

Members of the Board of County Commissioners:

I present to you the Adopted Biennial Budget for Fiscal Year 2010 (FY 10) and Fiscal Year 2011 (FY 11), which total \$3.482 billion and \$3.780 billion, respectively. The adopted budget for FY 09 was \$4.032 billion. The reduction from FY 09 to FY 10 of \$0.550 billion (\$550 million) is the net impact of several large changes in underlying components of the budget. The operating budget will decline \$117 million from FY 09 to FY 10 and the capital budget will decline \$316 million. Both reflect economic factors that require dramatic changes in the programs we fund.



Debt service – the repayment of debt – will increase by \$360 million in FY 10. The increase, in part, reflects using over \$100 million of non-recurring revenue to pay off a share of our existing debt – which will free up future operating revenues to help balance the FY 11 budget and subsequent years' budgets. The balance of the increase largely reflects how the “rollover” of short-term commercial paper gets counted each time it occurs in a year.¹

Transfers, an element of budgeting that tracks the flows between the “funds” that comprise a budget, are down \$322 million from FY 09 to FY 10. While transfers are reflected in the overall budget total, they largely reflect good accounting, but generally do not reflect a change in services. Underlying detail is provided in the budget document on a fund-by-fund basis and provides some insight into how we, in part, balanced the budget by reducing the subsidy of capital projects from general revenue.²

The Eighth County Biennial Budget – This represents the eighth biennial budget adopted by the Board of County Commissioners (Board). Under a biennial process, the Board develops detailed budgets for two separate years. The first year's budget was adopted in September, and covers the period October 1, 2009 through September 30, 2010. The second year's budget represents a planned budget for the period October 1, 2010 through September 30, 2011. The Board will meet statutory requirements for the FY 11 budget through an abbreviated budget update process next year and formally adopt the FY 11 budget in September 2010 public hearings.

Hillsborough County was the first Florida local government to adopt a biennial budget process. The intent of a biennial budget process is to focus implementation of major policy decisions in a two year cycle. It provides benefit in the “off year” by avoiding the replication of much of the budget preparation process while allowing those areas that require updating (e.g., State and federal grant funding) to be re-addressed before the second year's planned budget is formally adopted. The biennial process is particularly germane as we face the toughest fiscal challenges of our careers because we had to demonstrate that the actions needed to balance the FY 10 budget are sustainable in FY 11. As I will explain, the recession we have experienced in the past year and – more importantly – the anticipated continuing fall in property values require that FY 10 cuts be followed by additional cuts in FY 11. As difficult as the budget reductions needed to balance FY 10 may appear, those required in FY 11 cut even more deeply into long-standing programs.

As we identified those added FY 11 cuts, we carved out an amount of funding reductions that I was unwilling to recommend in June if they required further service reductions. As the Board began review of the budget, we identified added opportunities to close what had been a \$6.9 million remaining FY 11 gap in our major operating fund, the Countywide General Fund. We did that by identifying added opportunities to use non-recurring (one-time) revenue to pay off debt and free up future recurring revenue for operations. A large portion of that was achieved by downsizing our fleet and refunding accumulated fleet replacement contributions that will not be needed. We also used a larger estimate from the Sheriff of funds that would be returned at the end of FY 09. When there was no more debt to pre-

¹ The impact of commercial paper rollovers is \$198 million in FY 10 for about \$100 million in existing debt. It is even more pronounced in FY 11, when it accounts for \$406 million within the debt service component of the overall budget.

² This is a “countercyclical” budget-balancing approach: In years of strong growth in property tax revenue growth earlier in the decade, recurring general revenue was used more heavily to support non-recurring expenditures on individual capital projects. With the reduction in such revenue as a result of the recession, the subsidy of these non-recurring projects was largely cut out of the FY 10 and FY 11 budgets.

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

pay, we looked to pre-fund future maintenance requirements for County assets: investing now to reduce future requirements.

The Board has a Planned Budget for FY 11 that is in balance based on anticipated revenues. Some of the service cuts reflected in the FY 11 budget are ones we would like to avoid. From my perspective, it is necessary that before we cut direct service delivery further, we must restructure internally the cost of providing services. That presents a challenge for the Board and County Administration over the coming months to drive down costs. It is an excellent use of the resources freed up through the use of the biennial budget process to focus on selected areas of the budget for added efficiencies.

Responding to the Financial Challenges of Recession and Declining Real Estate Values

The financial challenge we face is largely a consequence of falling real estate values and sharply reduced new construction – each of which impact property tax revenue. Florida has been susceptible to values that built to unsustainable levels earlier in this decade and which declined last year and continue to decline. Florida county governments are particularly reliant on property taxes. Adding to that challenge are other elements of the recession, including lower revenues such as gas taxes and sales taxes and higher demand for some social services.

