

## Revenue “Portfolio” Diversification for Hillsborough County

This paper addresses Hillsborough County’s reliance on property taxes – “ad valorem” taxes – to pay for a majority of the cost of countywide services and of the cost of municipal type services provided in the unincorporated area of the County. In FY 99, 85 percent of the revenue used to pay for these services came from property taxes (\$340 million out of \$402 million in total revenues).

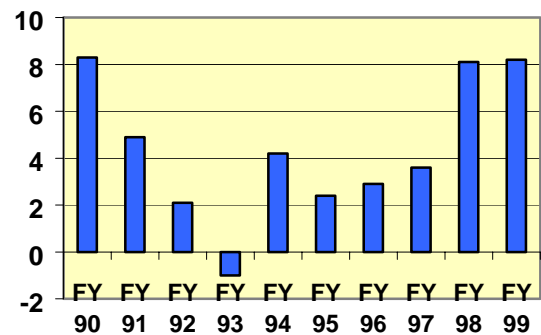
The problem this reliance on one revenue poses is not an obvious one. It can best be illustrated by a comparison with the behavior of an investor. An investor who deposits a majority of his or her assets in a single investment – say, real estate development – exposes himself or herself to how that particular investment performs over time. In this case, real estate investments may perform well during some portions of a business cycle and poorly during other times – a veritable roller-coaster ride. Since most of the investor’s assets are in a single investment, there is insufficient income from other investments to stabilize or smooth the fluctuations in income or value of the investment.

Hillsborough County has essentially invested in real estate development through its heavy reliance on property tax revenue. The County draws the vast majority of its operating revenue for both countywide services and unincorporated services from a revenue that depends on the value of land and existing structures, and on new construction. The increase in value is somewhat constrained on the high side by a Constitutional Amendment (Amendment 10). Amendment 10 restricts the annual increase in the assessed value of homestead property. The annual increase cannot exceed 3 percent or the annual increase in the Consumer Price Index (CPI), whichever is lower, until the next time the property is sold. There are no constraints, however on how much an assessed value can drop.

Over the past ten years (FY 90 to FY 99), property value for tax purposes has grown at an average

annual rate of 4.3 percent per year.<sup>1</sup> On an annual basis, the actual annual change has ranged from a 1.0 percent decline in FY 93 to an increase of 8.3 percent in FY 90 and 8.2 percent in FY 99, as shown below.

Percent Increase in County Taxable Value



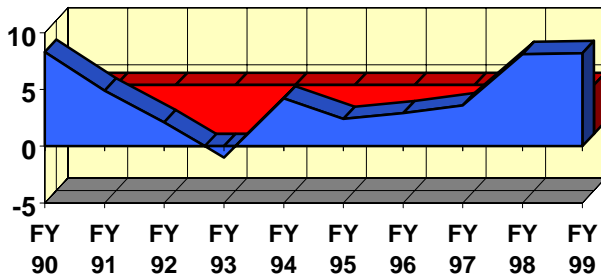
This pattern reflects a “roller-coaster” pattern for the 1990’s. Prior to the large increases for FY 98 and FY 99, the annual increase had only averaged 3.4 percent through the 1990’s. In four of those years, the increase in the County’s tax base was less than the change in the CPI and other inflation measures – even with a strong economy and new construction.

The significance of the annual variation in this tax base growth may be better illustrated in the following chart, which contrasts annual growth against the ten-year (FY 90 to FY 99) average annual growth rate.<sup>2</sup>

<sup>1</sup> Given a fixed tax rate, which is measured in “mills” or one dollar of taxes per \$1,000 of taxable value, the County’s revenue from this source would grow by an average of 4.3 percent per year.

