

BOARD OF COUNTY COMMISSIONERS

STRATEGIC FINANCIAL REVIEW

APRIL 7, 2008

A Review meeting was held at the Murdock Administration Complex in Room B-106, Port Charlotte, Florida. The following members were present: Chairman D'Aprile, Commissioner Cummings, Commissioner Duffy, Commissioner Loftus, and Commissioner Moore. Also in attendance were County Attorney Knowlton, County Administrator Loucks, and Minutes Supervisor Nice. The meeting was called to order at **10:00 AM**.

I. COMMENTS

Chairman D'Aprile announced this meeting is not being televised and explained the purpose of the meeting. Dr. Herbert A. Marlowe, Jr. expressed appreciation for staff's cooperation and assistance, commented on the role of focus groups, and outlined agenda topics largely on ad valorem department funded services and functions, and if time allows tax reform and Budget Commission issues.

II. PROCESS OVERVIEW - DR. MARLOWE

Dr. Marlowe explained the most likely scenario, based on the slide presentation, reflects an estimated \$20 million shortfall as a starting number; reported the process includes briefings and direction during April and May whereas the Board will engage in the decision-making process after July 1, 2008 when the Property Appraiser submits valuations; reviewed the Sources of Fiscal Impact starting with the \$8 million from Amendment 1, portability is estimated at \$4.7 million and the impact probably will be minimal this year; property devaluations are uncertain at this time and every percent of decline is \$1.4 million with the 10% assumption for \$14 million; and commented on anticipated shifts in State Shared Revenues and Other Taxes.

III. BUDGET AND REVENUES OVERVIEW - BUDGET DIRECTOR RAYMOND SANDROCK

Mr. Sandrock summarized Discussion Points on different types of revenues; balances and reserves, and where did the money go as far as additional property taxes collected over 2004 through 2007. Mr. Sandrock continued the slide presentation with a chart of various revenue sources e.g. ad valorem taxes in relation to the total County budget is 13% along with Beginning Balances and Transfers In; Budgeted Revenue Sources include \$147.8 million from ad valorem taxes, Transfers In of \$343 million from loans budgeted in excess of \$250 million for Midway and Winchester road projects that are to be repaid through impact fees, Conservation Charlotte, Utilities repaid through connection fees, and MSBU projects; and Beginning Balance of \$291.3 million. **Commissioner Cummings** stated \$250 million of the \$343 million represents loans. Mr. Sandrock agreed. **Commissioner Cummings** stated that is a cash source that changes the time of when the monies are spent not the total amount of money spent e.g. the revenue is the permanent source. Mr. Sandrock responded affirmatively and pointed out the Stadium, numerous road projects are budgeted with repayment sources over many years. **Commissioner Cummings** questioned if substantial portion of those budgets are internal loans from the Landfill tipping fees collected, transferred in another account and repaid and concluded that the \$250 million is doubted counted within the budget. Mr. Sandrock concurred. **Commissioner Moore** questioned the reasonableness of the \$250 million. Mr. Sandrock stated \$250 million is very close to the budgeted amount. Mr. Sandrock commented on excess fees received from the Tax Collector and Clerk of Court, and transfers between departments represents double accounting procedures for revenues and allocations to the General Fund and County departments.

Commissioner Cummings stated, as an example, Emergency Management uses the Event Center for hurricane awareness seminars and pays for the rental of the facility that is allocated to Parks, Recreation and Cultural Resources to cover expenditures including salaries. Mr. Sandrock referenced the Budget Line Item Function Book that eliminates all of the double accounting. Mr. Loucks used an analogy of two pockets of double accounting to net out

transfers of numerous funds. **Commissioner Cummings** stated the public wants accountability with a money trail and pointed out if Constitutional Officers save a lot of money, that sum inflates the budget. **Chairman D'Aprile** agreed on the need for accountability for the public. Mr. Sandrock stated Reserves amount to \$144 million which is 12% of the total budget; Reserves are required; the Contingency Reserve Fund is about \$5 million, the General Fund is about \$11 million, \$8 million in Building Construction Services, \$6 million in Public Works, \$2 million in Vehicle Replacement, \$34 million in MSBUS for future projects and contingencies, \$23 million in Landfill, \$4 million in Capital Projects is bare bones and pointed out \$77 million worth of projects, \$29 million in Utility, and \$8 million in Self/Health Insurance. **Commissioner Cummings** pointed out many projects have been done on a pay-as-go basis since funds are accumulated prior to commencement of a project. Mr. Sandrock enumerated Building Construction Services are very limited and funds are used to fund their operations or a new building project or software system whereas Public Works is more of an unknown that would be covered under contingency, the MSBUS would be a split between accumulation of monies for future projects into Reserves and some contingencies, the Landfill would have a significant amount of that required with some contingency, and Capital Projects would be contingency. **Commissioner Cummings** stated of the \$144 million in Reserves the amount allocated to Landfill Reserves will be utilized to close the current cell and open the next cell. Mr. Sandrock agreed and stated the Self Insurance is not a choice or contingency, it is very specific including a stabilization reserve between \$2 million and \$3 million to cover a very large increase in rates in health insurance rates.