Declining property values drove down our property tax collections by 13 percent in FY 10 and will drive down collections an additional estimated 8 percent by FY 11. Formal estimates for FY 11 will be received next year. We relied on State revenue estimating conference estimates and informal checks with the Property Appraiser to derive our revenue estimates until we received the first official estimates from the Property Appraiser for FY 10. State estimates are the basis for FY 11. State estimates portray future challenges as well: property values are projected to increase relatively slowly in the three years following the two years of declines reflected in this biennial budget. That means that cuts we make to balance the budget must be overwhelmingly sustainable for the foreseeable future – i.e., we do not expect to restore the cuts that are reflected in FY 10 or FY 11. Our short-term financial policies used to construct this budget are therefore very similar to our long-term financial policies in order to assure long-term structural balance in the budget.³

Our Countywide General Fund faces the greatest challenge in FY 10 and FY 11 due to the high level of reliance in that Fund on property tax revenue and due to a greater share of costs that the Board does not control. A Strategic Plan objective to lower the County's reliance on property taxes has been met, but an even greater emphasis on revenue diversification would be needed to avoid the budgetary impact of declining property tax revenue we have seen this year. The Board responded to citizens who appeared at public hearings to request user fee increases in lieu of some program cuts. Park entrance fees were introduced at several regional parks. Day care providers supported higher licensing fees to retain our child care licensing program and animal support groups promoted an increase in dog and cat license fees in order to retain animal adoption activities that have been increasingly successful and to retain staff to perform animal cruelty investigations. The increased fees help with revenue diversification in both the short term and long term.⁴

Municipal governments, while also reliant on property taxes, receive larger shares of their revenue from other sources including utility taxes, business licenses, franchise fees, communications taxes, and a greater variety of user fees. While our Unincorporated Area General Fund – which provides municipal services to County residents and businesses in the unincorporated area – is less reliant on property taxes than the Countywide General Fund, we do not levy all of the non-ad valorem revenues that many municipalities levy (such as utility taxes commonly adopted by Florida municipalities including all three municipalities within Hillsborough County) – so even our Unincorporated Area General Fund faced a greater challenge in this budget process than many municipalities. The Board supported increasing recreation fees – an area where benchmarking against other Florida communities has indicated the County's reliance on recreation user fees has been particularly lower than other communities. The fees are competitive with

³ Essentially, the County should sustain recurring expenses through the use of recurring revenue.

⁴ Other fee increases within the budget but outside of the General Fund include increases in fees in the County's enterprise operations: residential solid waste assessments and pass-through of the price of bulk water purchases to water customers occur in programs that operate like businesses ("enterprises") on self-generated revenues.

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

other local public and non-profit providers and federal subsidies are available to assist low-income residents access our after-school and summer programs.

Other economic impacts led to a decline in revenue based on sales tax collections, to sharply lower interest earnings, and to sluggish fee revenue for some programs. The impact on user fees led to mid-year reductions-in-force in the Building Services Division of the Planning and Growth Management Department and in the Water Resource Services Department. In both cases, we were unable to delay cutting positions until FY 10 because these programs operate exclusively on the revenues they generate.

While the economy and the real estate market drive current fiscal challenges, recent actions initiated by the Florida Legislature made Florida local governments more susceptible to this recession: Concerned about local governments' use of revenue gains during the economic expansion, the Legislature imposed millage reductions on local governments in FY 08 and scheduled a referendum on tax reform (Amendment One) that, upon approval by Florida voters, drove down property tax revenues in FY 09 to cities and counties. Our County used up much of its capacity to survive a recession without significant service reductions in responding to meet the past two years' impacts of tax reform. At the same time, the Legislature neglected to address a narrow sales tax base that makes the State as well as Florida local government revenue derived from taxable sales cyclically sensitive to the economy. Long-standing exemptions to the sales tax have not been addressed, and the Legislature has failed to address an economy that is increasingly based on services. The State similarly failed to address the loss of revenue resulting from Internet sales that are taxable – but largely uncollected by the State. Proposed legislation to conform Florida's sales tax rules to that of other states participating in the Streamlined Sales Tax Project has failed to pass. As a result, we are forced to consider cutting direct services to the public at the very time in an economic cycle that citizens and businesses most rely on public agencies.

