

Members of the Board of County Commissioners:

I am pleased to present to you the Adopted Budget for Fiscal Year 2009 (FY 09), which totals \$4.03 billion, down slightly – 0.4% or \$15 million – from the Adopted FY 08 Budget of \$4.05 billion. This represents the update of the seventh biennial budget for the Board of County Commissioners (Board). Under a biennial process, the Board developed detailed budgets for two separate years. On September 20, 2007, the Board adopted the FY 08 budget and approved a planned budget for FY 09. The FY 08 budget reflected \$56 million in cuts to balance to a level of revenue dictated by actions of the Florida Legislature. The intent of a biennial budget process is to focus implementation of major policy decisions in the first year or “on-year” of the two year cycle and demonstrate their sustainability in a balanced second year’s budget. The update to the planned budget for FY 09 was intended to address only those issues that required updating. Typically, that would be updated revenues and adjustments to grant-funded programs that operate on an annual cycle.



This year, the update was much more significant in the areas of the budget most reliant on property tax revenues. Approval of Amendment 1 by Florida voters on January 29th generated an estimated \$58.6 million loss of revenue. The revenue loss was compounded by two other factors: First, a slowing economy lowered receipts from the sales taxes the State of Florida shares with local governments. Second, a portion of the property tax base declined in value as housing markets adjusted after recent years’ growth. Overall, we faced cuts in our major operating funds amounting to as much as \$117 million. Considering the important programs funded from general revenues, the need to make such significant cuts after last year’s cuts was a daunting challenge. As you took my recommendations and refined them to reflect your priorities, we found that the citizens of Hillsborough County did not anticipate the implications these factors could have on our ability to retain services – much less address the demand we constantly face to deliver more service.

Using a zero base budget process, we allowed departments and agencies to revisit the priorities they established within their budget submissions last year. In doing that, we allowed them to recognize the severity of the potential cuts and to use their direct knowledge of how services are provided to identify where cuts could be made with the least impact on core services. I also encouraged everyone to take another look at identifying efficiencies – budget cuts that have no measurable impact on the levels of services we provide to our customers.

The recommended budget was based on early estimates of the property tax base using information provided by the Property Appraiser’s staff but not reflecting even the first of two official estimates. We rebalanced the budget to the estimate provided by July 1 which you were required to use in adopting the FY 09 budget. We updated information on revenues and expenditures as we proceeded towards the public hearings in September at which you adopted the budget.

Five Key Strategies for Shrinking the Budget Deficit

Key strategies were employed in reducing what initially seemed to be an insurmountable deficit resulting from the combined impacts of tax reform (Amendment 1), a slowing economy, and a market correction in housing values.

Our first strategy began last year in the biennial budget process. We slowed the growth in the budget to create a \$30 million buffer in the Planned Budget for FY 09 between revenues and expenditures in our major operating funds. A second strategy focused on making the administrative burden for programs equitable. That meant taking an aggressive approach to having the cost of administrative services (referred under federal guidelines as “indirect costs”) paid by the appropriate funding sources. Our third strategy was to stop subsidizing purchase of environmental lands with operating revenues from the Countywide millage levy. That Board practice had occurred over the past 9 years and had been one of the fastest growing uses of our operating revenue. The fourth strategy was to identify programs that could be funded with non-recurring revenue rather than compete for increasingly limited recurring revenue. Finally, our fifth strategy was to take an even stronger position limiting “reappropriation” of funds requested for a fiscal year but not spent. This last strategy will take strong management and some creative solutions when funding must cross fiscal years.

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Employing these strategies, we reduced what began as an estimated \$117 million FY 09 deficit in our main operating funds by \$66.9 million, to \$50.1 million. While this still constituted a substantial amount, it was a more workable deficit to address given some significant limits on how and where we can cut programs. Subsequently, the total deficit fell by \$8.9 million as we updated revenues and costs, to \$108.1 million, leaving us \$41.2 million to address.

Strategy 1: Slowing Budgetary Growth to Create a \$30 Million Surplus in the Planned Budget for FY 09

Slowing the growth of the budget from FY 08 to FY 09 allowed us to identify recurring revenue that would not be needed in FY 09, based on assumptions underlying the biennial budget adopted in September 2007. That excess revenue showed up in the Planned Budget as a "reserve for budget reduction" in both the Countywide General Fund - \$10 million – and the Unincorporated Area General Fund -- \$20 million. Eliminating those reserves became the first strategy for balancing the FY 09 budget after Florida voters approved Amendment 1.

