

COUNTY ADMINISTRATOR'S BUDGET MESSAGE

November 15, 2004

Members of the Board of County Commissioners:

I am pleased to present to you the Adopted Budget for Fiscal Year 2005 (FY 05) – which began October 1, 2004 and which represents the second year of the Board's biennial budget. Last September, the Board of County Commissioners formally adopted a budget for FY 04 and a planned budget for FY 05 after an intensive budget review. Under the biennial budget process that our County has now used for ten years, the second year in a biennial budget cycle undergoes a less intense update process to fine tune the budget while meeting all statutory requirements for formal adoption. While the County has employed this biennial budget cycle for some time, this budget reflects my first budget as your County Administrator. Fortunately, I have had the opportunity to participate in each of those former biennial budget cycles.



There is an aspect of this update year that is new. This budget reflects the first linkage to the Board's Strategic Plan goals. That linkage between the budget and the Strategic Plan has been a critical, but missing element of past County attempts at strategic planning. We have tied the major investments within your FY 04 and FY 05 biennial budget to the Strategic Plan goals as I outline later in this budget message. We are also outlining a series of objectives, tied to your eight strategic goals that I will ask the Board to review at the annual Board retreat in December. It is our plan to then continue the implementation of the linkage through the preparation of the FY 06 and FY 07 biennial budget by identifying "strategies" that departments can employ to achieve measurable results specified in the Strategic Plan objectives.

I am proud to advise that this budget reflects a tenth year of millage rate reduction in the Countywide millage rate. The Board of County Commissioners has exercised strong leadership in balancing the needs for funding of services and facilities with sensitivity to taxpayers' cost that is, I believe, unique in this State. While the reductions each year have generally been modest, as is this year's reduction, the cumulative impact has built to nearly a full one-mill reduction. Separate from the obvious value to taxpayers of lower tax rates is the capacity that we have created by constraining our property tax rate. In FY 05, we will have over 2.1 mills of unused capacity within the 10-mill cap authorized for Countywide services. At the same time, despite the pressures resulting from strong growth in our unincorporated population, you continue to have nearly one-half of your taxing capacity available within the 10-mill cap authorized for these municipal services by holding the line of our unincorporated millage rate. Preserving tax capacity and constraining the use of property taxes within the budget is exactly what is called for by your Strategic Plan Goal 1: "To ensure that Hillsborough County is financially strong enough to influence its destiny." I believe, under your leadership, Hillsborough County is a leader not only in Florida, but also in the nation in this regard.

When I delivered a recommended budget for the Board's review in early June, I advised you that growth in the property tax base was higher than expected. As you reviewed my recommendations, you took a conservative approach consistent with a biennial budget cycle by allocating funds largely to non-recurring (one-time) uses. That approach allows future use of those funds to be deferred to next year's biennial cycle where a full range of competing opportunities may be considered.

The Adopted Budget for FY 05 is \$3 billion, reflecting a relatively small decrease – \$10 million – from the Adopted FY 04 budget. The decline is due to two factors that more than offset the normal increase in the budget:

First, debt service declined sharply – 43.2%, or \$75 million from FY 04 to FY 05. This reduction is largely attributable to the County's low cost commercial paper borrowing program used to fund capital requirements. Commercial paper is short-term debt with maturities of 1 to 270 days. As this debt matures it is "rolled-over" or reissued. Each new issuance adds to debt service as reflected in the budget and financial statements until such time as it becomes economic and prudent to pay off accumulated commercial paper borrowings with long-term bonds. This will be the case in FY 05 when the County plans to pay off a large portion of its commercial paper debt with a combination of cash and long-term bonds. In addition, principal and interest

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payments on all County debt declined slightly from FY 04 to FY 05 as a result of refinancing to reduce the County's cost of borrowing.