We did not dwell on the unfortunate hand we were dealt, nor did we ignore the opposition to taxes that passage of Amendment One reflected. In building a balanced budget for FY 10 and in identifying the additional challenges to balancing the budget for FY 11, we avoided tax increases and only raised user fees that the public requested in order to avoid program cuts. We looked at changing the course of future revenues available to balance the budget by doing what many citizens are doing – reducing our debt. We began setting aside non-recurring funds in late FY 09 to reduce our outstanding debt and will continue to do so over the next year. This action will free up operating revenues currently used to pay debt service on a recurring basis. The result is an ability to sustain existing programs with recurring revenue. "Defeating" \$107.5 million in bonds issued in 2003 and 2006 will free up \$15.2 million per year in non-ad valorem general revenue that is currently used to pay debt service.⁵ This action is consistent with a short- and long-term financial strategy of using recurring revenue to pay recurring expenditures. It was accomplished by identifying non-recurring revenue that could be used without impacting reserves used to justify the County's high general obligation bond ratings.

Efficiencies – Once again, we challenged departments to identify "efficiencies" within the budget, which we define as spending reductions with no measurable impact on service delivery or shifting costs to other funding sources to free up general revenue. Some of the savings are quite modest such as the Code Enforcement Department's reuse of file folders, but they reflect departments' efforts to drive down costs. We continue our efforts to remove artificial barriers by greater sharing of resources. Aging Services and Health and Social Services – both substantial departments but largely occupying the same floor of County Center – will share a receptionist and other administrative resources. To facilitate this process of cost reduction, we held many positions vacant to help identify how to operate with fewer staff while mitigating the number of layoffs needed. Overall, this budget reflects more than \$10 million per year in recurring efficiencies in our two General Funds in FY 10 and an added \$ 1 million beginning in FY 11.

In conveying his budget request to the Board, the Sheriff identified significant efforts taken in his organization to reduce and avoid costs. He indicated his willingness to assist us in looking for further savings and the Board subsequently agreed to a proposal to transfer security services to the Sheriff. The budget reflects funding under the Security Services Agency but the transition to the Sheriff will occur by the end of January 2010. The Sheriff will use a

⁵ The County is establishing escrow accounts to pay future principal and interest on outstanding bonds that cannot be purchased. Once the escrow accounts are fully funded, no further payments will be needed for that debt and revenue previously used for debt will be available for operations. The ratio of annual debt service savings to dollars defeased (15.2:107.5) reflects a 14.2% return on each dollar used to defease debt.

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

combination of law enforcement officers and contracted security officers with an anticipated cost reduction after the transition is completed.

To meet our needs in the next few years, we will need to strengthen cross-organizational efforts to drive down costs and that will require additional organizations to step forward with similar commitments. A joint procurement with the City of Tampa for an enterprise resource planning (ERP) system is in progress and savings are anticipated both in the acquisition and implementation costs and through the subsequent outsourcing of operations through "third-party hosting" of the system.⁶ The joint request for proposals will be issued in FY 10 and award of contracts will occur in early FY 11. The County has fully funded its share of the project in a capital project.

Position Cuts – It is appropriate here to raise an issue that was controversial earlier in the process of preparing this budget: I understand that I alarmed some people when I spoke of the potential for 1,000 job cuts. It certainly was never an objective to cut a large number of positions but as we began working on a strategy for balancing the budget it became apparent that most people within and outside of government lacked context for the significance of the challenge we faced. Even large dollar amounts lose significance once one becomes comfortable with the concept of a \$4 billion budget. Within the specific areas of that overall budget that are impacted by declining revenues, the impact is severe. I found that only when one converts the dollar amount of revenue losses into another "currency" – i.e., jobs – did the significance of the challenge become more understandable. As a provider of services, our operating budget is heavily based on compensation. Reducing that budget ultimately meant cutting positions, cutting contracted services, or both.

In identifying specific budget cuts, we looked for opportunities to avoid cutting positions. Also, we understood that cutting a specified number of jobs does not necessarily equate to laying off that number of employees. In the case of our afterschool recreation program, the Board authorized 150 new positions last year to expand the program. The positions were never filled because attendance did not increase and they were not needed. Those 150 jobs are included in the number of positions we cut in FY 10 but they clearly did not impact any employees.

Certainly some positions that became vacant were critical to operations and were filled. Others that were not cut in this budget process were left open temporarily so that they might be used to absorb employees whose jobs were cut but who could be saved from layoff by filling a vacancy for which they qualified.

The number of positions required to be cut was reduced as the Board responded to citizen support for some selected user fee increases. Exactly 600 positions were cut from the adopted FY 09 budget to the adopted FY 10 budget. Specific detail on cuts and the programs they impact appears in narrative presented in the budget document for each department and agency. The number of layoffs required was a fraction of that amount as we were able to place many employees in vacant positions and, as indicated, were able to cut other positions that were vacant.