Strategy 2: Updating Recovery of Administrative/Overhead Costs

The County has historically used a cost allocation plan to recover administrative costs (e.g., accounting, legal services, procurement, office space, security) from programs funded with non-countywide revenues. The technique had its genesis in federal guidelines that dictate how grants may be charged for overhead but it is an important tool for showing the true cost of programs by equitably allocating costs. These indirect cost charges prevent countywide tax dollars from subsidizing non-countywide programs.



We aggressively updated the allocations based on data for prior years in order to reflect current costs rather than costs that may have been two to three years old. Through this process, we were able to recoup an added \$9.7 million in overhead costs for the Countywide General Fund. About one-half of the revenue came from programs not supported by property taxes – primarily the County's growing solid waste and water/wastewater businesses – while the remaining impact shifted cost from the Countywide General Fund to the Unincorporated Area General Fund.¹ The net impact was \$4.6 million in deficit reduction.

Strategy 3: Ending a Practice of Supplementing ELAPP Bonds with Countywide Operating Revenue

Beginning in FY 00, we had committed an increasing portion of our Countywide millage rate to supplementing funding for the Environmental Land Acquisition and Protection Program – even when tax reform last year forced substantial millage cuts in FY 08. Over that nine year period, about \$70 million in general revenue within the County's 10-mill cap for countywide operations was set aside for ELAPP plus the interest earned on those funds. The result was that we significantly exceeded the \$100 million goal for ELAPP funding when that \$70 million is added to \$63 million in ELAPP bonds that were issued based on voter approval of an October 2, 1990 referendum. A portion of that revenue was used for staff and other costs of managing the land acquired through the program.

ELAPP funding in FY 09 is continued for the staffing required to monitor and manage ELAPP properties – a cost of about \$2.2 million plus additional one-time funding for restoration of ELAPP sites. Funding for land acquisition that would have amounted to \$11.7 million in FY 09 has been cut. That is one of the largest single factors in balancing the FY 09 budget to a lower level of revenues. In the absence of this action, as many as 200 additional County positions would need to have been eliminated because we would have needed to continue cutting into existing services we provide to County residents and businesses beyond the cuts reflected in this budget.

With this approach, additional funding for land acquisition required another voter referendum. Existing funding for maintenance costs including staffing can be shifted to the Countywide General Fund along with the revenue that currently pays for it. That means there is an ongoing commitment to maintenance and operation of ELAPP sites. The maintenance and operation costs for ELAPP sites will compete with other Countywide programs for funding – just like operation of the County's regional parks were funded with General Obligation bond debt but currently operated and

¹ Overhead costs limit spending on direct services, so budget cuts in administrative areas were valuable in reducing the need for cuts in direct services.

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maintained by competing for Countywide General Fund revenue. Bond proceeds cannot be used for operation and maintenance despite confusion that has continued on that issue since the 1990 referendum. Staff will have to identify ongoing costs with each project proposed to be funded with ELAPP bonds, should a referendum be successful.

Strategy 4: Using Non-Recurring Funding to Cut Recurring Funding Commitments

One of the initiatives reflected in this budget was to identify programs that were previously budgeted as annual expenditures but which had no staffing or other fixed annual costs embedded within them -- and which tended to be spent only when opportunities arose on an infrequent basis. Two such programs were our economic incentives and our use of general revenue to supplement grants funds for affordable housing. Clearly these have been priorities to the Board, but they did not need annual appropriations if there were funds available when opportunities arose.

We set up capital improvement projects for both programs in FY 09. The initial funding in both programs from non-recurring sources was equal to two-to-three times recent annual appropriations.

We then eliminated the corresponding annual programs that required recurring funding. As appropriate, the Board can appropriate additional future non-recurring funding to supplement these initial amounts and prevent the sunset of the programs. In the mean time, the savings in recurring funding were used to offset some of the permanent loss of revenue associated with Amendment 1. We assigned a total of \$18.5 million in non-recurring funds carried forward from FY 07 and FY 08 to economic development initiatives and freed up \$7 million in recurring funding. In affordable housing, we allocated \$6 million in non-recurring funds and freed up \$2.1 million in recurring funding.

