STEPHEN M. SPRATT
County Administrator

September 19, 2007

The Honorable Chairman and Members of the
Board of County Commissioners:

In accordance with my statutory responsibilities, I am pleased to present the **Fiscal Year 2008 Annual Operating and Capital Budget** for your consideration. This financial plan is the result of your input and commitment to the budget process during the extensive Budget Information Sessions in April, May, June, and July and the September statutory public hearing process. Your help and cooperation, along with that demonstrated by the Constitutional Officers, Independent Agencies, and my Departments, was crucial particularly in view of the significant new revenue constraints imposed by the State Legislature's Special Session on property tax reform.

This $2,028,661,720 balanced budget continues Pinellas County's tradition of prudent fiscal management and responsive public services. As a whole, the operating budget reflects an $13.0 million or 0.9% decrease, while the non-recurring capital portion of the budget has increased $55.1 million or 9.8%. The capital increase can be attributed to project costs in water, sewer, and solid waste. Reflecting the rollback in property tax revenues, the General Fund budget decreased by $16.2 million, or 2.2%. The county-wide millage rate was cut from 6.1 mills to 5.4562 mills, and the millage rates and revenues for other property tax supported budgets were also reduced.

Our financial position at the outset of the budget development process was, once again, very strong. We were successful at keeping actual expenses well within our target budget for FY06. This allowed us to begin the new budget with a General Fund beginning balance of more than $165 million, which met and exceeded our policy target of 15%. This reflects our ability to be prudent with our spending and shows how our governmental departments and agencies recognize the need to make cost effective spending decisions. This strong commitment to savings puts the County in a better position to deal with potential emergencies and unforeseen events. This is important as a Florida coastal community. It also demonstrates stability to the financial markets, which enhances our ability to raise capital at a lower cost if required to meet future community needs.

In addition to the feedback received at the Board's Budget Information Sessions, the development of this budget was also guided by the Board's Strategic Plan. This budget builds toward the Board's vision of a standard-setting organization that through collaborative leadership and partnerships helps make Pinellas County a preferred community in which to "live, work, and play," as stated in the Strategic Plan.

The budget reflects the Board's goals and priorities in the following strategic focus areas:

- Public Safety
- Environment, Open Space, Recreation, and Culture
- Economic Development, Redevelopment, and Housing
- Health and Human Services
- Transportation, Stormwater, and Utilities
- Effective Government

In maintaining mission-critical county services and continuing improvements to our infrastructure, this budget continues to be grounded in the following core objectives:

- Exercise careful budget discipline and maintain a strong financial position
- Maintain fees and taxes at competitive levels
- Properly allocate County-wide and MSTU costs to sustain and provide for service improvements in both areas
- Improve productivity and competitive government benefits

The development of this budget was also guided by policy framework approved by the Board in 2002. The policies, based upon best practices, can be found in <u>Exhibit A</u>.

<u>Budget Development Background</u>

The preparation of an annual budget is always challenging as we balance the needs of the public against limited resources. Several years ago, to increase the visibility of the departmental discussions, we began televising all of the Board's Budget Information Sessions. This year, at the Board's direction, we implemented several changes to further increase the level of citizen involvement throughout the budget process. The budget materials presented to the Board were program-oriented to make them more understandable to a lay person. The schedule for the sessions was revised to include several evening meetings, and opportunities for citizens to comment to the Board were provided at every meeting. Periodically, the status of the budget was reviewed and summarized to give an indication of the progress being made. And a user-friendly ***Citizens Guide to the Budget*** website (<u>www.pinellascounty.org/budget</u>) was initiated that made all of the materials easily accessible, with additional information to explain complicated issues and procedures in plain language.

This year, we faced unprecedented uncertainty as the Florida Legislature considered a multitude of scenarios for limiting property taxes across the state. The resulting Special Session legislation, requiring property tax rollbacks and capping future increases, will require us to substantially change the way we do business and will impact programs for virtually every local government in Florida.