The Process

As we began our internal discussions on how to address the challenges facing this budget process, we recognized the need for "guiding principals." We considered legislative mandates and duplication with other governments and the non-profit and private sectors. We considered aspects of health, safety and welfare. We considered the intensity of our impact on lives and we considered what proportion of an eligible population we touch – our "market penetration." We valued retaining our high bond ratings because they lower our cost of borrowing and represent unbiased evaluations of our finances and management.

A Zero Base Budget Process – We continue to use our zero base budget process that requires departments to build their budgets from the ground up. While paper intensive, it is a process that facilitates numerous alternative funding options for each department by layering service delivery levels. Combined with a process of first considering efficiencies that can avoid service impacts, we had the ability to balance to available revenues. As one would imagine, every cut required to balance a budget becomes more difficult to accept than the last. That is partly why the cuts we made

⁶ The "County" in this project already represents a joint effort of County Administration, the Clerk of Circuit Court, and the Civil Service Board. Upon implementation, the system is intended to reside off-site on equipment owned and operated by a private sector business. County staff and City of Tampa staff will standardize to the greatest extent possible how the system is set up to facilitate cross-organizational cost savings and operation.

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

to respond to the challenges presented by tax reform in the past two years seem much less severe than those now required to address our economic circumstances.

The County's budget is composed of numerous funding sources, many of which have legal limitations on how they may be spent. As a result, the cuts reflected in the adopted budget tie to specific funding sources and the programs they fund while other programs reliant on other revenues are less impacted. As I noted previously, two program areas required immediate action. In one case, we needed to respond to declining building permit revenue by reducing our permitting and inspections staffing and, in the other, we needed to respond to declining system revenue by reducing our staffing in water/wastewater operations. Grant programs are similarly dependent on restricted grant funding and in one instance; we faced the total loss of State Housing Initiative Program (SHIP) grant revenue for FY 10.

While we tend to focus much of our attention on general revenue – the least restrictive of our revenues – the budget comprises the sum of all programs and all funding sources. The budget prioritization reflected in the “decision units” that build departmental budgets is replicated for each funding source. That allows us to balance the budget within each of the separate funding areas. Some programs and departments are overwhelmingly dependent on general revenue while others have multiple sources of funding. As a result, budget cuts will appear more severe in some organizations than others even before priorities are set between programs reliant heavily on general revenue. Where an organization significantly supplements a grant-funded program with general revenue, we may cut the general revenue supplement without impairing the grant-funded portion of the program as long as grant matching requirements are still met.⁷

Various factors were considered as we addressed balancing the budget to available revenues. We considered how we interact with other service providers – the State, other local governments, non-profit providers, and businesses. Senior staff and I met with representatives of our three municipalities – Tampa, Plant City, and Temple Terrace. I met with each of the Constitutional Officers at least once as we were each assessing our needs.⁸ We considered the capacity of non-profits to provide services and we coordinated with School Board representatives on common services.

Short-term opportunities are limited, but as those who have studied the restructuring of government are aware, these types of efforts typically evolve over a period of several years as common objectives are identified and as barriers to success are eliminated. One effort can move forward at this time: the joint acquisition of an “enterprise resource planning” (ERP) system with the City of Tampa to replace aging financial management systems and other existing automation systems used by each government.⁹ The governance groups for the County and City are merging to facilitate an acquisition that may serve as the common system over time for other local government users.

The significant loss of property tax revenue in FY 10 and FY 11 most impacts three operating funds: the Countywide General Fund and the Unincorporated Area General Fund, as previously noted, and the Library Tax District Fund. The Library Tax District covers the City of Tampa and the unincorporated area. The District coordinates services with libraries operated by the City of Plant City and the City of Temple Terrace although taxpayers in those jurisdictions do not contribute tax revenue to the District. Each of these separate funds pay for a series of specific programs and the implications of lower revenues in each fund is reflected in the programs for which they pay.

In recent years, we identified the funding shortfall in an upcoming year based on what it would take to fund a “continuation budget” for that year. In essence, a continuation budget reflects repricing of the current year's budget plus any annualized impact of a cost that may have phased in the previous year and the cost of operating any completed capital projects. This year, we took a stricter look at the funding shortfall. Specifically, we considered how much existing FY 09 revenue would be available for appropriation in each of the next two years – FY 10 and FY 11. That would allow us to identify how much of the appropriations in FY 09 could not be sustained in the future – even at FY 09 prices. Any unavoidable cost increases in FY 10 and FY 11 would therefore add to the revenue shortfall and increase the need for appropriations reductions (budget cuts) or replacement revenue.

