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Santa Rosa Administrative Offices
6495 Caroline Street, Suite L
Milton, Florida 32570-4592

HUNTER WALKER, County Administrator
ANGELA J. JONES, County Attorney
JOEL D. HANIFORD, OMB Director

M E M O R A N D U M

TO: Board of Commissioners

FROM: Hunter Walker, County Administrator

DATE: July 15, 2011

SUBJECT: FY 2011-2012 Santa Rosa County Recommended Budget

Pursuant to the applicable Florida Statutes, transmitted herein is the recommended Santa Rosa County Budget for fiscal year 2011-2012. This proposed budget represents the general operating framework for provision of all county services for the forthcoming year and is the County Administrator's proposed plan of implementation and recommended levels of service.

The purpose of this memorandum is to provide the Board with a broad overview of the coming fiscal year proposed budget by highlighting areas of change or impact. To that end, not every fund or expense category will be addressed, but can and should be dealt with in considerably more detail during subsequent budget workshops and public hearings. Following are those issues or initiatives of significant change or impact.

BUDGET OVERVIEW

First and foremost the FY2012 Santa Rosa County Budget is balanced, sustainable, responsible and reflective of current economic conditions. The broad or overarching goal is to provide the highest or best level of service in the most effective manner with the most efficient use of resources.

The operating budget consists of the General Fund, the Road & Bridge Fund, and the Fine & Forfeiture Fund which are all of the general government functions of Santa Rosa County. The FY 2012 Budget for the general government is projected at $73,258,855 and is less than FY2011 Budget by $34,404.

The total budget, which comprises all funds including the operating fund above, the proprietary/enterprise funds an all other functions and transfers is estimated at $100,179,644, a reduction of $142,489 from the FY2011 total budget of $100,222,133.

OPERATING BUDGET REVENUE

The operating or general government budget revenue is derived from three (3) primary sources: ad valorem or property taxes, state shared revenues, and locally generated revenues. These three (3) sources are reviewed in some detail below.

Ad Valorem (Property) Taxes: The value of taxable property in Santa Rosa County for FY2012 decreased by $174.2 million according to the Office of Property Appraiser and reflects a 2.3% decrease from FY2011 Budget. The proposed FY2012 Budget is developed utilizing the current millage rate of 6.0953 mills which yields $45,062,722 in property tax revenue, which is $1,061,772 less than the FY2011 budget.

FY2012 marks the fifth consecutive year of reductions in property tax revenue from $58,648,856 in FY2007 to the aforementioned $45,062,722 in the proposed FY2012. These reductions are more or less reflective of those experienced by the other sixty-six (66) Florida Counties.

Property tax reforms by the Florida Legislature followed immediately by the severe economic downturn of the past several years have significantly reduced ad valorem or property tax revenue for Santa Rosa County. Historically ad valorem or property tax is reserved for local government in Florida and comprises sixty-five percent (65%) of the Santa Rosa County operating revenue for its general government.

The proposed millage rate is 3.7% less than the rolled-back rate (RBR) of 6.3301 mills. The rolled-back rate is the rate which would provide the same tax dollars as the prior year. A look at the last five years is instructive:

Fiscal Year	Taxable Value	Tax Revenue	RBR	% Change
2007/2008	$9,308,147,209	$56,735,950	6.5541	-3.262%
2008/2009	$8,673,541,680	$52,867,839	6.7096	-6.818%
2009/2010	$7,976,745,407	$48,620,656	6.7179	-8.034%
2010/2011	$7,567,223,011	$46,124,494	6.4844	-5.134%
2011/2012	$7,393,027,769	$45,062,722	6.3301	-2.302%

Page vi, in the Introductory Section of the Budget, presents a 10-year Ad Valorem Tax and Taxable Property Value history for not only the Board of County Commissioners, but the School Board and three municipalities as well.

As property values have generally fallen over the past several years nationally and statewide, it is certainly not unexpected that the same would impact Santa Rosa County.

State Shared Revenue: These revenue sources are collected by the State of Florida and distributed to the sixty-seven (67) counties based upon a statutory formula. The Florida Department of Revenue has projected its estimates for these revenues noting that they are based on the Spring 2011 Revenue Estimating Conferences.