<sup>2</sup> One solution to this annual variation would be to adjust the tax rate each year to ensure a stable growth in revenue. Theoretically, the Board of County Commissioners can control the flow of tax revenue by simply adjusting the tax rate each year. Such a concept appears to be the basis for State

**Increase in County Taxable  
Value:  
Annual Rate and 10-Yr.  
Ave.  
(Percent Change)**



The majority of County program costs are continuing – “recurring” – costs. Staffing of jails, maintenance of parks, feeding the elderly, putting out fires, and enforcing laws and community codes cannot fluctuate widely from one year to the next. As a result, the instability in property tax revenue is at odds with the stability needed to offer County residents and businesses constant levels of services. There is another factor associated with the County’s reliance on property taxes: Property taxes are the most disliked revenue option used by government, as confirmed by countless surveys including Hillsborough County’s two annual telephone surveys of County residents. There is a heavy stigma associated with a tax that, if it goes unpaid,

Statutes that require the County to notice taxpayers if the County is obtaining additional tax revenue from existing taxpayers as a result of reassessments.

What may appear theoretically possible does not meet the test of reality. Annual fluctuations in tax rates are not politically feasible, given that individual property owners do not each experience the same pattern of change in property value that the overall tax base experiences. Constant changes in tax rates would shift the impact of annual fluctuations in tax revenues from County government to large numbers of property owners.

will result in the loss of one’s home. Even the Internal Revenue Service has allowed delinquent taxpayers the opportunity to retain their homes while meeting their tax obligations over time. A final negative factor applies only in regard to countywide services: Existing tax rates are approaching the statutory cap on millage rates. The option to simply raise rates to meet funding needs, therefore, is limited.

**What is the Solution to Heavy Reliance on Property Taxes?**

Just like the investor who experiences the roller-coaster ride of investment earnings because he or she heavily invested in a single investment, the County experiences wide swings in overall revenue because the County has heavily invested in property taxes as a revenue source. The solution is to reduce the reliance on property taxes. This resolution works well for both the financing of countywide services and for the financing of unincorporated area (municipal-type) services.

***The basic political and economic reasons for diversification of tax systems lie in the fact that there is no such thing as a perfect tax.***

**John Shannon,  
former Executive Director,  
U.S. Advisory Commission on Intergovernmental  
Relations**

A least three major approaches may be used to reduce the reliance on property taxes, and they may be used in various combinations. In examining these approaches, a few concepts should be considered:

*Acceptability* - How do/will County residents and businesses react to a particular revenue. Alternately,

this may be viewed as how fair or equitable a revenue appears.<sup>3</sup>

*Stability* - Does a revenue reflect a steady pattern over time – i.e., is it predictable? The trend for a stable revenue does not look like a roller-coaster.

*Adequacy* - The cost of providing services rises with inflation and with growth in demand for services. Efficiencies may mitigate a portion of those increases, but additional revenue is required each year. A sign of a good revenue is one that keeps pace with the need for funds to maintain service standards over time. This characteristic may be referenced in terms of “strong” versus “weak” revenue growth.

### **APPROACH 1 - SHRINK THE BUDGET**

This approach simply reduces funding of government services so that the size of the budget shrinks. The entire reduction in the budget can be offset by reduced property tax rates and the result is a smaller share of the overall budget funded by property taxes. This is a feasible option, but implementation presents several challenges.

First, priorities must be set as to what programs are scaled back and/or what programs are eliminated. For the most part, commissioners have preferred to address changes to the budget during budget deliberations rather than formally set priorities well in advance of a recommended budget being prepared by the County Administrator. Either approach can achieve the required results.

A second requirement of this approach is to consider what other revenue impacts may result from budget cuts. Some programs charge user fees that would be reduced if program costs were

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<sup>3</sup> Acceptability should not be confused with the concept of impact. Most revenues available to local governments are considered “regressive” because they impact low income residents more severely than higher income residents. Impact is typically measured in terms of what portion of a resident’s or family’s income is spent on a particular tax.

reduced. In addition, most of the central administrative functions recover a portion of their costs through reimbursements paid by programs in other funds. For example, the County’s enterprise operations (water/wastewater and solid waste) reimburse the General Fund for a variety of administrative services: purchasing, accounting, legal, budget, administration, etc. Cuts are not restricted in administrative areas, but the savings resulting from cuts will be the net amount remaining after consideration of any revenue impacts.