⁷ Aging Services programs provide an example. Several programs are funded with grants but heavily supplemented with general revenue. Recommended cuts in the Countywide General Fund in FY 11 appear large – but the overall cutback on programs, when grants are considered, is compatible with other social service program reductions.

⁸ The Constitutional Officers are the Sheriff, Clerk of Circuit Court, Tax Collector, Property Appraiser, and Supervisor of Elections.

⁹ The County's share of the ERP project is fully funded by FY 10 by using a combination of countywide and unincorporated funding from available capital projects reserves to supplement prior years' appropriations.

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

Early on, we estimated the combined shortfall in revenue for our two general funds as totaling \$110 million in FY 10 and increasing by another \$56 million by FY 11 – a total reduction of \$166 million in FY 11 from the FY 09 level. Later estimates varied only a few million dollars each year. Before we began meeting with departments and agencies to review their budget submissions and the priorities within them, we established “benchmarks” that would be used to evaluate potential budget cuts. Using the adopted FY 09 budget for the two general funds, we subtracted the non-recurring component, reserves, to arrive at total appropriations. We then considered the average cut necessary in all programs to balance to reduced revenues.

Impact of Revenue Loss on FY 10 and FY 11

| | |
|---------------------------------------|-----------------|
| Total General Funds, FY 09 | \$1,166 million |
| Less: Reserves | <u>(162)</u> |
| Equals: Total Appropriations | \$1,004 million |
| | |
| FY 10 Projected revenue loss* | \$110 million |
| Revenue loss as a % of appropriations | 11% |
| | |
| FY 11 Projected revenue loss* | \$166 million |
| Revenue loss as a % of appropriations | 17% |

* from FY 09 revenues

Using this calculation, it was apparent that an average cut of 11 percent would balance appropriations to estimated revenue in FY 10 and increasing that cut to a total of 17 percent from FY 09 would balance the FY 11 budget. We then recognized that the Board funds budgets for independently elected Constitutional Officers who have certain independence in their budgets. We also recognized the priority that is frequently given to certain public safety functions: law enforcement and fire protection. We recalculated the impact of the revenue loss to look at what cuts would be needed, on average, if we excluded the Constitutional Officer budgets and the Fire Rescue Department from the calculation:

Potential Impact of Revenue Loss on FY 10 and FY 11

| | |
|---|-----------------|
| Total General Funds, FY 09 | \$1,166 million |
| Less: Reserves | <u>(162)</u> |
| Equals: Total Appropriations | \$1,004 million |
| | |
| Less: Constitutional Officers (FY 09) | (443) |
| Less: Fire Rescue Department (FY 09) | <u>(116)</u> |
| Equals: Remaining Appropriations | \$445 million |
| | |
| FY 10 Projected revenue loss* | \$110 million |
| Revenue loss as a % of remaining appropriations** | 25% |
| | |
| FY 11 Projected revenue loss* | \$166 million |
| Revenue loss as a % of remaining appropriations** | 37% |

* from FY 09 revenues

** net of Constitutional Officers' and Fire Rescue Department FY 09 budgets

While we recognized that there was no exclusion of these areas from cuts, the recalculation provided us a range that would be useful as we met with departments and agencies and considered the potential need for budget cuts from FY 09 levels. In the absence of proportionate cuts in areas we were unlikely to control, we prepared to make substantial cuts in programs directly controlled by the Board of County Commissioners. As shown in the cut, if there were no reduction in the total budget for Constitutional Officers from their FY 09 budgets, and no reduction in the Fire Rescue

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

Department budget from the Department's FY 09 budget, then balancing the budget without added revenue would require an average 25 percent cut in remaining appropriations from FY 09 levels. As we began meeting with departments and agencies, we therefore looked at a 25 percent budget reduction as a potential average reduction – or “benchmark” – in each organization, with the potential for further reduction in FY 11.¹⁰

The Stage is Set for Significant Program Cuts - By May 1, we received the formal budget requests for the Clerk, including the Value Adjustment Board, and for the Supervisor of Elections and the Sheriff. The remaining two Constitutional Officers submit budgets to the State for approval. We assumed a level budget for the Property Appraiser and we calculated the reduced commissions that would be paid to the Tax Collector based on smaller tax collections in FY 10 and FY 11. Overall, the commitment to Constitutional Officers is expected to drop \$14.4 million from FY 09 to FY 10, or down 3 percent. By FY 11, the net reduction will only be \$3.4 million or down less than 1 percent from FY 09.