- County Revenue Sharing: The Florida Department of Revenue (DOR) estimates a 5.6% increase in this revenue to $2,844,000. This DOR estimate is at odds with local estimates based on historical data, however the DOR projections have consistently been met, thus those estimates are included in this budget.

- Local ½¢ Sales Tax Program: this revenue source is approximately ½¢ of the State of Florida 6¢ sales tax collected in and around Santa Rosa County and is estimated to increase 2.4% to $5,790,000.

- State Shared Fuel Taxes: The State of Florida shares roughly 3¢ of its 23¢ per gallon of gasoline tax with the counties through two revenue distributions: the Constitutional Fuel Tax (2¢) and the County Fuel Tax (1¢). These are estimated to increase by 10% to an aggregate of $3,166,000 as compared to the $2,870,000 in current budget (FH2011). This is slightly higher than the historical trend would indicate, but it is well within reason.

Based on the increases in the estimates developed by the Florida Department of Revenue based on its quarterly revenue estimating process, it appears that the State believes the Florida economy has at least bottomed out and recovery is on the horizon.

It must be noted that the University of Central Florida Florida 2011-2014 Forecast published in April 2011, indicates that calendar 2011 is the beginning of the recovery, but goes on to characterize the recovery as painfully slow. The rate of decrease in Santa Rosa County’s property value loss supports at least the bottoming of the housing devaluation.

Locally Generated Revenue: there are a number local revenue sources, but only a handful are financially significant:

- Communications Tax: This is a tax collected by the State and distributed to counties on telecommunications services including cable television, telephone, etc. Since its consolidation and distribution by the State in 2001, this revenue source has grown annually – until FY2010. That year we lost 8.8% from FY2009 and FY2011 is trending down 8.3% from FY2010. The state's projection shows a leveling at $1,362,000 which is in line with our trend projection of $1,337,000.

- Building Permits: These fees have been reduced for the past several years and are indicative of the weak housing market both locally and nationally. FY2010 improved by 21% over FY2009, but that increase only lasted as long as the Federal Stimulus Program. This year (FY2011) we have lost that gain back to the FY2009 level. As with the state, we believe this is the bottom and are projecting no further loss or gain at $900,000.

- Sheriff's charges for Housing Prisoners: The current year is projecting to be roughly $1.8 million compared to the budget of $1.275 million. For FY2012, the Sheriff is projecting $1.7 million or $425,000 more than this year's budgeted amount.

- Local Option Gas Tax: This is a locally enacted fuel tax that generates 6¢ per gallon of gas sold within our county. For the last four years, we have collected just over $3.6m and will fall just below that amount this year if the current trend holds. The state is projecting $3.65 million and our projection is $3.57 million.

- Electric Franchise Fee: This is a five percent (5) fee placed on all electric bills and remitted to the County by electric utilities. Historically this revenue source increased annually, always yielding more revenue than budgeted. This current year an estimated four percent (4%) increase was used yielding revenue of $6,064,230 and its trending just below that amount. We are projecting a slight uptick to $6,375,000 for the budget year.

In summary, the FY2012 proposed operating funds budgeted revenue is not significantly different than FY2011. Property tax revenue is down, State shared revenues are up, and locally generated revenues are approximately the same. This mixed result, while somewhat confusing, is at least an improvement over the past three or four budgets wherein essentially revenue sources were reduced and in some cases reduced significantly.

OPERATING BUDGET EXPENDITURE

Santa Rosa County, like most other general purpose local governments is a service organization with the most significant portion of its budget allocated for personnel costs. Therefore, the most effective strategy in controlling expenditures is to control personnel positions and attendant costs including salary, health insurance, FICA, retirement, etc.

Again this year, the five Constitutional Offices including the Sheriff, Clerk of Courts, Supervisor of Elections, Property Appraiser and the Tax Collector have been requested to hold constant at the current level of expenditures. They have all complied with that request, submitting budgets matching expenditures with current (FY2011) levels.

The functions and departments directly responsible to the Board of Commissioners have reduced expenditures from $36,709,104 to $36,221,759 a 1.3% reduction from the FY2011 budget. As the department directors and managers and I were reviewing each function and office during the budget process, the anticipated reduction in revenue was greater than the final levels provided by the Property Appraiser. Nonetheless, it has become a good discipline to each year carefully review each office and each function to ensure that the County is fulfilling is core mission effectively and responsibly.

