

### Members of the Board of County Commissioners:

I present to you the Adopted Biennial Budget for Fiscal Year 2008 (FY 08) and Fiscal Year 2009 (FY 09). This represents the seventh biennial budget for the Board of County Commissioners (Board). Under a biennial process, the Board simultaneously develops detailed budgets for two separate years. On September 20, 2007, the Board adopted the FY 08 budget and approved a planned budget for FY 09. The intent of a biennial budget process is to focus implementation of major policy decisions in the first year or "on-year" of the two year cycle and demonstrate their sustainability in a balanced second year's budget. The capital budget component of this biennial budget reflects the first two years of a six-year capital improvement plan or "CIP." The relationship between the budget and the CIP has additional significance in this budget as I will outline later – future maintenance and operating costs of many capital projects became a prime consideration this year as we anticipated the impacts of property tax reform in Florida.



### The Challenge of Property Tax Reform

**Setting the Stage for FY 08 and FY 09** - As we completed the budget update process for FY 07 – the second year of the biennial budget for FY 06 and FY 07 – we heard from taxpayers at budget public hearings concerns about rapid increases in the values of their non-homestead properties, not about the need for additional services as in past hearings. Although there were fewer than twenty-five speakers at each of our September 2006 hearings, the frustration of those who spoke was clear. While Florida's 1995 Save Our Homes constitutional amendment shields homesteaded property owners from rapid increases in taxable values until a home is sold, the owners of investment and commercial properties have no such limitations. As market values increased, the impact of Save Our Homes has accelerated in recent years to shield \$20.4 billion in Hillsborough County assessed residential property value from taxation. That provides three times as much overall benefit to homesteads within Hillsborough County as Florida's \$25,000 homestead exemption shields \$6.6 billion in value from taxation.

The Board understood the concern of non-homestead property owners impacted by rising values, but any millage relief for those taxpayers would have imposed a heavy cost to County services because it would have also lowered taxes for homesteaded property constrained to a maximum 3 percent annual increase in taxable value under Save Our Homes. The Save Our Homes constitutional amendment has both created inequities in taxation and effectively prevented local taxing authorities from addressing those inequities.

The Board lowered the Countywide tax rate for FY 07 by almost 6/10ths of a mill – the largest millage reduction in more than two decades and the largest reduction in terms of dollar value (a \$39.6 million reduction) in County history. Still, that reduction was inadequate to address many non-homestead property owners' concerns. In early 2007, the Board took additional action by adopting a spending cap policy for future budgets. The spending cap limits spending within two areas of the budget most reliant on property tax revenue: the Countywide General Fund and the Unincorporated Area General Fund.

Property tax reform is not a new concept: States began phasing out their reliance on property taxes in state budgets in the early 1900's and the substitution of sales taxes for property taxes began during the Great Depression as a result of property tax revolts. However, local governments – particularly here in Florida - continue to depend on property taxes to pay for most day-to-day services with the exception of those services that can rely entirely on user fees or assessments. The authority to levy property taxes provides local control of taxation and the level of services provided – otherwise referred to as home rule. In 1968, Florida began imposing tax rate limits that impact Hillsborough County – a 10-mill cap for countywide services and another 10-mill cap for municipal services. Disclosure requirements for millage rates (truth-in-millage or "TRIM") were imposed in Florida starting in 1974.

Both Governor Crist and the Florida Legislature brought proposals in 2007 to substantially change how local governments in Florida could pay for services. Local governments were not at the table in the discussion. To the contrary, local governments were accused of excessive spending in recent years. Increases in local government property tax

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revenues - despite voluntary millage rate reductions - were characterized as "tax increases" even though the State of Florida did not characterize its annual increases in sales tax revenue as tax increases. No consideration was given to how local governments used other revenues, to the impact of State mandates on local governments imposed and/or increased by the legislature in recent years, or to pent-up demand for local services that outpaced population growth in recent years.<sup>1</sup>

There was also no indication that State lawmakers had researched property tax reform in other states and its impact on local government services and the changing relationship between state and local government in the aftermath of tax reform. One example clearly shows the disconnect between rhetoric and fact: Colorado imposed property tax reform in the early 1990's and subsequent analysis of impacts on Colorado local governments in 2000 indicated that the greatest impacts on local government were on law enforcement, fire protection, health, road maintenance, and courts.<sup>2</sup> Leaders of Florida's tax reform ridiculed the suggestion that public safety would be impacted, but they had not done their homework to understand public safety would likely be an area of significant impact.



County Commissioners listen to Management and Budget Department staff explain the impacts of proposed State Legislative tax reforms.