In the case of our Fire Rescue Department, we tightened spending but avoided service reductions – resulting in a \$1.5 million reduction from FY 09 to FY 10 (a 1 percent reduction) but no net reduction by FY 11.

We factored in changes in revenues as well. The Supervisor of Elections anticipates a reimbursement in FY 11 from the City of Tampa for the \$1 million expected cost of the City's election. We also updated estimates of how much Constitutional Officers return unspent at year end – a non-revenue source known as “residual equity transfer.” We used the entire portion of the Communications Services Tax that the Board has earmarked for Fire Rescue capital and operations to insulate against significant cuts in Fire Rescue operations. That revenue will need to be dedicated to existing operations on a continuing basis or Fire Rescue will need an alternate revenue source to avoid the cuts that have been necessary in other programs provided to unincorporated area residents and businesses such as stormwater maintenance, zoning, and code enforcement.

Embedded within the remaining programs are some costs we cannot control – for example, we face a fixed payment to the Florida Department of Juvenile Justice for housing juveniles in State facilities and we have statutory funding obligations to the Courts for communications, facilities, and technology under current interpretation of Article V of the Florida Constitution. Some programs have varying costs but also cannot be controlled such as the tax increment payments the Board has committed to the cities of Tampa, Plant City and Temple Terrace to assist in redevelopment. We have, for now, assumed those tax increment payments will decline proportionate to the overall decline in property values in FY 10 and FY 11.

Strategies for Balancing

Having reviewed department and agency budget priorities and knowing the scale of reductions needed to balance the budget, we identified strategies we would use.

Sustainability – One strategy was to avoid simply deferring costs. With no expectation of strong revenue growth within the next five years, the strategies used to balance the budget need to be sustainable. Second, we sought to avoid using non-recurring sources to cover recurring costs. A focal point in the examination of local governments' budgets is whether they are drawing down reserves. As we developed the recommended budget, staff conferred with each of the bond rating agencies – Moody's, Standard and Poor's, and Fitch Ratings, as well as our financial advisor and our bond counsel. As I indicated earlier, we identified a strategy of paying down outstanding debt in FY 10 so that we could free up revenue in FY 11 that would no longer be required for debt payments. That strategy used non-recurring sources for a recurring use – debt repayment.¹¹ It facilitates freeing recurring revenue to cover recurring

¹⁰ There has been some confusion over the benchmark 25% reduction. The process did not reflect an across-the-board reduction. However, some agencies failed to identify their zero-base priorities in sufficient detail to disclose the impacts of reductions. In those cases, I recommended a specified percentage reduction in their funding in the recommended budget that I presented to the Board in June 2009. Through the subsequent review of the recommended budget by the Board, further adjustments were made to those recommendations before the budget was adopted in September 2009. Reductions in appropriations varied significantly between programs and organizations in the adopted budget for FY 10 and in the Planned Budget for FY 11.

¹¹ Several non-recurring sources were used. Some capital projects reserves were reduced based on remaining project requirements. Property tax revenue set aside in prior years for potential restoration of existing ELAPP properties has been reduced from \$15 million to \$5 million. The County's workers compensation fund refunded reserves that had built as a result of payments in FY 05 through FY 07 that were ultimately found to be higher than necessary, based on payouts. Premium payments were reduced in FY 08 based on claims experience and it is now clear that the “experience factor” used in the lower current payments is adequate to cover claims. About \$26 million of that refund will be used to retire debt.

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

costs. The result was a substantial reduction in the projected FY 11 deficit as non-ad valorem revenue could be transferred into each of the two general funds to offset a large portion of the projected FY 11 reduction in ad valorem revenue.

We ensured we were in compliance with Board policy limiting spending – BOCC Policy 03.05.07.00. We also carefully assessed our ability to avoid future drawdown of fund balance in the Countywide General Fund and Unincorporated Area General Fund. In each case, we assessed the impact of tighter budgeting on the unspent appropriations and excess revenues that, along with reserves, restore ending fund balance. As necessary, reserves have been increased to ensure that we carry over a comparable amount of fund balance at the end of FY 10 and FY 11 to that anticipated to be carried forward at the end of FY 09. Drawing down fund balance would equate to using non-recurring revenue to pay for recurring expenditures – a practice inconsistent with recommended budget practices and long term fiscal health.

Non-financial Strategies Related to Grants to Other Organizations – Detail on specific funding recommendations for non-profit agencies may be found in the Operations and Funding Guide section of the budget document. Generally, social service agencies funded by the Countywide General Fund were identified as falling into one of three service level categories: Those that directly provide for basic human needs; those that enable a person to be self-sufficient; and those that enhance a person's quality of life. Those in the first category faced the smallest cuts. Those in the second and third faced funding cuts in FY 10 and, for the most part, were unfunded in FY 11. That phase-out will allow them to seek other funding sources over the next year. One of the largest cuts was the elimination of funding for the Arts Council.