It should be noted that shrinking the County’s budget may not require eliminating a service to County residents. The passage of Constitutional Revision 7 is a good example.<sup>4</sup> By shifting the burden for court-related services to the State of Florida, the Board of County Commissioners will reduce the County budget and has pledged to use a portion of the savings for property tax relief. There may be other opportunities to shift the responsibility for programs to other governmental entities, or to the private sector. For example, should the Board of County Commissioners continue to provide annual operating subsidies to Hillsborough Area Regional Transit (HART) because HART has not sought voter approval to levy a higher millage rate that is authorized by Florida Statutes, but requires voter approval? In effect, the Board is using its ability to levy taxes without a referendum in place of HART seeking public approval of its higher expenditure needs by referendum. One might question why a taxing authority such as HART should be independent of the Board of County Commissioners if it requires annual operating subsidies from the Board.

One caveat concerning this approach: Since the revenue mix reflects existing revenues with a smaller reliance on property taxes, there is no opportunity to control the characteristics of the new

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<sup>4</sup> Approved by Florida voters in November 1998, Constitutional Revision 7 requires the State of Florida to assume financial responsibility from counties for most of the cost of operating the state court system by July, 2004.

mix of revenues. Stability, acceptability by the public, and growth trends (adequacy), for example, will more heavily reflect other existing County revenues. Given the feedback from the County's public opinion survey, acceptability would only get better if the County reduces its reliance on property taxes.

## **APPROACH 2 - RAISE NEW REVENUE**

This approach adds new revenues or increases from existing revenues to provide added revenue. In doing so, it diffuses the prevalence of property tax revenue as a funding source. Unlike the first approach, the County has the opportunity to select revenues that have optimal characteristics – public acceptance, stability over time, and steady growth to keep pace with inflation.

Local governments throughout the United States are increasingly seeking to avoid this approach with a variety of tax limitation measures originating with California's Proposition 13 (circa 1978). Even where there are no statutory limits, most local governments are experiencing a wave of fiscal conservatism. Nevertheless, it is one means of reducing the reliance on property taxes. As new revenue is raised from sources other than property taxes, the overall mix changes and property taxes comprise a smaller share.

The difficulty of estimating new revenue is another concern to be addressed. It is discussed in detail in the description of Approach 3, where it has a greater impact.

A typical issue that also must be addressed with new revenues is the collection of the revenue. Unless a new revenue can be "piggybacked" on an existing revenue or collection process, there will be a need to establish a collection mechanism with costs that will partly offset the revenue collected. Expanded use of existing revenues can avoid this issue.

## **APPROACH 3 - REPLACE A PORTION OF PROPERTY TAXES WITH NEW REVENUE**

As the title suggests, the County can opt to levy new revenues to replace a portion of the property taxes currently levied to pay for services, or expand the use of some existing revenues to cut the use of property tax revenue.

This approach accentuates how the overall characteristics of County revenue changes if revenues are selected that are stable, publicly acceptable, and experience strong growth.

Potentially the most difficult issue to address with this approach is timing. When will the new or increased revenue be received during a fiscal year from alternate sources? Property taxes are levied annually, with the bulk of the revenue collected early in the fiscal year (November and December). Most other revenues are received periodically – monthly or more frequently.