The second reason for the decrease in the overall budget is that reserves declined 17.3%, or \$93.6 million. The decline in reserves largely reflects an appropriation of reserves in the County's Water & Wastewater Utility Enterprise Fund to fund capital projects. The Water/Wastewater Utility plans to expand the treatment capacity of facilities to meet rapidly growing needs in its central and south service areas. Although these new expansion projects are being initiated in the "off year" of the County's biennial budget cycle, the costs can be covered by available cash reserves and from capacity fees paid by new growth itself. The Utility's "AA" credit rating is one of the highest in the State of Florida, and every effort is being made to ensure that the system is operated and maintained efficiently. In future budget cycles, however, we will need to continue to evaluate the structure of the Utility's rates and charges to make certain that the ongoing cost of providing service to customers is fair and equitable, and sufficient to maintain adequate reserves to meet the long-term financial requirements of the system.

Other areas of the budget increased, as expected in a government that serves a growing population and is impacted by what is currently a relatively low rate of inflation. The increase was more heavily reflected in the capital budget, not the operating budget. The capital budget increased by 24.6% or \$51.7 million – largely accounted for by the Water/Wastewater expansion. The operating budget increased by 3.3% or \$44.2 million. Within the operating budget, compensation increased 3.2%, operating expenses increased 3.4%, and equipment increased 3.0%.

Revenues - On the revenue side, we experienced strong growth in property tax revenue – even stronger than we assumed when we presented five-year projections to the Board in February. At that time, we projected the County's major operating funds would be essentially balanced for the next five years if existing operations were continued at current levels. Instead we experienced Countywide tax base growth of 10.1%. In the unincorporated area, the tax base grew by an even stronger 11.9%. Intergovernmental (State of Florida and federal) revenues declined slightly from FY 04 to FY 05, reflecting a reduction in State-shared revenues to counties and a reduction in grant revenue. Communications Services Tax revenue was revised down to reflect lower receipts than expected in FY 04, while both local option sales taxes – indigent care and infrastructure – have exceeded estimates. The strong growth in property tax revenue despite a tenth consecutive reduction in the Countywide millage rate levied by the Board resulted in property taxes accounting for a larger share of total County revenue in FY 05 than in FY 04. As we move forward with our strategic planning efforts, it is our expectation that we will look for opportunities to address the risk we face as a result of our heavy reliance on a single revenue.

The Significance of the Budget in a Long-Term Context

In September 2003, the Board adopted a six-year capital improvement program (CIP) in which the first two years reflected major capital commitments within the biennial budget. The CIP recognizes a longer planning horizon needed for capital projects that may be funded over a number of years. A companion document to this budget document includes an update for the remaining five years within the CIP – reflecting FY 05 through FY 09 capital projects. We only extend that capital planning horizon when we develop a biennial budget so that both the budget and CIP move in tandem in the biennial budgeting cycle.

A second document used to put current budget decisions into a longer-term context is an annual Pro Forma document prepared in accordance with Board policy. The Pro Forma provides a five-year projection of revenues and expenditures for major operating funds. It is particularly useful in showing how capital projects funded in the budget or planned over the next several years will impact future operating budgets in terms of maintenance and utility costs as well as other operating costs. The Pro Forma is a tool to evaluate the sustainability of the existing budget prior to developing the next biennial budget or, in the case of the second year of a biennial budget, prior to updating the next year's budget. As I indicated, the Pro Forma issued in February was essentially balanced for both Countywide and unincorporated area operating funds. Subsequent news about stronger growth in the property tax base facilitated the Board making additional short-term commitments in updating the FY 05 budget while allowing longer commitments of those funds to be made in the upcoming biennial budget process for FY 06 and FY 07.

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These areas of focus – the biennial budget, the six-year CIP, and a five-year Pro Forma forecast – ensure that the Board, County staff, members of our community, and other “stakeholders” in our budget such as bondholders have an opportunity to see how current decisions tie to longer term infrastructure funding commitments and how those projects will impact future operating budgets. These longer term financial analyses assist us in making decisions that meet our current and future needs while “ensuring that Hillsborough County is financially strong enough to influence its destiny.”

The Update Process

In my role as your designated budget officer, I was required to present a balanced budget to the Board. In June I presented the Board a Recommended Budget for FY 05 as a working document intended as a starting point for public scrutiny and further refinement by the Board. It reflected my best understanding of the Board's priorities. Under the biennial budget cycle, the FY 05 budget process is not a full-blown process. While any aspect of the Planned Budget for FY 05 could be reconsidered during the update, the majority of the biennial plan could be continued without adjustment. Where it was necessary to reconsider funding levels, materials submitted last year could be used effectively. The update process does, however, allow opportunities to raise issues not known last year and to submit documentation for consideration. Clearly any anticipated reduction in revenues must be addressed through offsetting actions in an update process to keep the budget in balance.