The non-recurring funding used in this strategy came from multiple sources, two of which included excess refunds of unexpended funds by the Sheriff in FY 07 and savings within FY 08 from a tightly managed reappropriations process. Programs funded with non-recurring revenue will either phase down over time or require occasional future contributions of non-recurring funding. Unlike day-to-day operations with regular payroll costs, the programs targeted for funding with non-recurring funding can be suspended easily when funds are depleted and restarted if subsequently funded.

Strategy 5: Managing Appropriations – Past budgets set significant amounts aside for “reappropriation” of funding approved in a particular year but not expended by yearend even though a commitment may remain. Earlier this year, the Board directed me to tighten the process. I cut out \$11.5 million in funding for reappropriations in the County's major operating funds – the Countywide General Fund and the Unincorporated Area General Fund and we will manage without that costly annual appropriation.²

Tackling the Remaining Budget Deficit

Funding Considerations Underlying the Recommended Budget – No simple across-the-board percentage cut was assigned to organizations funded by the County's two impacted operating funds. Where possible, we followed the advice of technical experts in each program area and recommended cuts in their lowest priority programs after first considering any opportunities for efficiencies that would avoid service reductions. A zero base organization budget, properly developed, ensures that lowest priorities are cut first and core services are retained. Service impacts should be disclosed so that the consequences of cuts are known. As with any such process, some organizations rose to the challenge better than others.



In considering where to recommend cuts, we looked at what cuts had been made previously to a department or agency, where there would be cross-organizational impacts, and where we could avoid a concentration of impact in one geographic area of the County. We attempted to avoid relying on fee increases – recognizing that prior policy direction is needed before we build a budget on a fee increase or new fee. The Board subsequently approved increased recreation fees for afterschool and summer programs in order to restore cuts that otherwise would have been required. The fee increases were made with strong support from parents who value the services we provide and who wanted to ensure the County continued to be the provider – rather than rely on competing programs provided by non-profits or the School Board. The fee increase facilitated not only retaining our

² Of course, the County maintains contingency reserves that are more than sufficient to cover potential needs.

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programs but also will allow us to increase participation in field trips that have been limited in the past to those who paid for them.

We ensured we were in compliance with Board policy limiting spending – BOCC Policy 03.05.07.00. We did not consider an operating millage increase even though we had the statutory authority this year to increase the millage to sustain revenue. We were ultimately able to lower our library district millage, our Countywide operating millage, and our unincorporated area “MSTU” operating millage and hold our debt millage rates unchanged.

We did not target vacant positions but clearly a number of the position cuts reflected positions that had been held vacant and are in program areas where the lower level of staffing can be sustained for an extended period. Vacant positions allowed us to trim some programs while avoiding layoffs by shifting employees in impacted programs to vacant similar positions in other programs. We recognize that while employees may be particularly focused on how many positions are eliminated in this budget, our customers are more interested in what services will be reduced. Long term vacancies pre-dating tax reform were reviewed and many were eliminated – even in areas unrelated to tax reform.

Deferral of New Facilities – As we addressed last year in response to the first phase of tax reform, Hillsborough



County cannot commit to building new parks, libraries and fire stations unless we can afford the ongoing operating costs for those facilities. Even if we can find temporary funding for the first year of operations, we cannot count on permanent funding when there is no evidence that the Florida Legislature is done imposing tax reform on local governments or with a recession likely to shrink revenues. Our capital improvement program focuses on replacement facilities where they are needed because the primary impact is the non-recurring cost of construction. We have some ability to move forward carefully with libraries because the annual operating cost is not as challenging an impact as for parks and for fire stations. Transportation improvements do not have the same immediate impact on maintenance and, in some cases, can reduce

current maintenance requirements. These are largely unaffected.

Streamlining the Organization and Administrative Costs – I pledged to employees that cuts would occur at all levels of the organization – not just in front line positions. This budget includes cuts at the management level, with total savings of more than \$1.4 million. Most prominently, I cut the Deputy County Administrator position and an Assistant County Administrator, and reorganized my Executive Team. It was not an easy decision but it was essential to restructure the organization around a leaner management.

Management level positions were eliminated in County Administration, Human Resources, Debt Management, Planning and Growth Management, Health and Social Services, Real Estate, Extension, and Parks, Recreation and Conservation.