Actual collections from revenues are typically estimated. Depending on the revenue, the amount of annual collections may be very predictable or a crude estimate based on expert judgment.<sup>5</sup> The implication is that the amount of property tax revenue that is given up in return for new revenue may be based on less than optimal information on what the substitute revenue will generate. A conservative estimate of new revenue may lead to complaints of overtaxation – raising more revenue than is traded off in property tax relief. An optimistic assumption of new revenue could lead to a revenue shortfall. This potential problem may lead to consideration of phasing when a new revenue is used for which information is limited on how much will be collected. By starting with a small reliance on the new revenue, the exposure to errors in

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<sup>5</sup> Increasing an existing revenue may be the most predictable option. However, higher taxes or fees can lead to a lower revenue yield – a concept economists refer to as the "elasticity of demand." As higher taxes or fees drive the price for goods or services up, the quantity of goods or services demanded by residents and businesses falls.

revenue estimation are reduced. At the same time, the approach of phasing in a new revenue by starting with a small amount may backfire if collection costs are the same regardless of how much is collected.<sup>6</sup>

Regardless of how precise the estimate may be of new revenue, the difference in timing of when revenue is received will have an impact on interest earnings by the County. Any adjustment in property tax rates should reflect changes in interest earnings as well as revenue generated by the replacement source of funding.

## **The Challenges in Providing Countywide Services and Unincorporated Area Services**

The following sections shed light on funding of Countywide services and funding unincorporated services. They reflect hurdles, issues, considerations, and past practices that may aid in understanding the challenges facing Hillsborough County.

### **COUNTYWIDE SERVICES**

There are several specific challenges in funding countywide services:

1. The existing millage rate is relatively close to the statutory ceiling – over 83 percent of the cap.<sup>7</sup> That means that there is a point beyond which the County may not levy taxes except under exceptional – and temporary – circumstances. A high countywide millage rate is explained, in part, by the size of the County

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<sup>6</sup> For example, initiating a 1 percent tax rather than a full 5 or 10 percent tax reduces the County’s exposure to errors in revenue estimation but may be as costly to collect at the 1 percent level as at a 5 or 10 percent level.

<sup>7</sup> The County’s library services millage is combined with the General Fund millage to test against the statutory 10-mill cap for countywide services.

tax base in comparison with the size of its population.<sup>8</sup>

2. Many of the countywide services are social services. These are programs where the general public must foot the bill for services provided to those who cannot afford what they are receiving. The result: departments would be unable to pass on costs to low income clients as an option for reducing the reliance on property taxes.
3. Hillsborough County already benefits from separate taxing authorization for the Tampa Port Authority, Hillsborough Area Regional Transit, and the Children’s Board. Hillsborough is also one of only two counties (Miami-Dade is the other) that levy a special sales tax for medical care.
4. Despite significant increases in the size of the tax base the past two years (FY 98 and FY 99), the County has relied on shifting costs to other revenues to avoid service cuts or tax rate increases: The indigent care sales surtax now covers the full cost of the County’s healthcare program. Administrative costs have also been aggressively recovered from the surtax, and the cost of healthcare for jail inmates is also now paid by the surtax.<sup>9</sup> Phosphate severance taxes

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<sup>8</sup> Research conducted earlier this year compared Hillsborough County against the other large urban counties in Florida. The research found that Hillsborough has a relatively low per capita property tax base – lower than the statewide average and lower than several of the other urban counties. This measure is particularly revealing because County expenditures are largely population-driven, while the property tax is the primary source of revenue. Given a smaller per capita tax base, the County has been forced to adopt higher a higher tax rate than might otherwise be required, in order to generate sufficient tax revenue. Tax rate caps do not take into consideration the size of a jurisdiction’s tax base, so a county with a lower per capita tax base faces greater impact of a millage cap than a county with a higher per capita tax base.

<sup>9</sup> On a very positive note, indigent care sales tax revenue has grown strongly—as have other County revenues from sales tax levies. In an agreement to extend the duration of this tax,

paid for a variety of related services – from parks operation on reclaimed phosphate mines to environmental monitoring – until expenditures out-stripped revenue. These actions have helped reduce the reliance on property taxes, but they have not solved the funding issues facing Hillsborough County in providing countywide services.