During the update process, it was necessary to consider three types of updates to the budget for FY 05: first, to address actions approved by the Board since the biennial budget was adopted in September 2003 and therefore not already included in the Planned Budget for FY 05; second, to consider external events that occurred during that same period that required action in the FY 05 budget; and third, to consider new information submitted by departments and agencies that was not available during the biennial process last year. Each of these updates required consideration of what offsetting actions could be necessary to rebalance the FY 05 budget. Specific issues related to the first two types of updates to the FY 05 budget are outlined below:

Interim Actions Approved by the Board – Since the Planned Budget for FY 05 was developed last year, the Board has addressed key policy issues that impact both the quality of life for County residents and the financial health of our government.

- ◆ **Raymond James Stadium** – The Board acted to take title to the majority of Raymond James Stadium after conversion of the Stadium to a condominium. That action prevented the Buccaneers from avoiding responsibility for taxes on areas of the Stadium they use exclusively while ending the unintended obligation of the Tampa Sports Authority to pay taxes on the majority of the facility and the land it occupies. Since the Tampa Sports Authority had relied on the County to subsidize two-thirds of that tax bill, the impact of the action was a net savings to the County in FY 05 of about \$1.5 million.
- ◆ **Employee Health Care** – In FY 04, the Board approved Humana to administer the County's self-funded employee health care program. An expected average increase in health care costs in FY 05 was covered by a \$30 per month increase in the County's contribution. The increase in costs is lower than the \$80 per month increase for FY 05 that we had projected last year as we bid out the contract.
- ◆ **No Fee Zones** – The Board authorized new “no impact fee zones” in certain designated community development block grant neighborhoods. Under the program, the County waives transportation impact fees and pays the water and wastewater capacity fees.¹ The waiver recognizes adequate transportation infrastructure within each designated area. Payment of capacity fees is required because the County operates its water/wastewater system as a business-type activity and cannot provide free access to system capacity.
- ◆ **Right-of-Way Management** – The Board approved establishing a right-of-way management office within the Public Works Department that sited related activities in a single rental location at Net Park. Industry

¹ Included in the County payment is the AGRF (accrued guaranteed revenue fee) that reflects a “carrying cost” for infrastructure constructed in advance of development activity for which capacity is reserved until needed.

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representatives supported this activity and supported an adjustment in permit fees that the Board subsequently approved.

- ◆ **Carrollwood Franchise Acquisition** – The Board approved acquisition of the private water/wastewater franchise in original Carrollwood – an action that had been in the works for some time and that was responsive to the Board's earlier direction to acquire, over time, the privately-owned water/wastewater franchises throughout Hillsborough County.
- ◆ **Building Inspection** – The Board approved an expansion of the County inspections staff by 17 positions and adjusted permit fees to cover the cost in response to continued strong construction activity and the support of the building industry.
- ◆ **Burglar Alarm Ordinance Implementation** – The Board approved an ordinance that took effect in October 2004 to use an aggressive fee structure to reduce the number of false burglar alarms in the unincorporated area. As a conservative approach, we estimated only enough revenue from this activity in FY 05 to cover the cost of administering the program. Of course, the intent of the ordinance is not to generate revenue but to assist law enforcement response time by reducing the volume of false alarms to which Sheriff's deputies must respond.
- ◆ **Transition Resulting from TANF Reductions** – The Board approved consolidating positions no longer funded by the Temporary Assistance for Needy Families (TANF) program with other general assistance activities, including job development, within the County's Health and Social Services Department.
- ◆ **Property Improvement Program** – The Board approved initiation of a program under which we can clean up properties where code enforcement efforts have been unsuccessful and to recover the County's costs through liens placed on those properties. We are continuing the program into FY 05 and the Board approved a modest increase in the funding to better provide for the costs associated with these activities and the backlog of properties that we may need to address.
- ◆ **Collective Bargaining Commitments** – The Board approved collective bargaining agreements affecting employees within the Fire Rescue Department. The transition to a step plan for these employees exceeded budgeted cost for both FY 04 and FY 05, which had been based on the compensation adjustments planned for non-represented employees.