We retained funding priorities for organizations operating County funded facilities – the Museum of Science and Industry and the new History Center. Future funding for facilities operated by other governments – the Lowry Park Zoo and the Florida Aquarium – were limited to their eligibility for tourist taxes. General revenue commitments have been eliminated.

Suspension of Pay Adjustments for FY 10 and FY 11 – The budget eliminates the employee market equity adjustment for FY 10 and FY 11 that was 2.25 percent in FY 09 and was 3.5 percent in FY 08. The market equity adjustment is intended to retain relative comparability with public and private employers. There continues to be no merit pay increase in the budget. Over time, the lack of merit pay will compound the problem of experienced employees having little or no pay differential from less experienced employees. It also means that employees in the low end of a pay range will earn significantly less than the market value of their job – the market value is intended to be represented by the mid-point of each pay range. In a period of high unemployment, employees clearly value retaining a job over pay equity. When unemployment rates recede, we will face challenges in retaining some of our most experienced employees.

Furloughs – Employees indicated an interest in helping avoid layoffs through unpaid furloughs. In exploring this option, we recognized the value of showing our employees are helping offset revenue losses through what is, in effect, a temporary pay cut. To an employee, the cost of a furlough day is proportionate to income so there is a sense of equity when higher paid employees are impacted the most.

The budget reflects five furlough days in FY 10 and three days in FY 11. Five days is equal to a pay cut of 1.9 percent and three days is equal to 1.2 percent of pay. The intent is to close down County operations to the greatest extent possible in order to save on utilities as well. In order to address the administrative requirements to successfully implement furloughs, we examined the experience of King County, Washington, which has used furloughs over the past year.

Savings from a furlough are limited since they don't result in proportionate savings in benefits costs and since some programs will have to be staffed during a furlough day – notably, fire stations. Nevertheless, we wanted employees to be able to feel they have contributed to saving jobs. Furloughs are a short-term measure for cutting costs. Under federal law, all salaried employees become hourly employees for the week of the furlough date so the lost productivity becomes disproportionate to the salary savings for many of our employees. We anticipate that the use of furloughs will not extend past FY 11. Furloughs are therefore a short-term strategy, not a long-term strategy.

Benefits Cuts – In addition to holding back on any salary adjustments and imposing furloughs, we ended a 1.5 percent deferred compensation benefit offered to all employees. That benefit was initiated several years ago as a means

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

of competing with other employers. Cutting this benefit will not impact an employee's pay check but employees interested in saving for retirement can replace the County's contribution with their own. The reduction is intended to be permanent. Coupled with the furlough, that equals 3.4 percent of salary in FY 10 and 2.7 percent of salary in FY 11.

We are also cutting back car allowances for those in County Administration who receive them in lieu of mileage reimbursements by 20 percent. The Board voted to reduce its car allowances in lieu of furlough days and deferred compensation cuts by an amount equal to 4 percent of a County Commissioner's salary.

The County capped its contribution to employee health insurance benefits. Increases in costs under a new contract will be borne by employees.

Organizational Restructuring – We have initiated some restructuring of the organization and will continue that process in the coming months. The Citizens Action Center was substantially downsized and has merged with reference staff in the Library Services Department. The merged operation receives a Countywide General Fund subsidy but will combine similar activities into a single organization. The internal Equal Employment Opportunity investigation function formerly contained within the Consumer Protection and Professional Responsibility office has merged with the externally focused Equal Employment Opportunity office and the merger cut a management level position. Staff involved in internal investigations will be consolidated within the County Administrator's Office – realigning a key staff member from Management and Budget and another from Consumer Protection and Professional Responsibility. The contracts function within Management and Budget was found duplicative in nature to those in Health and Social Services and Affordable Housing. Two positions were shifted to Health and Social Services, a manager was shifted to Affordable Housing position, and administrative support positions in Management and Budget were deleted. We expect similar consolidations of like functions over the next year as we continue our efforts to drive down costs.

Cutting back on layers of management continues to be a focus of this budget. I have repeatedly told my senior management that I would not balance the budget on the backs of front line workers. All departments were asked to identify cuts that would slim the ranks of management. As we worked to identify program cuts, we assessed departments' efforts to reduce management. Where we believed that effort to be insufficient, I felt it was necessary to reach into departments and begin the restructuring.