Efficiencies – County staff continued to identify opportunities to lower costs while retaining service levels. We also looked at opportunities to replace the use of general revenues with restricted revenues that are available. Even as the budget for FY 09 was adopted, we were continuing to work on streamlining our fleet to reduce our cost of operations. Those savings will begin to accrue during FY 09 and have a full annual impact on the FY 10 and future budgets.



New efficiencies amount to more than \$5.4 million in FY 09. These savings add to the \$17 million I identified in my first biennial budget (FY 06 and FY 07) and more than \$8 million identified in the biennial budget for FY 08 and FY 09.

Overall Contribution from Cuts in County Administrator Departments – Considering all forms of budget reductions – efficiencies, program reductions, and elimination of long-term vacancies – the County Administrator's departments' budgets in the two main operating funds were cut by a total of \$16.1 million. A listing of those and other listed cuts is provided in an accompanying table. Further explanation is provided in departmental pages in the Operations and Funding Guide section of the budget document.

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Sheriff's Budget – The Sheriff cut nearly \$6.9 million from the Planned FY 09 budget. Slower population growth allowed fewer new law enforcement deputies in FY 09 than planned – 25 rather than 63. While the FY 09 budget reflects the continued phase-in of deputies hired during FY 08, the FY 09 hires will occur in the fourth quarter of the year – deferring most of the cost of those new positions to FY 10. That may present budget challenges to us in the next biennial budget for FY 10 and FY 11.

The Sheriff continues to manage inmate housing without having to staff all facilities at Falkenburg Road. When those added facilities open, the costs will be substantial.

Supervisor of Elections Budget – The Supervisor of Elections cut \$0.4 million from the Planned FY 09 budget. We have no detail on priorities in addition to having little underlying detail on where the funds will be used in relation to how funds have been spent in the past. The Supervisor of Elections budget fluctuates sharply from one year to the next due to factors largely driven by outside events – the timing of primaries and elections and State-generated requirements to replace technology. That makes comparisons challenging.

Tax Collector Commissions – Commissions are paid proportionate to property tax revenue and they declined with the reduction in property tax revenue, saving \$3.5 million from what had been planned in FY 09.

Other Factors in the Budget – Overall, the cuts from the Planned FY 09 Budget within the County Administrator and Constitutional Officers' budgets

account for \$26.9 million of the \$41.2 million left to address after using the five strategies outlined earlier. The remaining cuts are accounted for by a variety of smaller factors including reducing annual (recurring) funding for capital projects (\$7.4 million), lower tax increment payments to municipalities (\$1.3 million), reductions for Board-funded agencies such as the Planning Commission and the Environmental Protection Commission (\$1.2 million), and County Attorney's Office savings (\$0.4 million) and non-profit agencies (\$0.2 million). Other factors accounted for the remaining savings – such as eliminating the need for a lease for the Public Defender and eliminating funding for a dirt road program (combined savings of \$0.7 million).



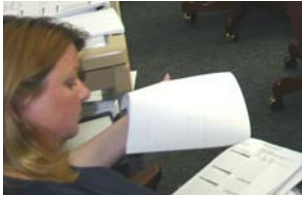
Balancing the FY 09 Budget

(in millions)

Potential FY 09 Deficit	\$108.1
Less: Deficit Reduction Strategies	
Strategy 1: Slow budget growth in the biennial budget	(30.0)
Strategy 2: Updating recovery of administrative/overhead costs	(4.6)
Strategy 3: Ending supplement to ELAPP bond proceeds	(11.7)
Strategy 4: Using non-recurring funding to cut recurring commitments	(9.1)
Strategy 5: Managing appropriations	(11.5)
County Administration cuts/savings	(16.1)
Sheriff and Supervisor of Elections cuts/savings	(7.3)
Reduced Tax Collector commissions	(3.5)
Reduction of recurring funding of capital projects	(7.4)
Reduced tax increment financing payments to municipalities	(1.3)
Environmental Protection Commission, Planning Commission cuts	(1.2)
County Attorney cuts/savings	(0.4)
Non-profit agency cuts	(0.2)
Other cuts/savings net of revenues and other adjustments	<u>(3.8)</u>
	\$0.0

Other Issues Embedded Within the Recommended Budget

Shifting the Burden for Special Projects – In prioritizing our use of available funding, we have the opportunity in some program areas to facilitate services without bearing the expense – particularly for programs that are unique to specific locations. One such area is the paving of dirt roads. The budget ceases County funding of the paving of dirt roads with the intent that the County establishes a financing mechanism for residents who request the County facilitate paving of dirt roads. We anticipate this can be handled through the use of municipal special benefit unit (MSBU) assessments. Other programs offer similar opportunities to make improvement available, but not have the County bear the cost: residential traffic calming, senior zones, railroad quiet zones, etc.