The Property Tax Dilemma

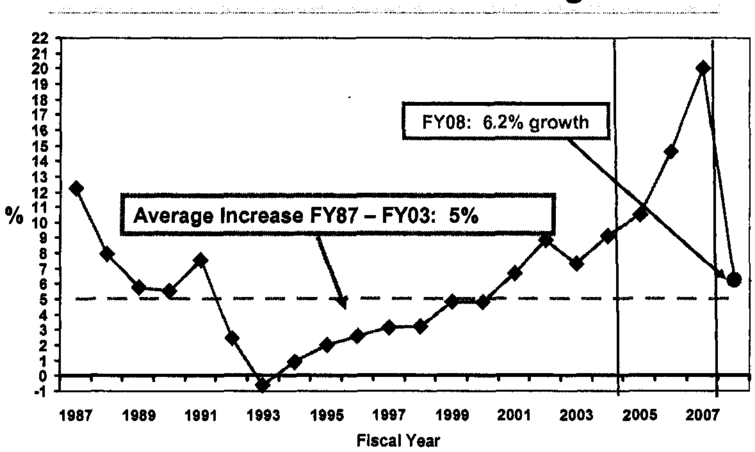
The past three years produced unusually large increases in property values in Pinellas County and throughout the state. Across Florida, the public hearings for Fiscal Year 2007 budgets brought out many citizens who were upset about their proposed property taxes as presented on their "Truth in Millage" (TRIM) notices. Most of those who expressed their frustration were persons who owned property that was not protected by the "Save Our Homes" (SOH) taxable value increase cap, such as commercial and rental business owners. In response to the public's concerns, the Board of County Commissioners reduced the FY 2007 county-wide millage rate by 0.701 mills (over 10%), the first millage rate reduction since the 1997 budget year.

Not all local governments were as responsive to the situation as Pinellas, and this dramatic growth in taxable values resulted in a surge in property tax revenues that became the focus of legislative concern. In reality, the primary problem has been the systematic inequities resulting from the "Save Our Homes" amendment to the Florida Constitution which has capped the growth in taxable values for homesteaded properties (permanent residences) since 1996. The amendment was intended to protect homeowners from escalating property tax bills resulting from growth in market value, a situation that was perceived to be forcing some people, particularly residents on fixed incomes, to sell their homes.

While this objective has no doubt been achieved, there have been dramatic, and in many cases unforeseen, consequences as a result of SOH. Because of the large amount of market or "just" value that is not taxed due to the SOH exemption, a disproportionate share of any increase in tax revenue has been placed on properties that are not established permanent residences, such as small businesses, rental apartments, and newly purchased homes. A further unintended consequence was that partly as a result, many rental units had been removed from the market, helping to fuel a crisis in available affordable housing.

The increases in values for fiscal years 2004 through 2007 notwithstanding, the historical trend over the previous sixteen years in Pinellas has been an average annual increase of about 5% in values (including new construction). Most observers believed that the market would correct itself and return to more normal patterns beginning in 2007, and that has in fact occurred. To some extent, the value growth part of the problem could be expected to correct itself over time.

Countywide Taxable Values
Annual Rate of Change



However, the Florida Legislature perceived property tax reform as one of the two most critical issues (along with property insurance reform) that needed to be addressed in 2007. There was no consensus on how to approach this problem and the Legislature completed its regular session without acting on it, but not before a number of radical proposals had been advanced, some of which would have crippled local governments by slashing property taxes by half or more. During this entire period we were uncertain as to what if any action would be eventually approved, which made it particularly challenging to predict our revenues for the upcoming year. We, therefore, followed an approach that would prepare us to act when the situation was resolved. This approach will be described later in this message.

In June, a three-day Special Session of the Legislature produced a mandate that was unlike anything ever seen before in its forced downsizing of local government. Ironically, this drastic solution fails to address the real problems of inequity that were the focus of public discontent and instead has the potential for even greater disparities in the future. A further irony is that the Legislature did not make similar reductions to FY2008 school property taxes, which they control, even though these taxes make up about 40% of most property owners' tax bills.