Unlike many other Florida local governments, Hillsborough County did not overreact to the proposals of the legislature although it was clear that the impacts could be severe. Instead, we worked to develop a budget that could be adjusted to alternative levels of property tax revenue. We deferred a hiring freeze until it was clear the legislature would meet in special session to ensure a reduction in local governments' property tax revenues in FY 08. As we considered the potential impacts, it was clear that the suggestion to exclude public safety from cuts would unreasonably damage other key programs – particularly at higher levels of cutback. The reason is simple: public safety accounts for a substantial share of County expenditures from general revenue, and property tax accounts for an overwhelming share of general revenue. In FY 07, the

County budget in two major operating funds was funded with \$1 billion of recurring revenue (i.e., excluding one-time sources). Of that, over 80 percent or \$815 million came from property taxes. In comparison, public safety used \$480 million of the \$1 billion in revenue, leaving just \$554 million for all other programs. The original House proposal would have cut \$197 million in those two funds, plus \$20 million more in the third tax fund reliant on property taxes, library services, for a total of \$217 million. To expect to cut up to \$197 million out of \$554 million in non-public safety programs would devastate a variety of essential services. Fortunately, the Legislature adopted a tax reform with a smaller impact. We were able to develop a biennial budget in which public safety spending in our operating funds (Countywide General Fund and Unincorporated General Fund) increased in FY 08 and again increased in FY 09 despite some cuts within public safety functions such as code enforcement, consumer protection investigations, fire inspections, and fire rescue services.

<sup>1</sup> For example, Hillsborough County had consistently lowered Countywide millage rates for fourteen consecutive years. In addition, the County had adopted a lower Communications Services Tax rate than most Florida local governments; had not imposed a public services (utility) tax on electricity, natural gas and water; had not imposed franchise fees on utilities; and had not levied a 5-cent local option motor fuel tax.

<sup>2</sup> Brown, T. (2000). Constitutional Tax and Expenditure Limitations in Colorado: The impact on Municipal Governments Public Budgeting and Finance, 20, 29-50.

## Strategies for Developing the Biennial Budget

**The Importance of Efficiencies** – In our budget process we initiated another search for efficiencies – opportune considering pending legislative action. Efficiencies have been primarily defined in our budget process as opportunities to lower existing expenditures without noticeable impact on services.<sup>3</sup> For budget purposes, we contrast that with opportunities to expand (or reduce) service quality or quantity with an associated increase (or decrease) in funding. In the past biennial budget process, we captured \$17 million in efficiencies.

We look to efficiencies because this is the right way to control costs. It took on added importance in this past year's budget process. As we approached efficiencies for FY 08 and FY 09, we found two departments (Parks, Recreation and Conservation, and Library Services) where we could cut costs through the reduction of part-time positions. These areas ultimately accounted for the majority of position reductions in the budget – not due to service reductions but as efficient means of lowering costs. Additionally, we replaced some full-time recreation positions with part-time positions – lowering our cost of youth recreation programs without reducing the number of youth served.

We continue to assess other opportunities for efficiencies and we initiated a review of certain support service areas and public services during 2007 for streamlining or consolidation opportunities. We formed TEAM HILLSBOROUGH, a voluntary collaboration among 18 County departments to assist each other in their field activities, further enhancing our efficiency and effectiveness. We have also approached the three municipalities in Hillsborough County to consider efficiencies through consolidation of services.

**Slowing the Growth of Government** – We recognized the need to focus on slowing the growth in our budget that result from new facilities – e.g., parks and recreation facilities, fire stations, jails and libraries. Regardless of whether we already have funds available to construct new facilities, the operating and maintenance costs that follow construction should compete against existing programs and facilities for funding. That decision was difficult. We have faced constant pressure to open facilities to meet the requirements of both a growing population and particularly heavy usage of existing athletic complexes and libraries. In the case of fire stations, the Board had previously earmarked a portion of our Communications Services Tax to build and equip fire stations in an effort to improve response time in addition to serving our growing unincorporated population. The operational requirements for a fire station are significant – it costs about as much each year to operate a fire station as it takes to build and equip it. The Sheriff took a hard look at an expansion of jail facilities and deferred staffing even though the facilities will be completed. That deferral was substantial. We had anticipated in our five year financial projections a phased cost beginning in FY 08 that would rise to \$16.8 million annually by FY 09. As new inmate housing is completed, the Sheriff will take older facilities out of operation and shift staff to the new facilities. During the window of time in which the older facilities are not used, major maintenance can be performed to ensure the maximum useful life of those assets.

Regarding libraries, we moved forward with replacement facilities that have low net new operating costs and placed other new facilities on hold even though cash has been accumulated to construct additional libraries. Until we know how we can absorb any future phases of tax reform, it is critical we do not overstep our financial capacity to adequately operate new facilities. Operating new facilities should not force closure of other existing facilities. Once any future phases of tax reform have been enacted and we can transition to a new basis for funding County services, we hope that we will be able to establish timelines for each type of facility and absorb those costs over a more extended timeline than previously planned.



Commissioners Ferlita, Blair and Sharpe (left to right) prepare their remarks during the biennial budget process.

Some parks capital projects have been delayed until we could establish new ground rules to limit the impact of operating and maintenance costs. Similarly, the construction of some new fire stations has also been deferred.

<sup>3</sup> In limited cases, we view the shift of ongoing programs from local revenues to State or federal sources as an efficiency within the County's budget since they free up local dollars.

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We also reduced salary increases for employees outside of bargaining units from an annual average of 5 percent to an annual average of 3.5 percent, a 30 percent reduction. Two years earlier we had similarly reduced what had been a 7 percent annual average for merit and market increases to 5 percent.

