

**FRUITA CITY COUNCIL
VIRTUAL WORKSHOP
AUGUST 25, 2020
7:00 PM (*TIME CHANGE*)**

The link to join the join the meeting electronically will be posted on 8/25/20 prior to the meeting at www.fruita.org/covid19 under City Council meetings. You may also contact the City of Fruita at (970) 858-3663 for information to connect to the meeting.

1. GALLAGHER AMENDMENT STABILIZATION DISCUSSION (CONTINUED FROM AUGUST 18, 2020 COUNCIL MEETING) (7:00 PM – 7:30 PM)
2. OTHER ITEMS (7:30 PM)
3. ADJOURN



AGENDA ITEM COVER SHEET

TO: FRUITA CITY COUNCIL AND MAYOR

FROM: MARGARET SELL, FINANCE DIRECTOR

DATE: 8/25/2020

RE: GALLAGHER DISCUSSION

BACKGROUND

The City Attorney presented a memorandum and draft ballot question to the City Council at their August 18, 2020 meeting. This workshop item is to provide additional information to the City Council and allow for additional discussion as to whether or not to proceed with certifying a ballot question to Mesa County for placement on the November 2020 Coordinated Election Ballot. This would need to be approved by the Council at the September 1, 2020 meeting in order to meet the September 4 deadline for certification.

Until 1982, the assessment rate for both residential and non-residential property was 30%. However, beginning in the early 1970's, the market values of residential property increased much faster than values of non-residential property, shifting a greater percentage of the tax burden to residential property owners. In 1982 the Gallagher Amendment was enacted to stabilize the tax burden on residential property. The Amendment established a floating assessment rate for residential property while fixing the assessment rate for most other classes at 29 percent. Moving forward to today, this has resulted in an increased burden on commercial property.

The example in **Table 1** shows the taxes paid by residential property and commercial property of the same value under the current RAR (7.15%) and the estimated RAR (5.88%) for 2021 (collected in 2022).

- Commercial property pays \$665 more with the current RAR (7.15%) and \$703 more with the reduced RAR (5.88%) estimated for 2021 compared to residential property of the same value.
- Revenue to the City from residential property would decrease 18% and stay the same for commercial property.

The example in **Table 2** shows the taxes paid by residential and commercial property assuming an 8.2% market increase in 2020 and a 1% market decrease in 2021 along with reduced RAR (5.88%) which results in an increase of \$18 in tax revenue in 2021 and a decrease of \$44 in 2022 for residential property and a \$72 increase in 2021 and a \$10 decrease in 2022 for commercial property using the same scenario in market value changes. This Table is meant to provide examples of the effects of changes in market values and assessed values and their effect on

residential vs commercial properties and overall impacts on city property tax revenues.

Note: The changes in market values are based on Zillow estimates for 2020 and 2021. The deadline for Mesa County to certify the preliminary values has been extended from August to October due to the COVID situation so the actual estimate of values for 2020 will not be available for several more months..

Table 3 shows historical data that includes the value of commercial and residential property (estimated), the assessed value of property, the RAR, the mill levy and the revenue generated by the City's mill levy. The values and percentages of residential and commercial property are estimates but all other numbers are actual data except for 2020 and 2021.

- The 2020* estimates include an 8.2% increase in market value of property
- The 2021** estimate includes a 1% decrease in market value of property
- The 2021*** estimate includes a reallocation of the percentage of residential and commercial property similar to what we saw in 2013 with residential property dropping from 86.0 % to 83.8% of the total value of property within the City.

Looking to the future, assumptions and estimates are being made but actual figures could be significantly different with the uncertain economic environment we are currently facing. The City has experienced 4 reductions in the RAR since 2000 which has resulted in net increases in property tax revenue. However, these increases are not as significant as they would have been without the reduction in the RAR. The most significant reductions in property tax revenues over the past 20 years have been a result of decreases in market values, and not due to the RAR.

- | | |
|--------------------------|----------------------------------|
| • 9.74% to 9.15% in 2001 | Increase in revenue of \$31,157 |
| • 9.15% to 7.96% in 2003 | Increase in revenue of \$35,828 |
| • 7.96% to 7.2% in 2017 | Increase in revenue of \$26,205 |
| • 7.2% to 7.15% in 2019 | Increase in revenue of \$247,307 |

Pros for placing question on ballot:

- The ability to increase the mill levy without going to an election would give the City Council flexibility to increase/decrease revenue in the event of reductions in the residential assessment ratio and provide some stability to city revenues and operations funded by those revenues.