The State's "Solution"

The Legislature adopted two separate approaches to property tax reform. The first approach involves statutory changes requiring all counties, cities, and special districts to roll back property tax collections in FY08 to a point below the FY07 collections adjusted for new construction (also known as the "rolled-back rate"). This target ranges from 3% to 9% below the rolled-back rate depending on the State's calculation of how much the taxing authority's property tax revenue

increased from FY02 to FY07. Independent Districts, and Dependent Districts many of which have the primary purpose of providing Fire or Emergency Medical Services, are all targeted at 3% below the rolled-back rate.

These calculations, and the resulting categories, are quite arbitrary and do not adequately acknowledge the lower tax profile of Pinellas. Pinellas County is required to cut 7% below rolled-back (the second-most-severe level), even though:

- Our FY02–FY07 percentage increase in per capita property tax is below the state's average increase for counties;
- Our FY07 per capita property tax is less than Orange, Hillsborough (and other counties) that are in the 3% or 5% cutback categories;
- A city with the same percentage increase would be required to cut only 5%;
- The State's numbers do not reflect seasonal or tourist population impacts; and
- The State's numbers do not take into account the additional cost pressures for an urban coastal county (such as property insurance).

By statute, in fiscal years 2009 and later property tax revenue increases will be limited to new construction plus the statewide percentage increase in personal income. This percentage has averaged about 3.8% during the last five years. Local governments can override these revenue caps with varying levels of super-majority votes of the governing board or by referendum, depending on the degree that the revenue exceeds the cap.

The second step of the tax reform initiative involves a proposed amendment to the state Constitution which would ultimately phase out Save Our Homes by replacing the current Homestead Exemption with a new "Super Homestead Exemption"; provide, additional exemptions for low-income seniors, working waterfronts, and affordable housing, and provide businesses an exemption for tangible personal property. This amendment is scheduled to be voted on in a referendum next January 29, the Presidential Primary election.

Because the amendment would allow residents to keep their SOH exemption until they make a one-time irrevocable decision to change to the new exemption, it is extremely difficult to estimate the impact on the tax base if the amendment is approved, but we believe it could be significant. This continued uncertainty, along with the statutory revenue cap, made it imperative that we approach this year's budget with the goal of positioning the County to cope with future limits on resources.

Balancing the Budget

As we began to prepare for the FY08 Budget, we did not know the extent of the restraints that would be placed on property tax revenues, but we knew that some form of cap was likely. Therefore, I instructed the departments for which I have management authority to limit their budget requests to not more than 2% over their FY07 Budget. I also requested the Constitutional Officers and Independent agencies to do likewise. In addition, the departments and agencies were asked to prepare potential reduction scenarios of 5%, 10% and 15% below that level to give us the ability to react to the Legislature's eventual direction.

As you are aware, we received tremendous cooperation in this effort. As a result, when the Legislature finally approved House Bill HB-1B on June 14 – giving us less than a month to prepare the Tentative Budget – we were able to react swiftly and rationally. I would like to express my sincere appreciation to all concerned. A key element in our success was the willingness of the Board to devote long hours to reviewing budgets using a full justification method and in providing the policy guidance and direction for the proposed reductions.

In this effort, our approach followed a logical sequence designed to minimize the impact on public services as much as possible. First, we reviewed the proposed new and enhanced programs in the budget and eliminated all except those that were essential or committed through prior agreement. Secondly, we addressed administrative and other associated overhead costs that do not directly impact public services and made tough reductions in those areas. Third, we reviewed our reserves and made the determination to reduce them where possible while maintaining adequate balances for hurricanes or other emergencies. Only then did we consider reductions that would directly impact service levels to our residents and visitors. In this effort we strived to protect our mandatory and other core services and to eliminate a limited number of lower priority activities rather than make across the board cuts that would result in our doing more things at a lower level of quality.

Unfortunately, with reductions of this magnitude it is impossible not to lose some activities that add value to our quality of life. It is also impossible not to engage in a reduction in force that results in dedicated employees losing their current jobs. In the process, 135 full-time positions have been eliminated (net of new positions), many of them currently filled. While the Personnel Department has assembled a team to place as many of the impacted employees in other positions within the organization, some layoffs may be unavoidable given the magnitude of the numbers.