**Zero-Base Budgeting** – The County has long used a zero-base budget process – a process brought to the nation's attention in 1970 by Texas Instruments and later introduced in the federal budget process in 1977. While this type of process can be criticized as paper-intensive, it provides a range of service and funding level options for the variety of programs and services comprising the County's budget. Designed to facilitate consideration of alternatives rather than building on or subtracting from current spending levels, it is an approach that works particularly well in a period where alternative spending levels must be considered and where dissimilar programs compete for the same limited funds.

As a side note, it is interesting to find that many other Florida jurisdictions have quickly moved in the face of property tax reform to characterize their processes as "modified zero-base budgeting." As the name implies, our process requires each department and agency to prioritize and build their budgets from the ground up – from a zero funding level. This process worked well in the early 1990's when the County last faced a financial situation of similar scope to this year's challenges.



Commissioners White, Higginbotham, Hagan and Norman join their colleagues in discussing budget priorities.

with a taxable value (after exemptions) of \$150,000. For a property owner with \$1 million in business property, the annual savings from those accumulated millage reductions would be \$1,580. Finally, for a "big box" retailer with an \$8.4 million property value, the annual savings would be \$13,272.

The Board has taken other actions in recent years to assist local residents with their property tax burden: The County implemented the constitutionally allowed \$25,000 senior homestead exemption for low-income senior households throughout the county. In 2007, the Board increased the exemption to \$40,000 for the 2008 tax roll. The Board also approved a program granting a maximum of \$1,500 for those unincorporated homeowners serving in a war zone and for the dependents of those who die serving in a war zone.

Additionally, in early 2007, the Board took the bold step of adopting a spending cap policy limiting the annual growth in the budget I recommend as the County's budget officer. That policy applies to the two major operating funds that rely on property tax revenue. One, called the Countywide General Fund, is for countywide services and the second, called the Unincorporated Area General Fund, is for municipal-type services provided to 67 percent of our county population who live in the unincorporated area. Had the Florida Legislature not interfered in the County's budget process, we calculate that the Board's spending cap policy would have resulted in a minimum of \$13.3 million in cuts to County spending in FY 08 -- \$11.5 million in the Countywide General Fund and an added \$1.8 million in the Unincorporated Area General Fund.

**The Role of Constitutional Officers in Slowing the Growth of the Budget** – By law, Constitutional Officers enjoy some independence in how they prepare and present their budgets. The Sheriff, the Clerk of the Circuit Court, the Supervisor of Elections, the Property Appraiser and the Tax Collector operate under specific guidelines within Florida Statutes. Each Constitutional Officer took the changing financial environment into consideration in developing a budget for the upcoming years. There are resulting differences in how they prioritized position cuts versus employee pay. The Sheriff significantly slowed growth in the Sheriff's budget for FY 08 even while continuing a commitment to add more than sixty law enforcement deputies per year and meet the needs of staffing new courtrooms. The Sheriff

### **A History of Hillsborough County Budget Limitations**

– The Board of County Commissioners has been responsive in addressing the unusually strong growth in property tax revenue resulting from increasing values. The Board reduced countywide millage in each of the past fourteen years with the largest reduction this past year. The reduction, almost 6 tenths of a mill, brought the fourteen-year total reduction to 1.58 mills for a current savings of \$158 for each \$1,000 of taxable value. That equates to annual savings of \$237 for a residential property

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returned nearly \$30 million in unspent FY 07 funding at year-end – an unusually large amount that may account for the ability to slow the growth in the Sheriff's budget in FY 08 while adding positions and offering compensation increases to collective bargaining units that exceed that of other positions funded by the Board.

The Clerk of the Circuit Court chose to forgo employee pay increases for both County-funded and State-funded positions in FY 08 rather than cutting positions. I respect her decision and recognize that it, in part, helps balance the portion of the Clerk's budget funded with State court fees. I could not recommend that approach for County Administration employees because it creates disparities with other employers and it penalizes those we need motivated to provide quality services even in the face of tax reform. The Supervisor of Elections, Property Appraiser and Tax Collector also sought to slow growth in their budgets.

**An Accounting Challenge** – We implemented a new accounting standard this year, the Governmental Accounting Standards Board's "GASB Statement 45." This standard addresses accounting and financial reporting for post-employment benefits other than pensions. In our case, it recognizes the value to County employees of being able to remain in the County's health care plan upon retirement. Under Florida law, the County cannot charge a higher premium to retirees even though actuarial data shows a higher cost for that group than for current employees. As a result, there is an implicit subsidy of future health insurance that current employees earn. After obtaining actuarial analysis of that subsidy and an estimate of the County's future liability – over \$100 million – we implemented an annual charge of \$600 per position to cover an "annual required contribution." Fortunately, we have some offsetting impacts on benefits costs in FY 08 that eased implementation of GASB 45: Florida Retirement System contribution rates declined slightly and we were able to significantly reduce our workers compensation costs through an updated review of our claims experience.