External Events Impacting FY 04 and FY 05 — External events reflected a second factor considered in updating the budget for FY 05:

- ◆ **Implementation of Article V Funding Shifts** – As discussed last year, the biennial budget cycle worked particularly well with the timeline for the State of Florida's implementation of changes related to Article V of the Florida Constitution – specifically, the shift in responsibility for major components of the State court system from county governments to the State. By addressing other major programmatic issues last year in the "on year" of the biennial cycle, we were able to focus our attention this year on final legislative decisions implementing Article V changes on July 1, 2004. Last year, the Board set aside reserves to help cover anticipated costs the County would retain including the cost of discretionary programs we assumed the State would not fund. Despite an attempted shift to counties of a substantial program cost that is unrelated to Article V implementation – a \$6.7 million (or higher) annual cost to Hillsborough County for juvenile offenders housed by the State – we were provided the opportunity to raise court fees needed to meet existing annual debt payments on court facilities and to provide funding for selected programs, and the opportunity to shift other costs to the State that more than offset the impact of revenues diverted from the County to the State. As a safeguard against unplanned transitional costs, the Board appropriated \$1.5 million in FY 05 to cover, for example, residual County costs that may not surface until FY 05. Once we determine what, if any, of those funds will be used, the balance can be added to the County's Countywide General Fund Reserve for Contingency.
- ◆ **Lower Communications Services Tax Revenue** – The base upon which the Communications Services Tax is levied has been undermined by changes in how communications services are consumed. The Communications Services Tax was intended to level the playing field between competing

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communications services that had historically been subject to disparate treatment in terms of state and local taxation. Tax rates were standardized within a jurisdiction for all communications services subject to taxation. Two factors are leading to current declines in revenue despite both a growing population and growing use of technology: Satellite television services are capturing customers from local cable television systems. The nature of satellite service largely insulates it from local taxation even though it is subject to higher State taxes. In addition, communications services customers are shifting their reliance from conventional telephone service to their cell phones and giving up "land lines." In the near term, the impact was a decline in this tax revenue from FY 03 to FY 04, and a resulting lowering of anticipated revenues for FY 05.

On a longer timeline, the revenue potential is much bleaker: the federal government's insulation of Internet access charges from state and local taxation in recent years has been linked to providing further opportunities to shift how communications services are packaged and delivered. As a result, conventional and taxable telecommunications activities will shift to non-taxable Internet service. How fast the transition will occur is unknown, but there is little doubt that the effects will be significant since the technology already exists.² The implications of these changes on County revenue led the Board to provide policy direction during the FY 05 update process that should reduce the potential impact of declining communications revenues on future operating budgets: The Board directed that one-half of the revenue from the County's 4% tax in the unincorporated area be set aside, beginning in FY06, for expansion of fire services infrastructure – up from 37.5% of the tax revenue that was set aside in FY 04 and FY 05. A portion of those funds was committed in the update for FY 05 to the acquisition of land for five new fire stations and the remaining funds have been segregated in a capital projects fund for future allocations.

Relating the Budget to the County Strategic Plan

Coupled with decisions reflected in the biennial budget for FY 04 and FY 05 adopted in September 2003, the Adopted FY 05 Budget provides additional investments that tie directly to Strategic Plan goals. Some of those investments in our future fit within more than one goal.

Goal 1 – To ensure that Hillsborough County is financially strong enough to influence its destiny

The biennial budget continued to invest a portion of the growth in the County's tax base to reducing the Countywide tax rate. Rather than spend every additional tax dollar received, the Board exercised prudence in building our future capacity by relying on a lower Countywide tax rate. Reducing our reliance on property taxes reduces our exposure to the types of events – natural or human – that can pose a threat to that source. As we updated the FY 05 budget we faced both types – and fortunately were spared in each case: First, the Florida Supreme Court threw out a proposed Constitutional Amendment to double the homestead exemption that would have left one in six homestead properties in Hillsborough County free of all property taxes and resulted in a \$58 million net reduction in County tax revenue by FY 06. Second, we were spared devastation by hurricanes that have stripped other Florida local governments of a significant portion of their property tax base.