Because of the overall revenue situation, the budget for FY08 does not provide major enhancements in most of the Board's Strategic Plan areas. The program improvements that are included are summarized in Exhibit B.

General Fund Budget Reductions

Following the initial budget requests, reductions totaling $80.2 million were identified in three stages:

- To balance the budget at the FY07 millage rates ($28.7 million)
  - Reduce $40.6 million in requested program service enhancements — $28.7 million
- To balance the budget at the rolled-back millage rates ($19.7 million)
  - Adjust reserves based on lower revenue — $ 0.6 million
  - Adjust Tax Increment payments based on lower tax rate — $ 0.4 million
  - Increase user fees (equivalent to approx. 10%) — $ 1.0 million
  - Decrease projected pay for performance from an average 4% to an average 2% — $ 2.5 million
  - Decrease Constitutional Officers and Independent Agencies' budgets by 2% — $ 6.5 million
  - Reduce non-direct services in Board departments — $ 8.2 million
  - Target consolidation efficiencies — $ 0.5 million
- To balance the budget at 7% below the rolled-back millage rates ($31.8 million)
  - Adjust reserves based on lower revenue — $ 1.0 million
  - Adjust reserves for non-recurring expenses — $ 10.6 million
  - Adjust Tax Increment payments based on lower tax rate — $ 0.6 million
  - Reduce services — $ 19.6 million

Exhibit C is a complete list of the reductions that were necessary in order to meet the state-mandated downsizing of our operations. The following paragraphs describe some of the major service programs which were affected by these reductions. In addition, the Board of County Commissioner departments and most agencies cut various administrative and support costs such as travel, training, subscriptions, and memberships.

Reductions - Board of County Commissioners Departments

The property tax revenue cuts imposed by the Legislature result in the following service impacts. Reduced uncompensated care payments to hospitals, funding for Community Health Centers, and the Health Access Network Demonstration (Helping HAND) program. The University Dental Clinic, the Services Connection bus, and the Healthy Kids Program were eliminated. The Animal Services Wildlife program and the Veterinary Technician intern program were eliminated.

Environmental Management will be forced to reduce the environmental research program and services at the Weedon Island and Brooker Creek Environmental Education Centers. Other environmental programs that were scaled back include Adopt-A-Pond, watershed management, pollution prevention, and air quality. The Planning Department will be required to reduce the Pinellas by Design and the Comprehensive Planning programs. Public Works will eliminate the Highway District liaison program. The Information Systems Department made major reductions in Workplace Efficiency technology expenses. Parks and Recreation summer camps and special events were eliminated, and services provided by Heritage Village, Cultural Affairs, and County Extension programs were reduced. The Emergency Management's Shelter Retrofit Program was deleted from the operating budget; capital budget funding for this purpose will be accelerated.

Reductions - Constitutional Officers and Independent Agencies

The Sheriff will need to eliminate the Drug Abuse Resistance Education (DARE) program and reduce patrol of the County's Environmental Lands areas. The Supervisor of Elections will reduce the number of early voting sites from fifteen to five. The Legislative Delegation Office has been eliminated. The County Attorney will eliminate law clerk positions.

Reductions in Other Funds

Besides the General Fund, the other funds which are primarily supported by property taxes were also required to make reductions. The Health Department, Public Library Cooperative, Palm Harbor Community Services District, and Feather Sound Community Services District were all required to reduce property taxes to 7% below the rolled-back rate. The Emergency Medical Services Fund and each of the twelve individual Fire Protection District funds were required to reduce property taxes to 3% below the rolled-back rate.

The Internal Service Funds, such as Fleet Management, which support the operations of the various other funds, also were asked to reduce their budgets where possible to ease pressure on service costs and to reflect reduced activity levels. In particular, the Information Technology Department made major reductions in contractual services and in equipment purchases.

The Utilities Funds made reductions to eliminate or reduce the need for rate increases and provide further relief to customers. These changes included the closing of Customer Service Branch offices and the restructuring of the artificial reef program. As a result, water rates will increase by only 3% and there are no planned increases in sewer rates or solid waste disposal (tipping) fees.