Organizational restructuring to achieve cost savings and align functions will continue during FY 10 in order to restore at least some of the program cuts currently identified in the Planned Budget for FY 11.

Setting Priorities – It is always difficult to accept that some activities should be eliminated in their entirety so that more pressing needs can be saved. This will continue to be a challenge as we restructure the organization and seek long-term sustainability of priority programs.

We withheld significant cuts in our Fire Rescue Department and we held back on cutting operational funding for transportation programs provided by the Public Works and Planning and Growth Management Departments. As noted below, while we may not be able to pursue a substantial program of transportation capital projects, we have retained priority for maintaining existing transportation assets. Similarly, our repair and maintenance program for buildings continues to be a priority in order to maintain current assets.

Transportation capital funding will be severely impacted by the need to defer capital projects that had been planned through the use of short-term and long-term debt. Accessing future revenue from the Community Investment Tax (CIT) to meet current transportation needs has been a strategy to address current infrastructure needs. As we indicated in May, we have deferred more than \$350 million in previously planned capital projects – much of that is deferred beyond the six-year planning horizon used in our capital improvement program (CIP). Those projects become, in essence, unfunded. Other projects are deferred two to three years until we are able to fund them with available cash.¹²

¹² Where we have previously approved specific projects as eligible for CIT funding through a required public hearing process, our intent is to "park" those projects and not formally remove that eligibility through another public hearing process. If they are not within our six-year CIP, however, they will still be unfunded.

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

The Fifteenth Consecutive Millage Reduction in FY 10 – The Countywide General Fund operating millage rate was cut very slightly for FY 10. The total of all millage rates levied by the Board of County Commissioners has been reduced annually every year since FY 95 – fifteen consecutive reductions. While the FY 10 reduction is the smallest reduction during that period, it was adopted to send an appropriate signal to taxpayers that the County will not raise the property tax rate. That is consistent with the Strategic Plan objective to reduce our reliance on property taxes and the Board has shown a commitment to that objective even in the face of a lower property tax base.

The sum of those millage reductions is very significant – a reduction of 3.19 mills or \$3.19 less in taxes for each \$1,000 of taxable value. That amounts to a 22.9 percent reduction in County millage rates over the past decade and a half. The planned millage rates for FY 11 equal those for FY 10 but I would expect the Board to continue the millage tradition – even at a small level of reduction – when we revisit the FY 11 budget next year before adopting it.

Operating millage rates are levied to support the Countywide General Fund, the Unincorporated General Fund (for which the millage is known as the Municipal Services Taxing Unit or “MSTU” millage), and the Library Tax District Fund. The County levies debt millage that is based on voter-approved issuance of general obligation bonds – both for our Environmental Land Acquisition and Protection Program (ELAPP) and for unincorporated parks improvements. Normally, debt millage would increase when the tax base declines in order to provide the same amount of revenue for debt service. Recognizing the value of holding millage rates from rising, we were able to hold the line on potential debt millage increases in FY 09 through FY 11 through a subsidy from other available revenues.

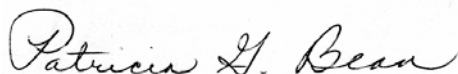
County voters approved a \$200 million ELAPP referendum in November 2008. In early FY 10 we will issue ELAPP bonds to facilitate the first purchases from that authorization. In order to keep debt millage level, we will be “capitalizing interest” (deferring payments on the new debt) until after existing ELAPP bonds mature next year (FY 11). We will be sizing the debt issue based on a conservative estimate of what the existing ELAPP millage rate of 0.604 mills will yield from our projected tax base so that the existing debt millage covers the new bonds. Our other debt millage is for bonds issued for unincorporated area parks improvements. These bonds do not mature until FY 25. Those bonds have a very modest millage rate of only 0.0259 mills – or 2.6 cents of tax on each \$1,000 of taxable value.

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.” It addresses two important objectives under that Goal related to maintaining bond ratings and reducing our reliance on property taxes.

The economic circumstances we face are certainly not unique to this government. The decisions laid out in this budget address the near term requirements for balancing FY 10 and we have a plan to balance FY 11 as part of the biennial budget process. Given the significance of the cuts reflected in this budget, it is important to take more time to carefully consider how we might further streamline how we provide services in order to revisit the necessity for service cuts in FY 11. The biennial budget process allows us to focus attention on selected areas of the Planned FY 11 budget rather than the entire budget to seek alternatives to service reductions. That same approach worked well in an earlier biennial cycle where the State of Florida shifted courts-related (Article V of the Florida Constitution) costs to counties in the middle of our biennial budget cycle.

Respectfully Submitted,



Patricia G. Bean
County Administrator