Cons for placing question on ballot:

- There is already another proposed statewide issue on the ballot which would repeal Gallagher and the City's ballot question could be confusing to voters with the two similar questions.

- Even though the ballot question is not a tax increase, it could result in homeowners and business property owners having to pay additional taxes based on a higher mill levy at a time when they may be facing economic hardships.
- Historically, the city has weathered ups and downs in the assessment ratios and adjusted operations as necessary. The most significant negative impacts on property tax revenues have been a result of decreases in market values, and not due to reductions in the RAR.
- The voters of Fruita have authorized the City to keep and retain revenues in excess of TABOR fiscal year spending limits until December 31, 2024 for the purpose of implementing the City's Capital Improvement Plan, including the maintenance of capital improvements. The citizens have given similar approval to allow the City to retain excess revenue in 1993, 1995, 2000, 2006, 2012 and most recently in 2018. As a result, the City has not undergone the "ratcheting down" effect on the City's mill levy that many other taxing entities have experienced, which, when combined with a declining RAR, has a more significant impact to property tax revenues and financial stability.

Staff is not recommending that we move forward with a ballot question to allow the City Council to increase the mill levy in the event of reductions in the RAR at this time. By not moving forward with the question we could face some property tax revenue shortfalls in 2022 and will need to be aware of that possibility as we prepare the 2021 budget.

TABLE I
No change in Market Value
Reduction in Residential Assessment Rate (RAR)

	Current RAR	Estimated RAR for taxes collected in 2022
RESIDENTIAL PROPERTY		
Market Value	\$ 300,000.00	\$ 300,000.00
x Residential Assessment Rate (RAR)	7.15%	5.88%
Assessed Value	<u>\$ 21,450.00</u>	<u>\$ 17,640.00</u>
Mill Levy	10.146	10.146
Fruita Property Tax Revenue	<u>\$ 217.63</u>	<u>\$ 178.98</u>
COMMERCIAL PROPERTY		
Market Value	\$ 300,000.00	\$ 300,000.00
x Commercial Assessment Rate	29.00%	29.00%
Assessed Value	<u>\$ 87,000.00</u>	<u>\$ 87,000.00</u>
Mill Levy	10.146	10.146
Fruita Property Tax Revenue	<u>\$ 882.70</u>	<u>\$ 882.70</u>
Difference from residential property	\$ 665.07	\$ 703.73

TABLE 2
8.2% increase in Market Value in 2020 and 1% decline in 2021

	Current RAR	8.2% Increase in Market Value in 2020	1% decrease in Market Value in 2021
RESIDENTIAL PROPERTY			
Market Value	\$ 300,000.00	\$ 324,600.00	\$ 321,354.00
x Residential Assessment Rate (RAR)	7.15%	7.15%	5.88%
Assessed Value	<u>\$ 21,450.00</u>	<u>\$ 23,208.90</u>	<u>\$ 18,895.62</u>
Mill Levy	10.146	10.146	10.146
Fruita Property Tax Revenue	<u>\$ 217.63</u>	<u>\$ 235.48</u>	<u>\$ 191.71</u>
Difference from prior year		\$ 17.85	\$ (43.76)
COMMERCIAL PROPERTY			
Market Value	\$ 300,000.00	\$ 324,600.00	\$ 321,354.00
x Commercial Assessment Rate	29.00%	29.00%	29.00%
Assessed Value	<u>\$ 87,000.00</u>	<u>\$ 94,134.00</u>	<u>\$ 93,192.66</u>
Mill Levy	10.146	10.146	10.146
Fruita Property Tax Revenue	<u>\$ 882.70</u>	<u>\$ 955.08</u>	<u>\$ 945.53</u>
Difference from prior year		\$ 72.38	\$ (9.55)

**TABLE 3
HISTORICAL DATA OF PROPERTY TAX VALUES (ACTUAL AND ASSESSED), ESTIMATES OF RESIDENTIAL & COMMERCIAL VALUES IN THE CITY OF
FRUITA, MILL LEVY AND PROPERTY TAX REVENUE**

