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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
JAYNE N. BELL, OMB Director

MEMORANDUM

TO: Board of Commissioners

FROM: Hunter Walker, County Administrator

DATE: July 11, 2014

SUBJECT: FY 2014-2015 Santa Rosa County Recommended Budget

Pursuant to the applicable Florida Statutes, transmitted herein is the recommended Santa Rosa County Budget for fiscal year 2014-2015. 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

The FY2014-2015 Santa Rosa County Budget is balanced, sustainable, responsible and reflective of current economic conditions. The broad or overarching goal remains provision of the highest or best level of service in the most effective manner with the most efficient use of resources.

The total budget, which comprises all funds including the operating funds, the proprietary/enterprise funds and all other functions and transfers is estimated at \$102,465,575 an increase of \$1,474,604 from the total FY2013-2014 Budget of \$100,991,971.

The operating budget consists of the General Fund, the Road & Bridge Fund, and the Fine & Forfeiture Fund comprising the general government functions of Santa Rosa County. The FY 2015 Budget for the general government is projected at \$78,596,990 an increase of \$943,998 over FY2014 Budget.

The broad changes in revenue and expenditure will be outlined in the remainder of this transmittal.

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 primary source of revenue historically reserved for local general purpose governments and school boards is the ad valorem or property tax. Florida is no exception with property tax comprising approximately 60-65% of the revenue mix for counties and municipalities and is one of the few sources of revenue that is at the discretion of the local government.

The value of taxable property in Santa Rosa County for FY2014-2015 increased by \$370,064,634 according to the Office of Property Appraiser and reflects a 5.37% increase from FY2013-2014 property value. The proposed FY2014-15 Budget is developed utilizing the current millage rate of 6.0953 mills which yields \$46,996,569 in property tax revenue, which is \$2,255,655 more than the FY2014 budget.

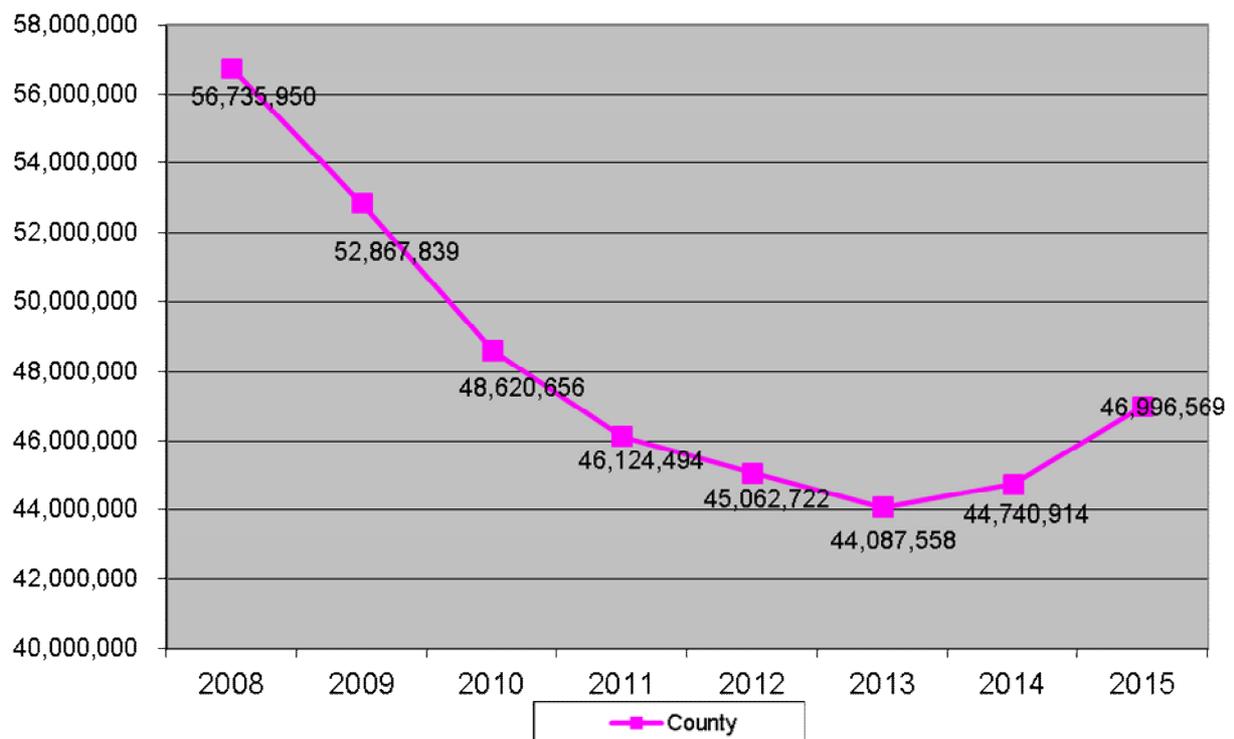
FY2014-2015 marks the second yearly increase in property tax revenue following six consecutive years of reductions. As frame of reference the County FY2007 Budget included \$58,648,856 in property tax revenue as compared to the estimated revenue in the 2014-2015 budget of \$46,996,569. This current increase of 5.37% in value and revenue seems to be more or less reflective of those experienced by the other sixty-six (66) Florida Counties as was the six year decline experienced by all Florida counties and local governments around the country.