Pay Adjustments – The updated budget reduces the employee market equity adjustment for FY 09 by more than one-third from 3.5 percent to 2.25 percent for employees within County Administrator departments. The market equity adjustment is intended to retain relative comparability with public and private employers. The lower rate will not do that. An annual *Florida Trend* survey of CEOs at the time we prepared budget recommendations indicated higher pay increases by private sector employers, and inflation was running at nearly 4 percent. Civil Service market surveys showed us falling behind in comparisons with public sector employers. There will again be no merit-based pay increases in FY 09. We increased the cafeteria benefit for employees to assist them in covering higher health insurance premiums. Constitutional Officers and other agencies have developed different strategies for controlling costs in their organizations so pay and benefits will vary between organizations funded by the Board. As one example, the Sheriff has withdrawn from the self-insured employee health care program operated by the Human Resources Department for County Administration and other agencies including some not funded by the Board.

The County continues to fund an annual required contribution tied to our implementation of the Governmental Accounting Standards Board Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

Reserves – We avoided drawing down reserves to support operations. Using non-recurring sources to fund recurring (on-going) needs would violate BOCC Policy 03.02.02.19 regarding a balanced budget consistent with long term fiscal health. In our major operating funds, reserves meet Standard and Poor's recommended reserve level for a AAA-rated county. Our catastrophic reserve, which is part of that recommended reserve level, reached the intended 8 percent target for the first time in FY 08. Even at that level, a catastrophic event such as a hurricane would likely still require short term borrowing to supplement available reserves and interim payments from FEMA since a variety of County revenues would be disrupted. The Board set aside \$18 million in funds carried forward from FY 08 in the General Fund above planned reserve levels. Those added funds have been earmarked for a potential taxpayer refund, should the Florida Legislature relax existing restrictions on such activity when the Legislature meets in 2009.



Use of Communications Services Tax for Fire Rescue Equipment – The Board clarified limitations on how the portion of the Communications Services Tax (CST) reserved for fire rescue costs may be spent. The Board approved using CST reserves to prevent FY 09 cuts that had otherwise been anticipated in Fire Rescue services. Use of such funds in the next biennial budget process would require further Board action.

Funding of Criminal Conflict and Civil Regional Counsel – Sufficient funding is available to address a budget request received for this program should current litigation by Florida counties over this mandate fail.

Reduction in Force Process

We were largely successful in avoiding significant layoffs again this year. Once the Recommended Budget for FY 09 was delivered, we initiated a reduction in force process. Many positions cut in the FY 09 budget were already vacant, based on a limited hiring freeze that had been in effect throughout FY 08. Most employees in positions that were cut were placed in other vacant positions including some employees who chose voluntary demotions.

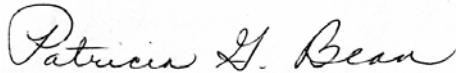
Conclusion

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.”

The task before us this year was without precedent in the more than thirty years I have served in local government. The impacts of tax reform are likely to be permanent and will shape all future budgets. While we face additional financial challenges in the next year or two, our economy will rebound and, with that, our ability to look at how to serve a community that continues to grow, although not at the same pace as recent years. That holds hope for future expansion of fire services, parks, and libraries that are currently constrained – but constantly requested.

I continue to believe it is the responsible action to curb spending through efficiencies and through selective cuts in lower priority activities and programs rather than take interim actions that simply defer the need to act. That is what we have accomplished with this budget. Florida jurisdictions that deferred last year's impacts of tax reform simply compounded their difficulty in addressing their FY 09 budgets. Tax reform may have more phases to come. At the same time, we face the consequences of a weak economy and the potential impacts of State budget cuts. We stand prepared to meet those challenges as we begin shortly the process of preparing your next biennial budget for FY 10 and FY 11.

Respectfully Submitted,



Patricia G. Bean
County Administrator