MSTU Cost Allocation and Improvements

We assign costs in our General Fund between the County-wide budget and the Municipal Services Taxing Unit (MSTU) budget, based upon services provided to these areas including storm water drainage, zoning application processing and appropriately allocated indirect costs for the agencies directly involved in providing MSTU services. Most of the MSTU budget, Exhibit D, is devoted to funding the Sheriff's patrol operations in the unincorporated area.

As with the County-wide millage, our MSTU millage was subject to the legislative mandate to reduce property tax revenue to 7% below the rolled-back rate. As a result, the rate is being reduced from 2.3560 mills in FY08 to 2.0857 mills in FY08. As part of an overall strategy to raise additional user fee revenues where appropriate, building and development review permit fees have been increased. In light of these changes, in balancing the MSTU budget while maintaining public safety and other core functions, some of the services increased in recent years have been affected. The local roads and sidewalks program has been reduced from the $3 million allocated in FY07 to $2.25 million in FY08. This is still $750,000 or 50% higher than the amount budgeted in FY06 and prior years. The Neighborhood Grants program, the public access cable television channel, and property tax assistance to water service providers in addressing fire hydrant deficiencies have been eliminated. The recreation grants program has been eliminated with the exception of previous contract commitments which will be continued into FY08. I believe we should continue to be highly responsive as a municipal service provider to communities that wish to remain unincorporated. In addition to assisting all residents countywide, the increasingly popular County Connection Centers represent a strong neighborhood focused presence facilitating the Board's commitment to provide responsive MSTU service levels, and funding for this program is maintained.

The MSTU receives sales tax support in FY08 of $3 million and continues to operate as one of the only municipal service areas without support from an electric franchise fee, utility services tax and storm water utility fee.

Capital Improvement Program

The most important single factor affecting the Capital Improvement Program (CIP) for FY08 and beyond was the citizen's approval of the Penny for Pinellas extension from 2010 through 2020. On March 13th 2007, the Penny extension was approved by 57% of the voters. Their confidence, support, and mandate allows for dedicated revenue to continue meeting our community's infrastructure needs. Using revenues primarily from the Penny for Pinellas and Enterprise user fees, the CIP meets many growth-management requirements and funds many projects that enhance the County's quality of life and economic vitality. More than $617 million of the FY08 budget proposal is dedicated to capital project needs.

In order to step up our CIP planning and monitoring, I have formed a CIP Action Team. This group will be instrumental in providing enhanced information to the Board for capital project decision making. With the impacts on our operating budgets, future capital project's operation and maintenance costs will be crucial for the Board's determination of what new facilities should be built and their timing. For projects underway, we will continue to provide reports that keep you abreast of project schedules and costs.

Our transportation improvement program remains a major focus of our CIP. Funding is included to continue the implementation of major arterial road projects, such as:

- The Belleair Causeway Bridge Replacements (now under construction)
- Keystone Road from US 19 to East Lake Road
- Park/Starkey Road from Tyrone Boulevard to Bryan Dairy Road
- 22nd Avenue South from 34th Street to 58th Street
- Haines Road from US 19 to I-275

Other important transportation initiatives funded include the Intelligent Transportation System (ITS) implementation and Traffic Signal System upgrades, along with resurfacing and rehabilitation projects to maintain the quality of the County's existing road and sidewalk networks.

Funding for a wide range of other CIP programs is included in this budget, including Beach Nourishment, Public Safety, Park Improvements, Environmental Conservation/Water Quality, Storm Water Flood Control, and improvements to our Airport, Water, Sewer, and Solid Waste Systems. Some examples of key projects include:

- Future Sand Key Beach Enhancement
- Eagle Lake Park Development Phase I
- Wall Springs Park McMullen Tract Development
- Lake Seminole Alum Injection Water Quality Project
- Alligator Creek, Bee Branch, Bear Creek, Curlew Creek, and 46th Avenue Area Storm Water Drainage Improvements
- Utilities Solid Waste, Sewer, and Reclaimed Water System Upgrades and Rehabilitations
- Utilities Water System 48" Water Main Replacement and Water Treatment/Blending Facility
- Airport's Terminal Expansion and Loading Bridges Project

Overall, there are more than 240 projects or program areas that comprise the six year CIP. A complete listing of our Capital Project allocations is included in Exhibit E to this message.

