people.*
- Buck Skillen stated higher sales tax drives more leakage into New Mexico. We have the problem with the state line being just 15 miles away. Most counties in Colorado don't face this problem.
- Butler noted Zeller and Hermesman have raised valid points that property taxes hit harder on oil and gas and commercial. However, when you look at what has happened since the recession in 2008, each and every source of county revenue was negatively impacted and none have rebounded back to the level just prior to the recession. We have to be rebalance our thinking about the shortfall.

The Committee reviewed a Colorado county comparison document. La Plata County has the 4th lowest mill levy in state and is well below like-sized counties. LPC sales tax rate is very comparable to like-sized counties. It was noted the per capita income figures in the summary box appear to be in error. Diane Sorensen noted the chart was developed quickly earlier in the day using 2011 and 2013 figures and was meant to illustrate mill levy and sales tax rate comparisons.

Comments and Questions

- Is it correct we haven't had a tax increase in more than 25 years? *Yes.*
- How many tax increases have we seen in the last five years? *Durango passed the recreation tax extension last year. We have also seen increases in utility rates, which most residents would classify as a tax since it comes out of their paychecks.*
- Is the \$70 million R&B figure we keep hearing based on wants or needs?
- Maybe we do need to let some of our gravel roads go downhill. We keep hearing commercial owners can't afford an increase.
- Almost 80% of paved county roads are in good to excellent condition, so what is the problem here?
- We need to fund maintenance so conditions don't deteriorate. It becomes much more expensive if we let roads deteriorate to the point we need to rebuild instead of resurface.
- The increase we are talking about is based on a number of revenue assumptions; what happens if the projections are wrong?
- In favor of doing something to maintain our quality of life and for economic development purposes, but wonder about what the public perception will be. Is it possible to conduct another full study to determine current road conditions? *Jim Davis noted the paved roads likely haven't changed much, but gravel roads are a different story. We do PASER projections using internal resources and don't have funds available to do another outside study. Please review the presentation materials Public Works developed outlining our project needs.*

Tencza asked for input on what the Committee wants to accomplish at the next meeting and what information do we need to accomplish that?

Comments

- We need to recognize we have a problem that requires some level of tax increase. We could spend the next six months trying to validate the numbers and none of us would be completely satisfied.
- Road and bridge needs a significant amount of money – it may not be \$70 million but it is significant – and the costs will just keep going up. It is fair to say most of us in this room are looking for validation.
- Public Works has made a good case the county has done all it can using a bandaide approach and we can't continue to operate this way. Let's not get hung up second-guessing the projects.
- Let's defer discussion about the amount until we agree on the path we want to follow. Are we going to phase money in, can we generate further savings, etc.
- The biggest elephant in the room is the cost of not doing anything. Citizens are already paying for this through increased maintenance and vehicle wear-and-tear.

- We are past quibbling over whether or not to move forward, but need to focus on what we can we sell to the voters. What will resonate with them?
- We haven't heard the county address why it can't find saving in other areas to reallocate to roads and bridges. It is going to be hard to convince voters to increase taxes for road and bridge needs when the county has made the decisions it has regarding new office space. The BOCC has a choice to allocate funds to R&B instead of other things.
- If voters can see a connection between what they are being asked to pay for and the specific projects, like what was done in El Paso County – they can relate to something that impacts them personally – then we have a chance to pass an increase.
- Wants to see specific ballot language on how the money will be spent.
- The assumptions we work from are important. Would like to see a sensitivity analysis from the LTFC where revenue growth projections are increased and decreased slightly.

Marsha Porter-Norton suggested taking a straw poll on mill levy increase vs. sales tax increase. 20 voted for a mill levy increase, 1 voted for sales tax increase, and 2 voted for neither. It was agreed to take a sales tax increase off the table at this point and focus on a property tax increase next week.

Sherman suggested the Committee focus on coming up with an amount that is comfortable and how the increases might be structured. It is going to be difficult to come to consensus around projections – either revenue projections or a project list – because it is an inexact science. The group can discuss how an increase might be structured and then we can have the county's bond counsel provide specific ballot language examples on August 19.

Attendance

Members present:

Sheryl Ayers	Martha Mason
Tim Blake	Laura Marchino
Bruce Baizel	Patrick Morrissey
Rich Butler	Marsha Porter-Norton
Ron Corkish	Wayne Semler
J.T. Coyne	Buck Skillen
Shane Dawson	Jim Tencza
Ted Hermesman	Bob Volger
Garry Hillyer	Jim Wotkyns
David James	Roger Zalneraitis
Liane Jollon	Christi Zeller
Charley Kier	Sidny Zink
Bob Kunkel	

Others present:

Joanne Spina, Assistant County Manager	Jim Davis, Public Works Director
Diane Sorensen, Finance Director	Roger Sherman, CRL Associates