Mr. Sandrock stated another area of the budget, Beginning Balance, is represented by unexpended monies or carryovers due to timing of expenditures, funding of Reserves, performance cost reductions. Dr. Marlowe pointed out that the primary portion of the Beginning Balance is targeted, dedicated and set aside monies. Mr. Sandrock agreed but referenced an example of an item in the General Fund where the actual beginning balance was higher than what was projected that was achieved through performance and the hiring freeze that resulted in extra funds that could be utilized in other areas such as Murdock Village, road

projects, and continued operations. **Commissioner Cummings** pointed out this would not be in the double accounting process and commented on the importance of maintaining assets. **Commissioner Duffy** questioned the portion of the \$57 million Beginning Balance in the General Fund that is allocated. Mr. Sandrock recalled the analysis indicated unallocated between \$20 million to \$27 million. Mr. Loucks stated the unallocated as of today is \$29.2 million and the \$9.2 million was identified for funding opening costs of the jail including first full year operating costs with a balance of \$20 million unallocated that could be used for Murdock Village. **Commissioner Duffy** recalled carryovers of \$5 million from Public Safety and \$4 million from the Landfill. Mr. Loucks explained the \$4 million was considered as a short-term loan that needs to be repaid within two years and there are restrictions on those monies since it is an Enterprise Fund whereas about \$5 million was identified from the Public Safety Fund that could be utilized towards Murdock Village or other competing needs. **Commissioner Duffy** requested an explanation regarding the excess monies in the Public Safety Fund. Mr. Loucks explained the accumulation over time and fund balances are not revenues that appear from one year to the next e.g. fund balances are a running accumulation of the difference between revenues and expenses from all prior years and recalled increases in assessed valuations and millage rates were reduced to the extent to cover future needs, Legislative impacts, and replenish depleted Reserves. **Commissioner Duffy** requested a reasonable Beginning Balance in the General Fund in the event of a catastrophe like Hurricane Charley. Mr. Loucks explained over \$100 million was paid out in about three years; a large part of that was reimbursed from insurance and FEMA so it is a timing issue; there are still outstanding uncollected FEMA claims that amount to about \$4 million to \$5 million; and opined the more in the Fund the better off the County would be to cover costs. Mr. Sandrock advised a breakdown will be provided later in the presentation. **Commissioner Cummings** pointed out the balance is a one-time asset and not a re-occurring revenue and it would be necessary to have an asset three times the size of the annual budget hit that is being softened the blow of while still increasing taxes the entire five years so the asset may not go as far as some people think it might.

Mr. Sandroock outlined types of revenues from ad valorem taxes, non-ad valorem taxes, Constitutional fuel tax, special assessments, impact fees, franchise fees, user fees and service charges, and utility fees; the Countywide millage rate includes 3.4830 from the General Fund, 0.9887 from the Capital Project Fund, estimated 1.0 mill today is about \$22 million year, and 0.0709 from and the County Health Unit. **Commissioner Cummings** stated there is cost to not doing the Capital because the needs keep coming and if the level of service goes below adopted levels, the State will take more money away. Mr. Sandroock advised it is a very careful balance when examining the millage rate and the uses because there is a minimum millage necessary to maintain assets and comply with the provisions of Senate Bill 360. **Commissioner Cummings** calculated the County is getting about \$.13 on each dollar from gas taxes that the State allocates, the County will probably have to use those monies to construct the ramp to I-75, and another big ticket item is the cost of services that the County must pay for since the State is no longer providing certain services is not reflected in the budget.

Mr. Sandroock explained rollback/rollup rates to equal the same amount of ad valorem revenue as the previous year; if property values increase, the Board could rollback the millage rate or if property values decrease, the Board could rollup the millage rate. Mr. Sandroock summarized the millage rate history chart that reflects fairly consistent rates from 4.5992 in 1998/99 with an increase to 5.3709 in 2005/06 to address priority projects including the Event Center, the Jail, renovations of fire stations, Human Services Center, the EOC and 4.5426 in 2007/08. **Commissioner Cummings** questioned the County's position in ranking for millage rates for Florida counties. Mr. Sandroock reported 15th from the bottom of 67 counties. **Commissioner Loftus** pointed out that does not include MSBU/TUs. Mr. Sandroock pointed out trends for revenue collections, that are used to fund general operations, are declining on Communications Taxes for telephone, cable, satellite and cell phone usage of which \$6.2 million was budgeted for this year and Florida Power and Light Franchise fees was budgeted at about \$10 million and estimated a combined total in declines of about \$1 million less than projected. **Commissioner Loftus** advised he has spoken with Mr. Loucks and requested monthly updates from