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, which as noted previously is reserved for local government in Florida.

Each year, the Introductory Section of the Budget document 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.

Given the decrease in property values over the past six budget years, the increase in revenue is a welcomed bit of news that hopefully points to the stabilization of property values the Board discussed at length during last year's budget process. The following graph depicts the curve of property tax during that period.

Property Tax Revenue: 2008 through 2015



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 of 2014 Revenue Estimating Conferences and have been reviewed by the Santa Rosa County Office of Management and Budgets Director.

- o County Revenue Sharing: The Florida Department of Revenue (DOR) estimates a 7.2% increase in the amount of \$221,812 to \$3,336,441. This DOR estimate is generally congruent with estimates developed by OMB staff based on historical data.
- o Local ½¢ Sales Tax Program: this State shared revenue source is ½¢ of the State of Florida 6¢ sales tax collected in and around Santa Rosa County and the State is estimated a increase of 4% to \$6,453,025.
- o 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 to an aggregate amount of \$3,115,192 as compared to the \$3,014,170 in current budget (FY14).

As with property tax, State shared revenue has trended lower in last number of years, but as outlined above is projected to rebound for the upcoming fiscal year. With the exception of the relatively flat fuel tax revenue, the other State shared revenue is positively related to economic improvement and activity.

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

- o 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 had increased annually - until FY2010. The proposed FY2014-2015 budget uses estimate of \$1,291,163 which reflected a slight increase of \$28,814 from the estimate of \$1,262,349 included in current FY2013-2014 budget.
- o Building Permits: These fees have been reduced consistently for the past several years as is 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. The current budget (2013-2014) budgeted \$1,200,000 which has trended upward all year and has been projected at \$1,400,000 for FY2014-2015.

- o Sheriff's charges for Housing Prisoners: This revenue is derived from charging a per diem rate to Federal prisoners for use of secure bed space at the Jail. Projecting this revenue is very difficult, but an estimate of \$1,230,000, a \$442,000 decrease has been included in the proposed budget. This office over estimated that figure in last year's budget and the current amount is more realistic and reflective of anticipated recurring revenue. That being said, this fund revenue will increase for the next several months for sure as the Sheriff continues to house female prisoners from Escambia County displaced by the damage to the Escambia County jail associated with the April flooding event. Those funds will be treated as non-recurring and used to fund capital requests.
- o Local Option Gas Tax: This is a locally enacted fuel tax that generates 6¢ per gallon of fuel sold within Santa Rosa County. For the last four years, the County has collected just over \$3.8 million and this office is projecting that amount to recur this year.
- o 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 at \$6,000,000 and it is generally holding to that trend so it will remain the same for FY2014-2015.

In summary the FY2014-2015 proposed operating funds projects revenue to increase by approximately \$1.4 million over projected revenue in the FY2013-2014 current budget. The proposed FY2014-2015 budget accounts more accurately for the amount of recurring excess fees or revenue or expected from the Constitutional Officers. This is more art than science but it is critical in matching recurring revenue streams with recurring expenditures.

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.

