



SANTA ROSA COUNTY BOARD OF COMMISSIONERS

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MEMORANDUM

TO: Board of Commissioners

FROM: Hunter Walker, County Administrator

DATE: July 15, 2009

SUBJECT: FY 2009-2010 Santa Rosa County Recommended Budget

Pursuant to the applicable Florida Statutes, transmitted herein is the recommended Santa Rosa County Budget for fiscal year 2009-2010. 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. Following are those issues or initiatives of significant change or impact.

BUDGET OVERVIEW

For the third consecutive year the proposed Santa Rosa County operating and total budgets are lower by comparison to the previous year's budget. The operating budget, which consists of the General Fund, the Road & Bridge Fund, and the Fine & Forfeiture Fund is less in the proposed FY2010 Budget than the FY2009 Budget by \$3,280,576. The principal reason for this reduction in the proposed FY2010 Budget is the economic downturn which affected virtually all revenue sources.

The total budget, which includes all funds not just the funds utilizing ad valorem taxes, is estimated at \$108,048,405 which is 3.0% reduction from total FY2009 Budget of \$111,427,530. This budget is reflective of and built around the reality of declining revenue for the next several years.

REVENUE

The projected revenue in the proposed FY2010 operating budget is a reduction of \$6,780,576 or 8.70% from the current year, which was a \$3,519,390 reduction from FY2008-2009. The primary reasons for this successive year reduction in revenue are property tax reductions enacted by Florida Legislature and the current general economic downturn, with the economic downturn

primarily affecting the proposed FY2010 budget. Virtually all of the key revenues were lower, some of the more significant are highlighted as follows.

Property Tax Reforms:

- Fiscal Year 2007/2008: the State Legislature enacted a law requiring Santa Rosa County to reduce the millage rate to 7% below the Rolled-back-rate which brought our millage rate to 6.0953 from 6.6175 mills.
- Fiscal Year 2008/2009: Amendment One approved several taxable value changes which reduced taxable values by \$884M or 9.4%.
- The combination of these reforms reduced the property tax revenue by \$5,781,017 from 2007 to 2009.

Economic Downturn: As would be expected, the current economic downturn affects all sources of revenue the county receives, which are summarized as follows:

- Property Taxes: the property tax dollars lost as a direct result of property devaluation is \$4,055,823.
- State Shared Revenue: there are a number of revenues shared by the State with Florida counties, but only two are financially significant:
 - County Revenue Sharing is revenue collected by the State and distributed to Counties based on formula. The estimated amount is \$2,555,140 which is \$323,510 (12%) less than the current year budget amount. This reduction points to the weakness in the economy statewide.
 - Local ½¢ Sales Tax Program – the State of Florida levies a 6% sales tax statewide and approximately ½¢ is redistributed to Counties based primarily on population and sales tax collections within the specific county. Our estimate is \$5,065,500 which is nearly equal to our current year’s estimate. This is generally reflective of recently opened retail outlets within Santa Rosa County enabling residents to shop locally for goods and services.
- Local Revenue: there are a number local revenue sources, but only a handful are financially significant:
 - Building Permits - a direct reflection of the weak housing market, this local source has shown a steep decline from a peak of \$2,685,600 in 2005 following Hurricanes Ivan and Dennis. An estimated \$944,000 will be collected in FY2010 compared to current budget of \$1,425,000.
 - Aid to Libraries – which in reality is a state grant, was reduced from \$760,000 in current year to \$330,450 in FY2009-2010, a significant loss of \$429,550.

- Fuel Taxes – a victim of the economy and rising fuel prices, these are estimated to be \$697,280 (-10%) less than the current budget.
- Interest earnings – estimated earnings from deposited funds for the budget year is \$380,000 less than the current year.

In summary, the FY2010 proposed budgeted revenue is \$6,870,576 less than previous year. My approach to the budget is that primarily due to the actions taken by the Florida Legislature, Florida counties, including Santa Rosa have undergone significant change and will have reduced or stagnant revenue for the foreseeable future. Thus the proposed budget is focused on sustainability which is nothing more than the obvious matching of reduced revenue with reduced expenditures over the long term.

EXPENDITURE

Based on the foregoing reduction in revenue, this office requested that each of the departments and functions responsible to the Board of Commissioners through the County Administrator and the Constitutional Officers including the Sheriff, Property Appraiser, Clerk of Courts, and Supervisor of Elections reduce expenditures by five percent (5%) which when accomplished would yield \$3,737,150 in reduced expenditures.