5. While the Board of County Commissioners funds the County budget, separately elected officials (circuit and county judges, the Clerk of the Circuit Court, and the Sheriff), control certain revenues that impact how much they require in funding from the Board.<sup>10</sup> Examples include various court-related fees and fines including traffic citations and court costs.
6. The operating impacts of capital projects will continue to strain the County’s ability to meet its obligations: The County’s “Community Investment Tax” or “CIT,” can assist in paying for land and improvements, but not staffing and other operating expenses. Passage of Constitutional Revision 7 may free up funds to cover the cost of operating one additional jail facility, but other countywide projects including future jails will require added funding for operations.

## **UNINCORPORATED AREA SERVICES**

The challenges facing the County in providing municipal-type services to unincorporated area residents and businesses are generally different

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the Florida Legislature authorized the County to reduce the tax levy from ½ percent to ¼ percent to draw down a substantial cash balance (\$150 million) that had accumulated as the HealthCare Program evolved. The expected duration of the lower levy is 41 months.

<sup>10</sup> Constitutional Revision 7 is expected to reduce, but not eliminate, the impact of this issue on the County budget. County staff assumes that a significant portion of existing court-related fees and fines will accrue to the State of Florida since the State will assume financial responsibility for associated court costs.

from those faced in providing countywide services. There is no perceived danger of hitting a millage cap, which is an issue for countywide services. The County’s property tax levy for unincorporated services is currently about one-half of the cap. The primary challenges for unincorporated services are:

1. Population growth is occurring primarily in the unincorporated area of the County. As a result, the growing demand for municipal services is primarily faced by the Board of County Commissioners, not city governments. Currently, two-thirds of County residents receive municipal services from the County, and the County’s share will continue to grow over time as permitted development occurs.
2. The size of the unincorporated area is vast – 931 square miles. Stretching services to developments requires not only infrastructure, but also the staffing to maintain and operate new facilities. Impact fees and the CIT can pay for land and improvements, but not staffing and other operating expenses. Operating one new fire station costs over \$700,000 per year.
3. Unlike a municipality where police services are provided by an appointed police chief, police services are provided in unincorporated areas by a separately elected official – the Sheriff. State law gives the Sheriff unique authority to request funding and provides the Sheriff an appeal to the State if his request is not fully funded.

Two issues will impact the Sheriff’s funding requests in upcoming years: Federal funds used to hire additional deputies will phase out, leaving the County responsible for picking up the full cost of those positions. Second, in September 1998, the Board adopted a staffing ratio of 1.7 deputies per 1,000 population, which will generate the need for a steady stream of additional deputies, associated operating costs, and, potentially, non-sworn support staff.

4. While the County’s charter allows the County to use typical municipal funding sources, the County does not levy some of the most common municipal revenues: a public services (utility) tax, franchise fees (the County only levies a cable franchise fee), and/or right-of-way usage fees. The County has also been less aggressive than many jurisdictions in recovering the cost of services through user fees.<sup>11</sup> Complicating the issue of municipal revenues is that counties do not receive all of the state-shared revenues to municipalities even though counties are the exclusive municipal service providers to a large share of the state’s population.
5. As with the countywide tax levy, the County has relied on shifting costs to other revenues to avoid service cuts or tax rate increases: Gasoline taxes that paid for construction of new roads several years ago now pay for maintenance of existing roads. Cable franchise fee revenue, which had previously been used exclusively for cable-related uses is now used as a general revenue for unincorporated services.

## **Options for Diversifying the County’s Revenue Portfolio**

A variety of options may be considered to address one or more of the approaches to revenue diversification. These can be best addressed by considering countywide services and unincorporated services separately.

### **COUNTYWIDE SERVICES**

Options can be separated out between those that reduce funding needs and those that provide supplemental or supplanting revenues.

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<sup>11</sup> User fees are heavily used by local governments in states with more restrictive limits on property taxation.