**Linkage to the Strategic Plan** – Consistent with the biennial budget adopted two years ago, this budget continues implementation of the County's Strategic Plan through explicitly linking departmental expenditures and performance measures to measurable objectives tied to Strategic Plan goals. The Board enacts policy through the budget and the linkage of the budget to the Board's short-term and long-term priorities is a critical step in implementing Strategic Plan priorities. As the use of the 2005 Strategic Plan continues to evolve, the reporting and validation of performance measures used to evaluate success will expand and that data will improve the linkage of funding through the budget process to explicit – and measurable – achievements. Fine-tuning objectives through an annual review at the Board's retreat keeps the Plan current and maintains the linkage to implementation through the budget. While Hillsborough County uses a zero-base budget process, the linkage of the Strategic Plan, performance measures and funding allocations integrates key elements also found in other budget process strategies such as managing for results.

Even with property tax reform and slowing the growth of government, we are continuing our focus on our commitment to giving our customers a good value for their tax dollars. This important component of our Strategic Plan includes regularly soliciting for feedback at points of service and annually with a countywide telephone customer service survey.

**Outside Agencies** – We considered the variety of external nonprofit organizations funded with County general revenue and varied the recommendations for funding based on several considerations. Most organizations faced reductions. In the discretionary funding allocated through the competitive request for applications (RFA) process, priority was given to programs that directly provide basic human services. The second highest priority was given to programs that enable self sufficiency. The lowest priority was given to programs that enhance the quality of life – not that they aren't important, but we considered them the most reasonable to cut back during a period of tight funding. In some cases, we recommended against continued funding of programs. Reductions are in order for nonprofits which have the ability to raise funds through other means – an alternative not available to most County departments faced with cutbacks to existing programs. Complete organization-by-organization detail may be found in the nonprofit organizations section of the budget document.

Overview of the Budget – a AAA Rated Financial Status

The County continues to have a strong overall financial condition. In December, we received our first AAA bond rating for general obligation debt from Standard and Poor's.

"We believe the county's strong management is well equipped to identify potential risk factors. In the past, management has been proactive in addressing revenue and expenditure fluctuations."

S&P credit analyst John Sugden

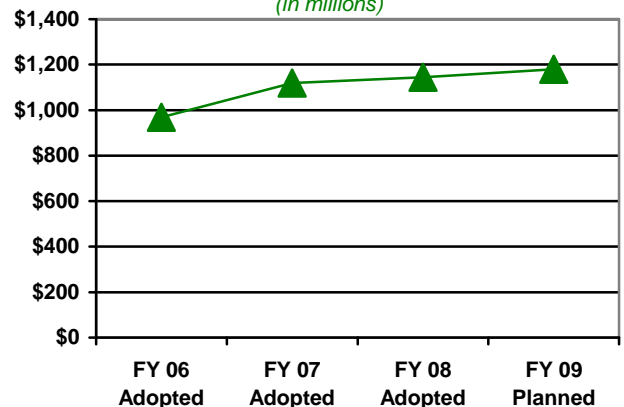
Tax reform in Florida presents a new challenge. Unlike past fluctuations in property taxes and other revenues, the impact of 2007 legislative changes and the impact of the proposed amendment to the Florida Constitution to be voted on January 29<sup>th</sup>, 2008 result in permanent changes in how we can pay for many of our existing County services and for a portion of our infrastructure needs. Legislative change approved in 2007 required that we lower our three operating millage rates in FY 08 by a combined amount of just under 1.5 mills – close to the total 1.58 mills we had lowered Countywide millage rates over the past fourteen consecutive years. The proposed constitutional amendment is not factored into this budget. Some elements of the proposal are easier to estimate than others. It is estimated that an added homestead exemption of up to \$25,000 for a total of up to \$50,000 could result in a \$53.3 million loss in annual property tax revenue beginning in FY 09. It is also estimated that a tangible personal property exemption of up to \$25,000 on business property would cut property tax revenue by an additional \$4.5 million. Although revenue loss due to the proposed portability of the Save Our Homes exemption (the ability to take up to \$500,000 in Save Our Homes exemption to another homestead property) is difficult to estimate, it is estimated the annual loss may range from \$10 million to \$17 million. Finally, a 10percent annual limit on the increase in the value of non-homestead property does not take effect until FY 10 and should have a minimal impact. Overall, the impact could be \$67.8 million to \$74.8 million in FY 09 revenue losses.

In those parts of the County's organization affected by property tax reform, we changed the course of future budgets to meet the 2007 legislative rollback requirements. We treated the impact of the 2007 legislative changes as a reduction in recurring revenue and overwhelmingly made reductions that can be sustained in future years.

We do not presume policy direction before it is approved, but we took preliminary steps in the planned FY 09 budget to address the consequences of possible constitutional change by slowing the growth of expenditures in FY 09 below that of revenues in the two major property tax-funded areas of the budget. Doing that allowed us to set aside a total of \$30 million in recurring FY 09 revenue in a reserve for budget reduction. In the Countywide General Fund, we set aside a \$10.0 million reserve. In the Unincorporated Area General Fund, we were able to set aside a \$20.0 million reserve. These reserves provide the Board with the flexibility to absorb a significant portion of the impact of a successful January referendum or to absorb impact of 2008 legislation in the absence of the referendum passing. If no further tax reform occurs, the \$30 million would allow some restoration in FY 09 of program reductions required in the FY 08 budget, a millage reduction, or a combination of the two.