The biennial budget also adjusted the Communications Services Tax rate in an attempt to better balance our funding of unincorporated services between property taxes and other sources. The Board's action to set aside a portion of that revenue for future commitments to expansion of fire rescue services also fits within this goal. Even with the revised rate, unincorporated residents and businesses benefit from a lower tax rate than their counterparts in each of our three municipalities.

In the update process, the Board committed an additional \$2 million to be set aside for transportation corridor preservation. The total planned commitment now exceeds \$16 million. The Board also recognized a unique opportunity to acquire 190 acres near Falkenburg Road where a variety of County facilities are located and where we will have the opportunity to site future facilities including future jail expansion.

² Hillsborough County is in the process of deploying "Voice over Internet Protocol," or "VoIP" technology to reduce the number of conventional telephone lines needed by County departments by using the County's Intranet to process internal telephone calls. Businesses and individuals are similarly seeking the savings offered by this technology.

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Perhaps most important, the Board's FY 05 adjustments in this "off year" of the biennial cycle largely reflected committing recurring revenue to non-recurring (one-time) needs. That preserves major policy decisions on recurring funding needs for the next biennial cycle – FY 06 and FY 07.

Goal 2 – To improve the economic well being of our citizens

The biennial budget established funding for a USF high technology incubator program to create quality jobs. The budget also included a commitment to joint funding of a protocol officer for the community. After resolution of revised Community Development Block Grant boundaries, the Board approved "no fee zones" to encourage affordable development within these areas. More recently, the Board approved a new program for targeted area reinvestment in vacant, derelict or sub-standard commercial properties within Community Development Block Grant communities. Finally, the millage reduction planned for the tenth consecutive year (FY 05) qualifies as a means of improving the economic well being of our citizens.

Goal 3 – To work with citizens and neighborhoods in order to ensure quality services that are delivered in a courteous and responsive manner

The biennial budget funded a County neighborhoods conference, expanded the neighborhood mini-grant program, and allocated funding to provide information and referral services at the South County Regional Service Center. The Board initiated a property improvement program during this year to clean up properties and recover our cost through liens. In the update, the Board funded a new Westgate Headstart Center to permanently replace an aging, temporary structure.

Goal 4 – To build a high performance diverse professional organization

The biennial budget established funding to implement recommendations from an external review by the Craig Group aimed at employee training and communications, and implementing an investigations function. In the update, the County initiated wireless capabilities for our building inspectors to improve their performance. During FY 04, we initiated development of a Code of Ethics for County employees that will add to our professionalism by encouraging a higher standard of conduct. At the same time, we initiated a new training program for supervisors, "SuperTrain Express," while continuing to train all County Administration employees on achieving "stellar" customer service – both programs conducted using in-house trainers from a variety of departments.

Goal 5 – To provide a quality of life to citizens and visitors that emphasizes public safety, arts and entertainment, in a visually pleasing and healthy environment

The biennial budget funded a variety of changes intended to improve the quality of life in our community:

- ◆ Staffed new parks and recreation facilities including the gymnasium at the All People's Life Center as well as parks in Gardenville, Westchase, Carrollwood Meadows, and Northdale.
- ◆ Established a proactive rental housing inspection program.
- ◆ Enhanced sign ordinance enforcement.
- ◆ Enhanced fire protection through opening of Tampa Shores Fire Station, provision of a Rescue Unit at the River Oaks Fire Station, and acquisition of an automated vehicle locator system.
- ◆ Committed funding to assist in construction of a Children's Museum.
- ◆ Initiated funding for development of a northwest park, connecting with existing public lands.
- ◆ Expanded funding for median landscaping.
- ◆ Expanded funding for youth sports development.
- ◆ Expanded funding for animal adoption programs.
- ◆ Committed funding to assist in construction of a School of Dance at the Tampa Bay Performing Arts Center.
- ◆ Committed funding for exhibits and a holding facility at the Florida Aquarium.
- ◆ Expanded operational funding for the Lowry Park Zoo.
- ◆ Provided an additional air quality monitoring station for Apollo Beach.