Year	Residential Assessment		Estimated Actual					Assessed Value - Commercial @		Revenue (collected in following year)		
	Ratio	Assessed value	Actual Value	Estimated Actual Value-Residential	% of total	Commercial	% of total	Assessed Value- Residential	29%	Mill Levy	Change in Revenue	
2000	9.74%	29,613,670	234,102,740	198,753,226	84.90%	35,349,514	15.10%	19,358,564	10,251,359	12.392	\$ 366,973	\$ 28,997
2001	9.15%	34,905,740	288,207,356	245,264,460	85.10%	42,942,896	14.90%	22,441,698	12,453,440	11.406	\$ 398,130	\$ 31,157
2002	9.15%	36,970,630	309,074,339	265,340,320	85.85%	43,734,019	14.15%	24,278,639	12,682,866	11.406	\$ 421,683	\$ 23,553
2003	7.96%	40,111,480	371,477,875	321,328,362	86.50%	50,149,513	13.50%	25,577,738	14,543,359	11.406	\$ 457,511	\$ 35,828
2004	7.96%	43,957,570	415,514,470	363,782,918	87.55%	51,731,552	12.45%	28,957,120	15,002,150	11.406	\$ 501,381	\$ 43,870
2005	7.96%	60,315,070	543,020,687	461,839,094	85.05%	81,181,593	14.95%	36,762,392	23,542,662	11.406	\$ 687,950	\$ 186,569
2006	7.96%	64,772,800	603,673,520	524,169,717	86.83%	79,503,803	13.17%	41,723,910	23,056,103	11.406	\$ 738,799	\$ 50,849
2007	7.96%	93,768,110	875,860,350	761,560,574	86.95%	114,299,776	13.05%	60,620,222	33,146,935	11.406	\$ 1,069,519	\$ 330,720
2008	7.96%	101,001,260	953,594,960	834,300,231	87.49%	119,294,729	12.51%	66,410,298	34,595,472	10.146	\$ 1,024,750	\$ (44,769)
2009	7.96%	130,452,720	1,202,059,310	1,036,776,155	86.25%	165,283,155	13.75%	82,527,382	47,932,115	10.146	\$ 1,323,573	\$ 298,823
2010	7.96%	129,931,580	1,217,015,600	1,059,898,886	87.09%	157,116,714	12.91%	84,367,951	45,563,847	10.146	\$ 1,318,289	\$ (5,284)
2011	7.96%	108,744,500	1,018,208,940	886,554,524	87.07%	131,654,416	12.93%	70,569,740	38,179,781	10.146	\$ 1,103,322	\$ (214,967)
2012	7.96%	113,240,580	1,038,777,870	893,556,724	86.02%	145,221,146	13.98%	71,127,115	42,114,132	10.146	\$ 1,148,939	\$ 45,617
2013***	7.96%	104,418,790	917,881,550	768,817,586	83.76%	149,063,964	16.24%	61,197,880	43,228,549	10.146	\$ 1,059,433	\$ (89,506)
2014	7.96%	104,974,030	936,642,410	792,118,486	84.57%	144,523,924	15.43%	63,052,631	41,911,938	10.146	\$ 1,065,067	\$ 5,634
2015	7.96%	108,171,850	1,004,619,910	870,603,614	86.66%	134,016,296	13.34%	69,300,048	38,864,726	10.146	\$ 1,097,512	\$ 32,445
2016	7.96%	110,901,340	1,016,196,860	873,522,821	85.96%	142,674,039	14.04%	69,532,417	41,375,471	10.146	\$ 1,125,205	\$ 27,693
2017	7.20%	113,484,140	1,130,348,570	983,064,151	86.97%	147,284,419	13.03%	70,780,619	42,712,481	10.146	\$ 1,151,410	\$ 26,205
2018	7.20%	114,995,770	1,146,624,970	997,793,049	87.02%	148,831,921	12.98%	71,841,100	43,161,257	10.146	\$ 1,166,747	\$ 15,337
2019	7.15%	139,370,610	1,404,333,830	1,225,983,434	87.30%	178,350,396	12.70%	87,657,816	51,721,615	10.146	\$ 1,414,054	\$ 247,307
2020*	7.15%	150,808,544	1,519,489,204	1,326,514,075	87.30%	192,975,129	12.70%	94,845,756	55,962,787	10.146	\$ 1,530,103	\$ 116,049
2021**	5.88%	132,622,197	1,504,294,312	1,313,248,934	87.30%	191,045,378	12.70%	77,219,037	55,403,160	10.146	\$ 1,345,585	\$ (184,519)
2021***	5.88%	144,934,064	1,504,294,312	1,259,996,916	83.76%	244,297,396	16.24%	74,087,819	70,846,245	10.146	\$ 1,470,501	\$ 124,916

* 8.2% increase in actual value

** 1% decrease in actual value

*** Reallocation of residential vs commercial values similar to 2013 and impact on revenue.

CHARTS 1 thru 4