Chart One  
Combined General Fund

(in millions)



While the impact of tax reform and, specifically, property tax reform is a significant issue in the County's budget, it is important to balance that issue with the fact that while the property tax is the single largest revenue, it accounts for only 39 percent of the \$2.1 billion in total revenue.<sup>4</sup>

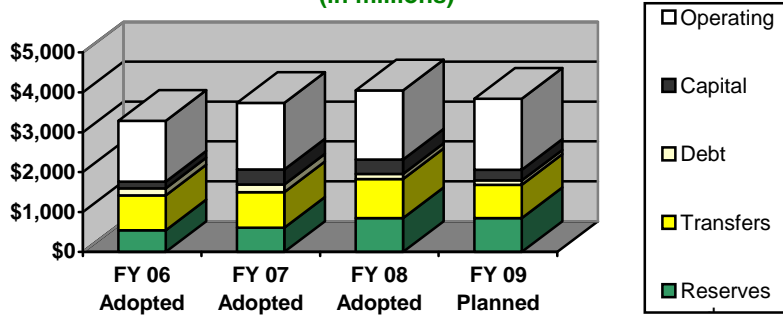
<sup>4</sup> Individual revenues account for \$2.06 billion of the total \$4.05 billion in sources reflected in the County budget. The difference is accounted for by funds carried forward from the previous year (beginning fund balance or retained earnings), other non-revenues such as bond proceeds, and an accounting for nearly \$1 billion transferred between funds that simply reflects good accounting but not a cost of government.

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**Expenditures and Other Uses Reflected in the Biennial Budget** - Overall, the Adopted FY 08 budget totals \$4.05 billion – up \$0.23 billion or 5.9 percent from \$3.82 billion in FY 07. The FY 09 Planned Budget is \$3.84 billion, down \$0.21 billion or 5.0 percent from FY 08. The changes are largely unrelated to operations.

**Operating Budget** – The largest share of those totals reflects funding for day-to-day operations of County government. The operating budget amounts to \$1.73 billion in FY 08, an increase of 3.6 percent from \$1.67 billion in FY 07. The operating budget for FY 09 will be \$1.79 billion, an increase of 3.5 percent from FY 08.

**Chart Two**  
**Budgeted Expenditures and Other Uses**  
**(in millions)**



It is important to recognize that even in a period of property tax reform, there are other areas of County services largely unaffected by tax reform and subject to other factors. The single largest organizational increase in FY 08 is in the budget for County Administrator departments, which increase \$38.6 million or 4.2 percent. The increase, however, is primarily based on growth in programs not reliant on property taxes. About two-thirds of the increase is attributable to two departments within enterprise funds that are self-sufficient through the revenues they raise. These are the Solid Waste Management Department and the

Water Resource Services Department. In total, the budgets of both these departments increased by \$25.6 million in FY 08 - an increase of 11.8 percent. Both departments have significant pass-through costs embedded within their budgets – the cost of privately contracted residential waste collection and disposal costs in the Solid Waste Management Department and the cost of bulk water purchased from Tampa Bay Water in the Water Resource Services Department. The Water Resource Services Department has a major capital expansion plan under way with associated operational requirements that result in significant growth in staffing. Demand for these facilities is driven by anticipated new utility customers. In FY 09, these departments' costs increase only \$4.3 million or 1.8 percent.

Another factor for the increase within the County Administrator's budget is an increase in expenditures in the indigent care health program – a program funded with a dedicated half-percent local sales tax. This more than accounts for the \$15.8 million or 10.4 percent increase in the Health and Social Services Department budget from FY 07 to FY 08. Offsetting a portion of that increase is a reduction in the Planning and Growth Management Department budget of \$5.2 million. About \$2.9 million of that reduction reflects cuts in operations funded with restricted revenues – primarily building permit fees. Building activity dropped off and reserves were substantially depleted in FY 07 prior to approval of fee increases to sustain these services. Reductions to building services staffing levels, starting in 2007 and continuing in FY 08, were made consistent with the decrease in construction activity.

While the Sheriff's budget increased by a modest 3.3 percent from FY 07 to FY 08, it is such a large component of the budget that it still amounted to an \$11.6 million increase. The increase builds to 6.4 percent in FY 09, a \$23.2 million increase. A lower-than-anticipated inmate population allowed the Sheriff to defer staffing requirements for a new 256-bed lockdown facility and for new dormitory-style facilities to house an added 512 inmates by transferring inmates and staff from older facilities and leaving those facilities unstaffed in the near term. As previously mentioned, the anticipated annual cost of operating the expanded facilities is \$16.8 million.

Large one-time expenditures in the Clerk of the Circuit Court's budget in FY 07 for technology systems and the Supervisor of Elections budget in FY 08 for new voting equipment and associated costs make year-to-year comparisons more difficult. Each of these Constitutional officers' budgets is heavily reliant on property taxes and other general revenues.