Revenue Challenges and Competitive Fees

The General Fund typically receives much of our attention due to the relatively large percentage of support it receives from property taxes and the degree of funding pressures on it. For the last five years and as the FY08 Budget was being developed, we considered alternative sources of funding to reduce the pressure on property taxes to meet growing service demands. This is especially important now and in the future, given the new property tax revenue constraints imposed by the State Legislature that limit growth in property taxes to new construction plus the statewide percentage increase in personal income.

As part of this effort, we reviewed opportunities to optimize user fees and have recommended adjustments to obtain the greatest amount of cost recovery possible while remaining competitive with our peer governments. Major areas of fee adjustments for FY08 include: building permits, site plan review, highway permits and licenses, animal services, and campground fees. Exhibit F attached to this message gives a complete listing of all fee adjustments.

We continue to review our assets for potential sponsorship and concession opportunities that will enhance our revenues consistent with the Board's parameters. Through our Revenue Enhancement Program we plan to continue exploring ways to create and expand innovative government revenue sources.

Strategic Planning and Competitive Government

I believe that any highly successful organization seeks ways to continually improve. The FY08 Budget continues the implementation of performance management and strategic planning across the organization with a distinct sense of urgency based on the budget reality we are facing. My goals are to ensure that County operations and functions are delivered in a fashion that is both competitive in cost and quality with our peer governments and the private sector. Over the last several years, I believe that we are maturing as an organization in this new culture as we become more performance and results oriented, cost effective, and customer focused.

During FY08 we will continue to implement the new Strategic Plan: Vision Pinellas, which will help ensure that our everyday work is directed toward the Board's priorities. Exhibit G, provides a high level summary of the Strategic Plan's goals and strategies. Due to all of the changes that have taken place stemming from the impact of the State Legislature's actions, we plan on updating the goals and strategies in the Strategic Plan with the Board in the coming year.

We will also continue to integrate strategic planning and performance management with our business processes. In order to drive the accomplishment of the County's strategic goals we are further tying them to individual performance appraisals. We are also building increased capacity in this area with new training courses including Strategic Planning, Facilitation Skills, Performance Measurement, and others. We

also plan to conduct a new citizen survey to secure citizen feedback on County services for determining our future priorities.

The County continues to be actively involved in the Florida Benchmarking Consortium and the International City/County Management Association's Center for Performance Measurement which enables us to benchmark the County's performance in the key areas of our local government to other high performing local governments. We also have begun a move towards program budgeting and expansion of performance measurement from the department level to the program level.

The Road Ahead

While the State-mandated revenue reductions will deal a significant setback to the progress we have been making to respond to community needs, it is our new financial reality and we have begun to adjust our organization.

Despite the criticism that has been bantered about local governments, my experience with Pinellas County has reaffirmed my belief that our employees take our vision "To Be the Standard for Public Service in America" very seriously. Their creativity, talent, innovation and dedication will allow us to work through these challenging times. I am proud to be associated with this organization and its fine staff that reflects the values of this very special community.

I would like to express my gratitude to our Department Directors, the Constitutional Officers, and other Appointing Authorities along with the many dedicated employees of the County at all levels, who have stepped up during this most challenging budget process. A special recognition goes to John Woodruff and the staff of the Office of Management & Budget. They have a particularly difficult and demanding job and without their hard work, this budget would not have been possible.

Finally, I want to again express my sincere appreciation to the Board for your attention to the budget, policy guidance, and support. The new budget reality will challenge us and test our collective strength, but I am confident we will rise to meet those challenges and continue to provide high quality programs and services to the citizens of Pinellas County.

Sincerely,

Stephen M. Spratt
County Administrator