The seven (7) years prior to the current budget year the Board of Commissioners and the five Constitutional Offices including the Sheriff, Clerk of Courts, Supervisor of Elections, Property Appraiser and the Tax Collector essentially held spending constant at the existing level of expenditures due to the attendant reduction in available revenue. Salaries were held constant during that time with the only changes due to increases in employee health insurance costs, Florida Retirement System (FRS) contributions, etc.

The current budget (FY2013-2014) included reinstatement or reinstatement of the merit system increases for all county employees utilizing combination of reserve funds and onetime increases in excess funds returned to the Board from the Constitutional Officers with the expectation that increases in property tax value in FY2014-2015 would offset or mitigate significant depletion of reserves or fund balance. The 5.37% increase in the ad valorem tax for FY2014-2015 as earlier outlined in this message will absorb this increase granted in FY2013-2014 budget and is sustainable. While not an expense increase in the proposed FY2014-2015 budget the roughly \$1.2 million in salary increase impacted this year as expected.

The proposed FY2014-2015 budget includes a six percent (6%) increase in employee health insurance premium and a continuation of the "catch up" rates for the Florida Retirement System (FRS). However at some point it is expected that the FRS withholding rates will moderate to traditional levels with the improvement of the economy and actuarial soundness of the system.

One of the largest increases in expenses is the rate the County pays the Florida Department of Juvenile Justice for pre-disposition or pre-adjudication cost for housing county juvenile detainees. Allocation or computation of these costs have been the source of concern and litigation for the last number of years between the State of Florida and a number of its counties, including Santa Rosa. At any rate, the State has determined that Santa Rosa County will pay \$885,075 in FY2014-2015 for these costs which is \$585,075 greater than in the present FY2013-2014 budget. I suspect that will be litigated, but the County will be responsible for those costs in the meantime and thus they are in proposed budget.

While not a true expense, the County reserved the amount of ad valorem revenue attributable to the Navarre Beach lease fee litigation in the FY2013-2014 budget and treating the just over \$800,000 as an expense, so as not to budget against that amount. With the favorable decision there does not appear to be the need to continue that practice so that "expense" has been removed from the FY2014-2015 budget.

As has been the practice for the last two years, I have removed all capital or equipment requests from this budget and propose to fund those through a capital fund established a number of years ago from non-recurring revenue for this purpose. This fund can meet the capital requirements for equipment replacement in the Board of Commissioners functions and departments.

The Sheriff indicates that due to the deferred replacement of patrol vehicles his department needs to replace thirty (30) police cruisers during FY2014-2015 as opposed to the twenty (20) replaced over the last several years. Since the April flooding event, the Santa Rosa County jail has housed female prisoners displaced by the damaged facility in Escambia County at the same per diem rate established for the Federal prisoners. The duration of this revenue is uncertain but is estimated at \$150,000 per month which as one-time revenue would be appropriate to fund the equipment needs of the Sheriff for FY2014-2015.

In summary the expenditures of the general government increased by approximately \$830,000 driven primarily by Department of Juvenile Justice cost allocation requirements. Other increases, were relatively small overall and reflective of the prudence and stewardship of the Board departments and Constitutional Officers.

BALANCING THE BUDGET

The bottom line in balancing the budget is, and as I said at the beginning of this message, must be sustainable and accurately reflect current economic conditions. The Board of Commissioners, through this office, has ensured that through the recent economic downturn all budgets were truly balanced with recurring expenditures matched by recurring revenue. The requirement of the State of Florida that counties budget expenses at 100% and revenues at 95% ensures that contingencies will be met.

The recommended or proposed FY2014-2015 Budget is balanced based at the current millage of 6.0953 and a more accurate accounting of the recurring excess fees and revenue expected from the Constitutional Officers. I believe there to be latitude remaining in the proposed FY2014-2015 Budget which the Board can discuss through the workshop and public hearing phases of the process.

For example, the proposed FY2014-2015 budget does not include a salary adjustment, whether merit pay as outlined in the existing plan or a cost-of-living adjustment of some percentage. The Human Resources Department estimates that reinstatement of merit pay would cost approximately \$1,350,000 for all employees and a three (3%) cost-of-living adjustment would cost approximately \$1,405,000 for all employees. As we near the end of the budget year, a more accurate

reflection of the impact of last year's changes and this year's proposal should identify/quantify that latitude for Board consideration.

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. .

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.