**Capital Budget and Debt** – Annual funding of capital expenditures will be \$362.6 million in FY 08, down \$15.8 million or 4.2 percent from \$378.4 million in FY 07. Capital projects funding drops an additional \$95.4 million or 26.3 percent in FY 09. The reduction in FY 08 is more than accounted for by a reduction in the water and wastewater program from an unusually high level in FY 07. Spending is up in the fire program as the County commits to strengthen-

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ing existing fire stations against potential hurricane damage. Spending also increased in the solid waste, stormwater, and transportation programs. In each case, the expansion reflects programs funded with revenues other than property taxes. Other programs within the capital budget that are reduced from FY 07 funding levels are government facilities and parks. These areas are more heavily reliant on property tax funding and subject to deferral as a result of tax reform. Capital expenditures decline from FY 08 to FY 09 in all areas except the water/wastewater and solid waste programs – the County's two self-sufficient enterprise activities (i.e., programs operated using business-type accounting and reliant on fees and assessments for services). Financing facilitates more than 80 percent of the increase in capital expenditures from FY 07 to FY 08 and a reduction in financing accounts for more than 60 percent of the decrease in capital expenditures from FY 08 to FY 09.

Debt payments amount to \$127.2 million in FY 08, down \$60.8 million or 32.3 percent from \$188.0 million in FY 07. Debt payments decrease another \$16.1 million or 12.7 percent from FY 08 to FY 09.

**Other, Non-expenditure Uses** – Two components of the budget do not reflect expenditures: reserves and transfers. Reserves address a wide range of needs, including backstopping County debt, insulating against unexpected catastrophe, and accumulating funds to meet the timing requirements for future capital projects. Reserves amount to \$849.1 million in FY 08, up \$156.9 million or 22.7 percent from \$692.2 million in FY 07. They decline slightly in FY 09: down \$3.3 million or 0.4 percent. More than two-thirds of the FY 08 increase was accounted for by a \$100.2 million increase in reserves – largely in the County's water/wastewater enterprise. In FY 07, there had been negative adjustments to reserves associated with capacity fees paid for future system infrastructure, offsetting more than \$100 million of other system reserves. Without these adjustments impacting the FY 08 or FY 09 budget, reserves in the enterprise increased back to previous levels.

In the County's General Fund (both the countywide and unincorporated portions), reserves increase \$17.5 million in FY 08 from \$125.6 million in FY 07 to \$143.1 million in FY 08 – a 14.0percent increase. This reflects an increase in stabilization reserves and an increase in contingency reserves based on adjustments during FY 07.<sup>5</sup> In FY 09, reserves increase \$30.3 million in the General Fund -- \$30 million of which reflects the slowing of expenditures in FY 09 to below expected revenue growth. As indicated, \$30 million reserve for budget reduction facilitates meeting a good portion of potential revenue loss in FY 09 if the January 2008 constitutional amendment is approved by Florida voters. The balance of any reduction necessary to rebalance the FY 09 budget to available revenue can be selected from the list of potential budget reductions provided at the Board's request on June 1, 2007 in anticipation of 2007 legislative tax reform.

We recognize the sensitivity of taxpayers to the perception that government holds reserves that could otherwise be returned. After receiving the AAA bond rating from Standard and Poor's, we asked for guidance on what is expected in terms of General Fund reserves for a county with the highest bond rating. We were advised that 20 percent is the benchmark. When we consider all of the FY 08 General Fund reserves and add our \$62.8 million catastrophic reserve that is held in a separate fund, we have \$206.0 million in reserves, or 18.0 percent of the total General Fund budget. Comparing those reserves against the General Fund budget net of reserves, the percentage rises to 20.6percent.

Governmental accounting standards require tracking dollars as they are moved within the fund structure that comprises the budget. These "transfers" amount to \$978.5 million in FY 08, up \$84.3 million or 9.4 percent from \$894.2 million in FY 07. Transfers then decline to \$833.0 million, down 14.9 percent in FY 09. The year-to-year variation largely reflects the issuance of more than \$200 million in revenue bonds in early FY 08 backed by the Community Investment Tax (the County's ½-percent local option infrastructure sales tax). Bond proceeds are budgeted to be trans-

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<sup>5</sup> Stabilization reserves provide a critical safeguard against revenue losses or unexpected cost increases within existing programs that may occur during a fiscal year. The value of this "best practice" is evident in considering that the State of Florida had to advise State agencies to enact a 4 percent budget cut and prepare for as much as a 10 percent cut literally at the start of the State fiscal year in July. The cuts came as a result of lowered estimates of sales tax revenue for the fiscal year after adoption of the budget. A State stabilization reserve would have insulated against the need for such drastic action during a fiscal year – buying time for a better assessment of priorities and options. In preparing this biennial budget we used nonrecurring excess revenue from FY 07 to increase General Fund stabilization reserves above the minimum 5percent of prior year expenditures as specified in BOCC Policy 03.02.02.22.

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ferred to capital projects funds where they will be subsequently appropriated to specific projects after approval of a list of projects through a public hearing process in October 2007. Transfers return to more historic levels in FY 09.

Other than tracking subsidies within and between funds, there is no significance to the overall amount of transfers – other than that they inflate the bottom line of the budget, resulting in a budget total that tends to be referenced by the media for its sheer size. Some governments exclude transfers in reporting their budgets.