It must be noted that 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. The most effective strategy in reducing expenditures is to reduce personnel positions and attendant costs including salary, health insurance, FICA, retirement, etc. Those are outlined below.

Constitutional Offices:

For three years, including the current budget year, the constitutional officer's expenditure levels have been held fairly constant by the Board in the face of the aforementioned revenue reductions. Not surprisingly, the proposed FY2010 budget with revenue shortfall will not allow for the same level of funding. Thus the combined 5% reduction for the Constitutional Officers is \$1,763,690 with the Sheriff's being the lion's share at \$1,523,000.

It should be noted that the requested 5% reduction has to accommodate a 6% increase in the cost of employee health insurance plus other inflationary costs experienced by each Officer.

Supervisor of Elections:

As the Constitutional Officer responsible to conduct elections, this unit is subjected to a number of State and Federal mandates/requirements. In the proposed budget, the Supervisor has met the 5% reduction with the forewarning that next year's election cycle will require additional funding.

Property Appraiser:

The Property Appraiser has met the requested reduction for the third consecutive year through expenditure reductions and increasing recurring revenue. This includes the deletion of three personnel authorizations (in addition to three deleted in previous budget) and increased fees which is permitted or allowed by the State. This office returned \$376,335 in operational savings and \$148,105 in fees generated over the prior two years.

Clerk to the Board:

Constitutionally, the Clerk of the Courts serves as the fiscal agent for the Board of Commissioners providing accounting/finance, internal auditing, official record keeping and related services. Due to this unique relationship as the Clerk to the Board, this office was to a great extent shielded from reductions in the previous two (2) years. However, that could not be sustained. The Clerk met the five percent (5%) reduction primarily through a true allocation of costs for the proprietary or enterprise funds.

Sheriff:

The Sheriff's Office budget submittal does not include the five percent 5% reduction in expenditures recommended by the County Administrator. The recommended budget does include the five percent (5%) reduction, thus \$1,523,000 must be accommodated with expenditure reduction or revenue increase or a combination in order to balance.

The budget submittal of \$30,927,926 includes \$30,454,658 for current detention, court security and law enforcement efforts with an additional \$473,268 for personnel and operating costs for the new jail expansion which will open sometime in the second quarter of the fiscal year.

Board of County Commissioners

While to a large extent the constitutional offices have been held virtually constant during the past three (3) fiscal years, the operating departments accountable to the Board of Commissioners through the County Administrator have reduced expenditure levels each year as follows:

FY2007 Actual:\$51,623,157
FY2008 Actual:\$42,273,713 (-18.1%)
FY2009 Budget:\$39,269,156 (-8.1%)
FY2010 Budget:\$37,245,043 (-5.2%) – proposed

The cumulative effect of the reduction from \$51,623,157 to proposed \$37,245,043 for the Board of Commissioners departments is outlined as follows:

Personnel: The Board of County Commissioners positioned its departments and functions to deal with anticipated reductions by enacting a hiring freeze in January 2007. 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 and safety.

In the FY2008 budget thirty-four (34) positions were eliminated; in the current year (FY2009) fifty-one (51) positions were eliminated; and, the proposed FY2010 Budget includes the deletion of twenty-two (22) 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 107 positions which approaches a twenty-five percent (25%) 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 and a number that will be, 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.

The effect of the past two (2) years of reductions and the current proposed reductions in personnel will have an impact on customer service and County responsiveness from library hours to veteran's services to road/drainage maintenance, etc. Specifically the following personnel authorizations have been eliminated in this proposed budget:

Computer Support:	2 positions
County Engineer	1 position
Personnel Department:	1 position
County Library:	1 position
Co-op Extension:	1 position
Inspections & Compliance:	6 positions
Veteran Services:	1 position
Planning & Zoning:	2 positions
Emergency Management:	1 position
County Probation:	1 position
Road & Bridge:	5 positions

Of these twenty-two (22) positions, sixteen (16) are the result of resignation/retirement/etc. and six (6) are the result of proposed reduction in force. These numbers do not include part-time, temporary, or student positions which have also been eliminated in the proposed budget.

At this point it should be noted that as the County Administrator I am extremely pleased with my management staff in dealing with a twenty-five percent (25%) reduction in personnel over a three 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 will be more difficult to sustain through time.

Operating Costs: Since FY2007-08 Board of Commissioners operating expenditures have been reduced annually from \$19,688,491 to \$14,022,993 in the proposed Budget. These costs or expenses have been reduced despite State of Florida mandated increases such as Juvenile Pre-Disposition Detention costs escalating from \$759,231 in FY2007 to \$1,100,000 in this budget.