Administration when down turns occur in the economy, short falls, and other impacts on the budget. **Commissioner Cummings** used his mother's lawn business as an example because fewer employees will be hired for the season. **Chairman D'Aprile** stated declining revenues have reduced reserves and purchases made by small businesses as in his business. Mr. Sandrock focused on the graph of the declining trend in the State Shared Sales Tax based on formulas that weigh population and sales taxes collected from the County and the impacts from Hurricane Charley that caused a sharper increase than in other counties as shown between 2004 before Hurricane Charley and 2008.

Mr. Sandrock stated the County has budgeted \$12.4 million annually in gas taxes but that is not significant considering the cost of road projects; advised all available gas taxes are being levied; and this year there is a current revenue shortfall of \$1 million. **Commissioner Cummings** questioned if the Local Option gas taxes are included and commented on allocations of gas tax revenues by the State. Mr. Sandrock reported that includes the Local Option and State. Mr. Loucks stated this represents the net of what the County gets back and pointed out the State takes different proportions depending on which gas tax it is and the \$12.4 million is what is collected as a revenue to the County net of anything that the State takes off of the top and every gas tax has a different formula. **Commissioner Cummings** stated the amount of gas taxes paid by the County is far greater than \$12.4 million and most of the monies that the State is setting priorities for is the Metropolitan Planning Organization (MPO) funds not what is coming back into local government. **Commissioner Loftus** opined the County will receive less from gas tax revenues even though the price of gas will still go up. **Commissioner Moore** requested details regarding what the County submits in gas taxes versus what the County gets back. Mr. Sandrock offered to provide more details. **Commissioner Cummings** requested details on accounting for the County's gas tax revenues, referenced the study conducted by the Center for Urban Transportation Research for counties in southwest Florida that showed Charlotte County went from getting \$.90 on the dollar to \$.52 on the dollar on monies allocated to the local MPO, there was a shift in the 50/50 split to a 75% split for the State and

25% for local MPOs that calculates to \$.13 on the dollar to the County.

Mr. Sandrock reviewed the 2002 Sales Tax Extension slide by reporting State Shared Revenues and Local Revenues are both declining and although it was originally budgeted to collect \$96 million in each year, it appears collections will be close to the \$121 million projected.

Mr. Sandrock continued the slide presentation on how Additional Ad Valorem Taxes, from 2004 through 2007, were used; explained the graph reflects a 329% cumulative increase in BCC Capital Expenditures with increases of 31% for Constitutionals and 47% for BCC Personnel and Operating expenses.

Mr. Sandrock explained of the \$61.5 million, 41% or \$25 million went to Capital Projects versus 19% or \$11.7 million for Hurricane Recovery Projects e.g. the cost of constructing Fire Station 1 and hardening, renovations of other fire stations, and the Event Center; 13% or \$8.1 million to employee expenses; and 16% or \$10 million to the Sheriff and Jail for operational expenses. **Commissioner Duffy** requested an explanation of "tax fees." Mr. Sandrock explained as collections increased, the County had to pay more associated fees. Mr. Loucks pointed out the fees are applicable to the Tax Collector and Property Appraiser and stated as more property taxes are collected, they get more money. **Commissioner Duffy** questioned what is included in "Other" on the chart. Mr. Sandrock enumerated increased electric costs, higher gasoline costs, budgeted new vehicle purchases and employee hires; advised some purchases and new hires were not implemented; and pointed out more funds were available in Beginning Balances. **Commissioner Duffy** stated the total of the chart is \$61.5 million for the time period from April 2005 through June 2007 and questioned spending more than \$36 million for construction of the fire stations, the new Public Safety building, and Event Center. Mr. Sandrock stated this chart does not represent total project costs and advised the jail is \$41 million. **Commissioner Moore** requested the amount the County pays to collect the School Board and City of Punta Gorda taxes per year. Assistant Budget Director Linda Carr estimated \$4 million of which \$1 million goes to the School Board. **Commissioner Cummings** stated Florida Statutes require the