**Revenues and Other Sources Reflected in the Biennial Budget** - On the revenue side, taxes account for \$1.1 billion in FY 08, of which \$803.2 million is from property taxes—the County's largest single source of revenue, accounting for 39.0 percent of all revenue. Due to property tax reform, the FY 08 budget reflects a decrease of property ("ad valorem") taxes of \$11.9 million, or 1.5 percent.<sup>6</sup> That does not show the full impact of tax reform. In the absence of constraints on property taxes this year, the County would have received \$109.0 million in additional tax revenue in FY 08, less about \$13.3 million in cuts to comply with the County's self-imposed spending cap. Under the 2007 rollback calculation, we estimate that property tax revenue will grow by \$48.9 million from FY 08 to FY 09, or 6.1 percent.

Other locally levied taxes account for another \$301.8 million of revenue in FY 08 and \$319.3 million in FY 09 – primarily two ½ percent sales taxes (one for indigent medical care and the other for infrastructure – the Community Investment Tax). Each of these local sales taxes is estimated to generate \$108.2 million in FY 08 and \$115.5 million in FY 09. Growth in sales tax collections slowed in FY 07 and that slowdown is projected to continue into FY 08.

The category "other taxes" also reflects the local component of the 4 percent - Communications Services Tax, a 5 percent Tourist Development Tax and 7 cents of locally set gasoline taxes. Detail on the performance of individual revenues that collectively account for more than three-quarters of all County revenue can be found in a revenue section in the budget document.

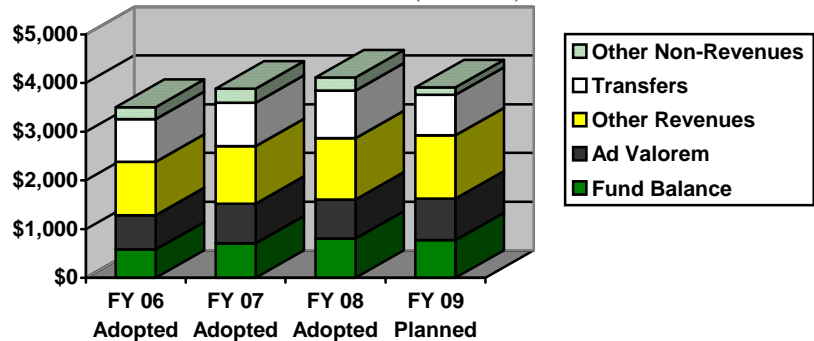
Federal and State-shared grants and other revenues will account for \$243.0 million in FY 08 – down slightly from \$243.9 million in FY 07. These revenues, which account for 11.8 percent of total revenue in FY 08, are anticipated to increase by approximately 2.9 percent in FY 09 to \$250.2 million. The growth is in State-shared revenues reliant on a portion of the State's sales tax collections.<sup>7</sup>

User fees (also known as "charges for services") account for \$531.6 million in FY 08 – up \$37.8 million or 7.7 percent. There is a further increase in FY 09 of \$33.8 million or 6.4 percent. The largest sources of fees are water and wastewater service fees, solid waste residential collection assessments, and internal billings including insurance premiums, administrative cost recovery, and fleet charges. Each of these areas represents services that are operated much like private businesses and the accounting for these "proprietary funds" follows more closely that of the private sector than other governmental operations. Added customers and/or changing consumption patterns impact the growth in reve-

<sup>6</sup> Part of the confusion over legislative changes and the property tax "rollback" is the perception that local governments' property tax revenue would be cut by between 3 percent and 9 percent based on 2007 legislation. The rollback calculation allows growth in revenue from new construction that occurred in the past year and from a new adjustment for community redevelopment areas. The calculation then reduces revenue by a percentage which, in Hillsborough County's case, is 5 percent. As a result, the decline in revenue from FY 07 to FY 08 is less than the 5 percent adjustment.

<sup>7</sup> These revenues are particularly subject to volatility in the State's economy and we have separate stabilization reserves for these individual revenues to insulate against a downturn and a resulting revenue shortfall.

**Chart Three**  
**Budgeted Revenues and Other Sources**  
*All Funds (in millions)*



## COUNTY ADMINISTRATOR'S BUDGET MESSAGE

nue from year to year as costs are passed through in rates and assessments. The budget also reflects residential assessment increases for unincorporated residential solid waste customers and pass-through costs such as bulk water rates for County utility system customers.