The Board of County Commissioners positioned its departments and functions to deal with anticipated reductions in revenue as early as January 2007 when it enacted a hiring freeze considerably ahead of most other local governments. The few positions which have been filled have been closely scrutinized by this office and have been deemed operationally critical or absolutely vital for maintenance of public health/safety or our core functions.

In the FY2008 budget thirty (30) positions were eliminated; in FY2009 forty-eight (48) positions were eliminated; in FY2010 twenty-one (21) positions were eliminated; in the current FY2011 budget twelve (12) positions were eliminated; and the proposed FY2012 Budget includes the elimination of six (6) additional positions.

Since enactment of the hiring freeze in 2007, the functions and departments of the Board of Commissioners have reduced the number of personnel by 117 positions, with only one added position, that being in the County Attorney’s office. These cuts represent a twenty-seven percent (27%) reduction in workforce.

While the bulk of these deleted positions were accomplished through employee attrition, i.e. retirement or resignation, there are a number that were the result of reductions-in-force. Had the Board and management not been proactive and consistent in the implementation of the hiring freeze and use of attrition, a far larger number of current employees would have to be terminated. Each of the six positions eliminated in the proposed FY2012 Budget is the result attrition with no lay-offs or reductions in force required.

Specifically the following personnel authorizations have been eliminated in this proposed budget:

Parks Department:	1 position
Emergency Communication:	1 position
Road & Bridge:	4 positions

As County Administrator I am extremely pleased with the senior management staff in dealing with a twenty-seven percent (27%) reduction in personnel over a five year period with, to this point, relatively negligible impact to customer service or levels of service. Processes have been streamlined, refined, and eliminated in order to provide service effectively and efficiently. However, I am concerned that these levels of service may be more difficult to sustain through time.

Most controllable or discretionary operating costs have been analyzed closely, such as travel, contract services, office & operating supplies, training, etc. and reduced where possible. There are a number of non-discretionary or uncontrollable costs including utilities, fuel, repair and maintenance of vehicles, buildings and equipment which have all been increased accordingly.

The proposed FY2012 Budget includes a one-year reinstatement of the merit system for County employees with specified step increases determined by successful individual performance evaluation. The merit system has been suspended, or more accurately has not been funded for the last three budget years due to lack of revenue.

The approximate cost of funding the merit system reinstatement is just under $1.0 million this year for the general government and all enterprise funds. Aside from the cost containment items mentioned previously in this section, the primary source of funding the merit system reinstatement is the dual elements of the county savings attributable to the Florida Retirement System (FRS) plan changes and contribution rates which reduced the County budget requirement by approximately $1.8 million in the proposed FY2012 Budget.

One component of the FRS savings is the July 1, 2011 requirement enacted by the Florida Legislature that all employee/members of the Florida Retirement System contribute three percent (3%) of salary to FRS via payroll deduction. This contribution/requirement which was formerly paid by the County in behalf of the employee/member results in an annual savings of slightly less than $800,000 in FY2012.

The second component of the $1.8 million budget reduction in aggregate FRS savings is due to the changes in the retirement system enacted by the Legislature which lessen the actuarial requirements for the plan and its members. The actuarial or plan changes result in a reduction of $1.0 million in proposed FY2012 Budget.

BALANCING THE BUDGET

The bottom line in balancing the budget is, as I said at the beginning of this message, it must be sustainable and accurately reflect current economic conditions. The Board of Commissioners, through this office, has ensured that through the recent economic downturn, that all budgets were truly balanced with recurring expenditures matched by recurring revenue. The Board has not used its reserves (savings) to balance its operating budget.

Summary

As always, this proposed or tentative budget is a work in progress. Budget workshops have been scheduled for the Board of Commissioners to review in detail the proposed budget and ensure that the programs, initiatives, and funding levels are congruent with its goals, objectives and policies. These will be even more important than usual given that the proposed budget includes again includes reductions which may or may not be aligned with Board priorities or policies.

This is my twenty-sixth annual budget submittal as a chief executive officer for a local government. I am appreciative as always of the assistance and cooperation of the Board Department Directors and the Constitutional Officers and I look forward to crafting the final budget at the direction of the Board of Commissioners.