As noted in the FY2008-2009 budget message, the State has no incentive to reduce cost and I remain seriously concerned that the \$1.1 million above will be inadequate.

A number of the non-personnel cost reductions have not been without impact to Santa Rosa County residents, primarily in the form of support/contribution to outside agencies including the County Health Department, Community Health Clinics, Avalon Center, the Early Learning Coalition and a number of others which have been eliminated or significantly reduced. These organizations directly affect the quality of life of County residents and generally provide services to those least able to deal with the consequences of the cuts. Funding levels for these agencies were reduced by twenty percent (20%) in the proposed FY2010 budget.

Most controllable or discretionary operating costs have been reduced from FY2009 to FY2010 such as travel, contract services, office or operating supplies, training, etc. However, there are a number of non-discretionary or uncontrollable costs including utilities, repair and maintenance of vehicles, buildings and equipment which have all been increased accordingly, as has the cost of employee health insurance which had been briefly mentioned previously.

Due to the lack of revenue, the proposed FY2010 Budget does not include any merit or cost-of-living-adjustment (COLA) increases for County employees. Like the deferment of equipment replacement purchases, this is a short-term strategy that could have long-term negative impact on productivity.

BALANCING THE BUDGET

As noted previously the proposed budget includes revenue reduction of \$6,780,576 and expenditure reductions of \$3,280,576, leaving a shortfall of \$3,500,000. The proposed budget includes \$3,500,000 in Electric Franchise Fee revenue to balance, utilizing \$1.0 million currently reserved for capital projects in recreation and \$2.5 million from portion reserved for Roads and Drainage. An important caveat to this balancing, is that this budget assumes the Sheriff meets his five percent (5%) reduction in expenditures. To the extent and amount that he does not reduce his budget, the only available revenue is Electric Franchise Fees.

Electric Franchise Fee is an unrestricted local revenue source available to all sixty-seven (67) counties in Florida. Since Electric Franchise Fees have been available, the Santa Rosa County Board of Commissioners has chosen to restrict or reserve Electric Franchise Fee annual revenue for capital purchase or initiatives as follows:

Roads/Drainage: 50% Recreation: 40% Economic Development: 10%

By Board policy, these funds have been used to fund capital projects including improvement to roadways; construction and improvements of passive parks and recreation facilities; and purchase and development of property for industrial/economic development. This is unlike most other Florida counties which treat Electric Franchise Fee revenue as unrestricted revenue and as such include it in their General Fund as another revenue source to fund day-to-day operations.

Over the past fifteen (15) years, this policy has enabled Santa Rosa County to essentially build and improve a solid system of passive parks and major recreation facilities; as well as provide

funding to upgrade roadways and provide infrastructure for economic development, all of which positions the County positively for the future.

Given the history and the millions of dollars in capital projects which have immeasurably improved the quality of life for Santa Rosa County residents, I am reluctantly recommending the inclusion of these funds in the General Fund to balance. I am concerned that absent these funds, additional reductions would have an incapacitating affect on public safety and all levels of service within Santa Rosa County.

An alternative to at least using a portion of the Electric Franchise Fee to balance this budget is found in the State of Florida statutes enacting property tax reform. Santa Rosa County will generate \$48,812,016 in property tax for FY2010 at the current millage rate of 6.0953, which is \$4,055,823 less than current year (FY2009) budget.

By statute, the Board is permitted the property tax amount at previously approved millage rate (which generates the \$48,812,016) plus the percentage growth of Florida personal income, which has been determined to be two and half percent (2.5%) for FY2010. This state formula of last year's revenue plus growth in personal income (inflation) would yield \$50,031,656 at a millage of 6.2476.

Utilizing this millage rate and revenue of \$50,031,656 would reduce the requirement from \$3.5 million to approximately \$2.3 million of the Electric Franchise Fee to balance. The Electric Franchise Fee is expected to generate approximately \$5.8 million in FY2010, thus, assuming the Sheriff meets his reductions, \$3.5 million in Franchise Fee would be reserved for capital projects in Roads, Recreation, and Economic Development per current Board policy.

Not insignificantly when given the choice the past several years, the Board of Commissioners has chosen the lowest millage rate available, yielding the largest reduction for property owners. However, if the Board foregoes the inclusion of the 2.5% increase in Florida personal income (inflation) it will be lost, resulting in a lower FY2011 baseline.

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 substantial and substantive reductions which may or may not be aligned with Board priorities or policies.

This is my twenty-fourth 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.