### Programmatic Improvements in the Budget

The biennial budget reflects a large number of services, many of which are unrelated to the issue of tax reform that has captured most of the attention surrounding this budget process. Some of the key changes reflected in this budget are unrelated to tax reform. Other changes shift the funding source from general revenue to restricted revenues, aiding in the process of balancing the budget to available property tax revenue:

- Operating funds are budgeted for two Aging Services facilities under construction that will open without new staffing. The Riverview Terrace Senior Center will replace rental space currently used for programs. The Westgate Senior Center was planned as an expansion but will be used to relocate existing programs from other Aging Services locations;
- Funding for Children's Services grants are transferred from the Countywide General Operating Fund to the Intergovernmental Grant Fund as recommended by the County's external financial audit;
- Four additional Head Start Center staff are added to accommodate for a cancelled non-profit contract site;
- Two additional digital communications dispatchers in Emergency Dispatch are funded from the 911 Emergency Telephone System Fund to improve call answer time;
- Funding from the Tourist Development Tax Trust Fund is added for the update of the Long Range Strategic Plan for Tourism Development, for workshops and job fairs, and for a Tourism Project Coordinator in the Economic Development Department;
- Non-recurring funding is added for the Campo YMCA pool project which will fund the construction of a large swimming pool operated and maintained by the YMCA. This will provide a recurring benefit with a one-time expenditure. It will also support a Board-initiated Strategic Plan strategy to improve swimming safety training.
- Health and Social Services Department funding for the Baker Act Mental Health Program and Florida Healthy Kids Program is shifted from the Countywide General Fund to the Indigent Health Care Services Fund;
- Funding from the Law Library Board Fund is added for the Law Library's new phone system and for information system and WiFi upgrades associated with the move into the renovated Main Courthouse building;
- Funding is added to the Library Services Department for the Imagination Library Early Literacy Program and for seven staff for the expanded Westgate replacement library;
- Funding is added to cover an increase in anticipated utility costs associated with the Medical Examiner Department's new facility;
- Funding from the Environmental Restoration Fund is added to provide landscaping for County projects, intergovernmental projects and public-private partnerships for public benefit;
- Funding from the Environmental Land Acquisition and Protection Program Site Management and Restoration Fund is added for upland restoration of the Triple Creek Greenway, management costs for the north prong of the Alafia River, site management plan for the upper Little Manatee River Preserve, and management of newly acquired ELAPP sites;
- Funding in the Planning and Growth Management Department is added for operating costs associated with the proportionate fair share ordinance – which generated substantial private funding for transportation projects;
- Funding in the Public Works Department from the Stormwater Management Fund is added for the lake management program;
- Funding is added for the biennial countywide aerial mapping project in the Real Estate Department;
- An efficiency is implemented adding fifteen permanent positions in place of ninety-two temporary positions in Library Services;
- Funding in the Solid Waste Enterprise Fund is added for operating expenses for the new South County Transfer Station and Northwest Transfer Station and for contract costs associated with an increase in customers; and
- Funding in the Water and Wastewater Utility Enterprise Fund is added for costs associated with new and expanded facilities, emergency operations and an increase in customers.

## Reduction in Force Process

One of the most difficult challenges for an employer is facing a large-scale reduction of positions where many are filled. We approached this process with sensitivity to the impact that layoffs create – not only to the affected employees and their families, but also for those who remain and pick up additional responsibilities with the uncertainty of whether there will be more layoffs in the future. We updated the policy and procedures that County Administration would use in a layoff process to address a cross-organizational layoff process. The revision incorporated seniority and performance factors to determine which employees would be laid off.

Many of the positions eliminated in this budget are part-time positions and they are largely associated with departmental efficiency suggestions, not a reduction of services. Some of the positions “eliminated” were planned positions for new facilities (primarily parks and a senior center) that were included in our budget forecast (the 5-year Proforma presented in February 2007), but were deferred along with the completion of facilities or will simply not be created to expand programs at new facilities. Late in the process we were able to avoid service implications in our youth recreation program by substituting full-time positions with part-time positions. That one substitution saved nearly \$2 million per year without a measurable impact on services.

Overall, we cut 306 positions from FY 07 to the FY 08 budget – a 2.7 percent decline despite significant increases in staffing in the Sheriff's Office and in our water/wastewater enterprise operation. The greater overall focus on cuts in part-time positions is evident when we convert to a “full time equivalent” or “FTE” basis. The FTE count is down 108.15 or 1.0 percent in FY 08.

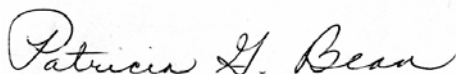
## Conclusion

Consistent with Goal One of your Strategic Plan, this budget continues our commitment to “ensure that Hillsborough County is financially strong enough to influence its destiny by applying efficient and/or effective policies and practices.” This budget reflects a material reduction – the largest on record in the Countywide operating millage – continuing more than a decade of past reductions – while also continuing to be responsive to the needs of our growing community.

This has been a particularly challenging budget to develop, given the push in Tallahassee for property tax reform and the impacts on our schedule and our programs. If tax reform continues with passage of the Constitutional amendment in January 2008, I believe we have the tools to implement the changes to the Planned Budget for FY 09 using a combination of the \$30 million in recurring revenue that we set aside in FY 09 and the programmatic priorities we identified through our zero-base budget process.

This budget had implications for County employees who faced a reduction in force. Our strong financial position has allowed us to temper the need for cuts and we made a concerted effort to place as many employees as possible. I believe it is the responsible action to curb spending through selective cuts in lower priority activities and programs rather than take interim actions that simply defer the need to act. We have weathered the first phase of property tax reform with limited impacts on ongoing programs. The next stage of tax reform is likely to have a more noticeable and damaging impact on our delivery of quality public services.

Respectfully Submitted,



Patricia G. Bean  
County Administrator