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- ◆ Approved two additional stormwater projects to meet community concerns.
- ◆ Expanded operational funding for the Museum of Science and Industry in FY 04 as well as supporting renovation of the Imax Theater and replacement of an outdated ticketing system in FY 05.

During FY 04, the Board approved a burglar alarm ordinance intended to improve law enforcement response by fining those who initiate multiple false alarms in a year.

In the update, we committed \$6.1 million from non-recurring State-shared revenues (gasoline taxes and State Revenue Sharing) to improve 22nd Street. An effort to secure State funding for the section south of Fletcher Avenue was unsuccessful and will be readdressed in the FY 06 and FY 07 biennial budget cycle.

We also have committed significant funds beyond the normal commitment of 1% of general revenue to maintenance of assets. The additional funding will improve the condition of County facilities that have deteriorated from inadequate maintenance: regional parks, recreation and athletics facilities, fire stations, and public works facilities.

Goal 6 – To improve transportation in Hillsborough County

The biennial budget expanded transit funding including commitments to the continuation of circulator service and Saturday service by an independent taxing authority – the Hillsborough Area Regional Transit Authority. The Board continued an enhanced level of funding for transportation maintenance and construction reflecting both a prior \$132 million additional commitment of Community Investment Tax funds and a \$10 million per year commitment of added transportation funding from general revenues. The Board also initiated a study of the extension of Citrus Park Drive and funded widening of Cross Creek Boulevard in conjunction with the City of Tampa. During FY 04, the Board committed an additional \$6 million for Bruce B. Downs Boulevard.

As indicated, the update provided critical funding for improvements to 22nd Street. It also provided \$2 million in additional funding for transportation corridor preservation.

Goal 7 – To effectively manage our natural resources, including the conservation of the water supply in Hillsborough County

The biennial budget authorized funding for a water asset management system. It also extended funding of the County's Water Team. The Board subsequently approved the acquisition of the Carrollwood Utility System.

The update provided funding for inspection of developer-contributed water, wastewater, and reclaimed improvements. It also funded equipment and associated operations needed to disinfect surface water that will be obtained from Tampa Bay Water. The Environmental Protection Commission will add landfill investigations at historic solid waste disposal sites not managed by either Hillsborough County or the City of Tampa.

Goal 8 – To make Hillsborough County a desired place to live through managed growth

The biennial budget provided enhanced site and subdivision inspections, coupled with creation of a digital zoning atlas and conversion of files to facilitate better access to existing zoning records. The creation of no fee zones encourages development within areas that otherwise would not see growth but that have adequate transportation infrastructure to handle the impacts of new growth. The update supported truck route plan public meetings that provide an important opportunity to keep the public informed and receive feedback.

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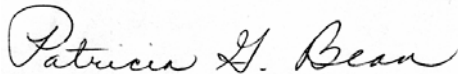
Conclusion

In summary, the Adopted FY 05 budget reflects an update of the Planned Budget for FY 05 that was developed as part of the County's biennial budget process for FY 04 and FY 05. Through a series of budget workshops and three public hearings, you responded to issues that could not be deferred to next year's comprehensive process. One of those public hearings is specifically scheduled in June to allow public input *prior* to any tentative decision on maximum property tax rates. That part of the public participation process is not required by Florida Statutes, but the Board has instituted one or more early public hearings each year as a unique community participation component of our budget process.

The Adopted Budget balances the need to fine tune the budget to reflect what we have learned since the biennial budget was approved in September 2003 with the value of steering a course that is re-evaluated every other year. This budget reflects your values, as reflected in Strategic Plan Goals and in specific policy direction that you provide. By making largely one-time commitments in this "off year" of the biennial budget cycle, you have preserved long-term decisions to next year's re-evaluation of the course the County will take.

You can take great pride in the fact that Hillsborough County is financially sound. I believe this budget continues the County's commitment to "ensure that we are financially strong enough to influence our destiny."

Respectfully Submitted,

A handwritten signature in cursive script that reads "Patricia G. Bean".

Patricia G. Bean
County Administrator