County to collect School Board taxes and commented on monies returned from Constitutional Officers as a revenue stream. **Commissioner Loftus** concluded Florida Statutes require the County to make the collections without reimbursement by the School Board. **Commissioner Cummings** advised the County is the Taxing Authority. Mr. Sandrock agreed. **Commissioner Cummings** requested verification of the \$61.5 million being the total for one or three years. Mr. Sandrock stated three years. **Commissioner Cummings** opined the pie chart represents a cumulative percentage impact. Mr. Sandrock indicated several different graph methods were performed and most all play out the same way as reflected with the pie chart. **Commissioner Cummings** stated the cap on ad valorem revenues implemented by the Legislature involves a growth plus inflation methodology that allows an average citizen to pay the same amount for services and infrastructure provided by local governments from one year to the next and the only increase would be inflationary costs and it a perfectly logical concept if local governments are doing the same job as have been done but that is the not case e.g. the State is pushing more expenses down to local governments. **Commissioner Cummings** suggested the State establish a needs-based budget, address issues in the most cost effective method including proactive measures, and how to effectively tax the needs without taxing people out of their homes. **Commissioner Cummings** reiterated the State made a cap on the maximum counties may collect which is not enough to fund mandates. **Chairman D'Aprile** commented on the need to simplify the Legislative impacts created by the State and adverse impacts on the County and opined the politicians are using scare techniques for their own purposes. **Commissioner Duffy** pointed out 77% of Charlotte County voters approved Amendment 1 and opined the Board's duty is to cut expenses. **Chairman D'Aprile** stated the County is not totally at blame. **Commissioner Cummings** advised the millage rate will need to be adjusted upward in order to comply with the cap placed by the State under the growth plus inflation methodology and the referendum.

Dr. Marlowe commented on the Hierarchy of Public Goods framework to be used in the decision making process including quality of life services as required by the Comprehensive Plan. **Commissioner Cummings** opined the Board has already hit the quality of life services pretty hard

and expressed caution as to what services might still be cut in order to more fully fund a higher priority. Dr Marlowe agreed most Board actions in prior years have been taken on the top half of the triangle. **Commissioner Cummings** pointed out the point could be reached to completely fund police and fire and closing doors on a lot of other services and causing the budget to increase due to the lack of preventive measures. Dr. Marlowe reported there are local governments in California that spend 80% of their budgets on law enforcement. Dr. Marlowe continued the slide presentation with a list of departments that are more than 50% ad valorem funded and departments funded at less than 50%. **Commissioner Duffy** questioned separation of Parks and Park's Administration budget. Mr. Sandrock explained charges between departments and fees funding and more details on functions versus administration will be provided in future reviews. **Commissioner Cummings** requested the total dollars. Dr. Marlowe explained the purpose of this presentation is to provide an overview of ad valorem funded departments and continued with funding for Support Functions. **Commissioner Duffy** requested the revenue sources over the 19.5% to fund the Board. Mr. Sandrock stated from State Shared Sales Tax, franchise and communications fees and taxes as well as charges out through Central and Indirect and other departments supported by the Board. Mr. Loucks explained property taxes revenues are not 100% of the revenues to the General Fund, the Board does not actually collect and deposit into their account but all costs to the General Fund are prorated and property taxes are a portion of that amount. Mr. Sandrock pointed out as other revenue sources decline, the ad valorem percentage goes up.

IV. OVERVIEW OF MASTER SPREADSHEET - DR. MARLOWE AND MR. SANDROCK

Dr. Marlowe reminded the Board that the Tax Reform and Budget Commission is meeting, there is a proposed amendment called the Taxpayer Bill of Rights that formulates the inflation and growth factors in and requires voter approval for raises above that level, it is unknown at this time whether the amendment will pass, and this represents another potential variable for long-term planning. Dr. Marlowe explained the Master Spreadsheet provides a running total based on Board actions and impacts on the \$20 million

target as a record keeping function. Dr. Marlowe advised discussion at tomorrow's meeting would encompass the Master Spreadsheet, Human Resource Policies relative to employee salaries and benefits and potential savings, Efficiencies and Level of Service Adjustments, Other Policy Decisions. Dr. Marlowe stated the meeting on the subsequent Wednesday will be devoted to budget presentations by Constitutional Officers and following meetings will involve departmental budget presentations. **Commissioner Cummings** requested an analysis of current capital projects and their anticipated impacts on operational expenditures and maintaining the required levels of services pursuant to the Comprehensive Plan and State law. **Commissioner Duffy** requested the meeting date to address Capital Projects. Dr. Marlowe indicated the afternoon of May 22, 2008. **Commissioner Loftus** requested Operations and Maintenance (O&M) costs on current and future Capital Projects.

Commissioner Cummings stated this meeting should have been televised for the public because these are very informative sessions and opined the Board will never be able to tax cut its way out of the credibility issue with the community. **Chairman D'Aprile** requested hard copies of the slide presentation for Board Members' review.

ADJOURNED: 11:40 AM

Signature on file in Commission Minutes
Chairman

ATTEST:

**BARBARA T. SCOTT, CLERK
OF THE CIRCUIT COURT AND
EX-OFFICIO TO THE BOARD
OF COUNTY COMMISSIONERS**

By Signature on file in Commission Minutes
Deputy Clerk

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