### **What costs can be cut or shifted?**

**Grants** - Applications for grants frequently require the County to not only provide matching funds, but may require additional local support to meet the service standards of the grant program. Some grants have been enhanced with significant additional local dollars: For example, some Aging Services grant programs receive as much local funding as grant funding. In addition, administrative overhead is rarely recovered resulting in additional hidden subsidies. Increasingly, grants are not the “deal” they once were. Grants rarely supplant local funding of existing programs. The question, therefore, is how much the County should subsidize a program that was not justified when it required full funding from the County.

An additional twist occurs with grants as well: Grant funding cycles frequently vary from the County’s funding cycle, so it is not as evident what alternative services could have been funded by the County as an alternative. This results when policy decisions to accept or expand a grant are made out-of-sync with the budget cycle. Budgeting for grants is being modified in the FY 00 and FY 01 budget to better disclose the local funding requirement for each program.

A more aggressive approach to grants management would be to identify the full County funding requirement for any grant before application is made and consider withholding application for grants that require significant hidden subsidies. The issue is simple: If a program wasn’t considered worth funding exclusively with local dollars, what portion should be funded with grant dollars before the program is justified.

To facilitate additional potential savings, continuing grant programs could be re-examined on a scheduled basis either through a self-imposed “sunset” provision adopted by the County, or through a less structured approach. The intent would be to ensure the program or service provided is still a Board priority, and to consider whether the

County's portion of the cost has risen over time to a level not justified by the benefit received from the program.

**Privatization** – Opportunities exist for competitive outsourcing of services. Governments are frequently setting up competition between existing staff and private service-providers, or simply choosing to contract out services as the preferred option. A key to contracting services is factoring in the cost of in-house management of contracts to ensure quality standards are met and to ensure the County receives the services it pays for or deductions are made in payments. A useful guide to this issue has been published by the Office of Program Policy Analysis and Government Accountability (OPPAGA) of the Florida Legislature. Printing services have been recently outsourced after a study of internal costs versus contracted costs.

**Special Studies and Administrative Costs-** Services currently provided to other taxing authorities can be cut or offered on a direct reimbursement basis. A sampling of possibilities for further review includes:

- Recover administrative costs associated with collecting and managing school impact fees but not currently recovered from fees due to limits on how the fees may be spent.
- Recover the cost of planning studies performed by the Planning Commission for municipalities or for the unincorporated area of the County.
- Pro-rate administration of any employee benefits programs used by other taxing authorities.
- Pro-rate the cost of the County's Legislative Delegation office between area legislators who use that office to supplement their own offices.
- Require all departments and agencies to pay directly for the services of the County Attorney's Office. This will deter unnecessary

requests and recover costs from a variety of funding sources.<sup>12</sup>

Along these lines, a portion of the administrative cost for County agencies can be more aggressively allocated so that unincorporated residents not only pay for services provided to them, but also a portion of departmental administrative functions. The Sheriff's Office is one example and the Parks and Recreation Department is a second.<sup>13</sup>

**Duplication of Services** - While this is clearly a politically sensitive area, there are at least some opportunities for elected officials who obtain funding from the Board of County Commissioners to contract (by interlocal agreement) for support services from the same organizations that supply support services to County departments. Elected officials clearly need a level of control over the services they receive, but continuing duplication provides that control at a potentially high cost. Just some of the potential areas for elimination of duplication include purchasing, fleet maintenance, building maintenance, accounting and treasury operations, and information systems. An interlocal agreement provides a mechanism for specifying the type and level of services to be provided, while allowing for economies of scale in the provision of those services through centralization.

**Generating Cost Savings** – As outlined in recommendations issued by the Blue Ribbon Committee and by Florida TaxWatch in their reports issued in 1998, performance measurement is a tool for improving the effectiveness/outcomes of County programs, as well as capturing savings through efficiencies. Establishing comprehensive performance measures is typically achieved over a

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<sup>12</sup> Some clients currently reimburse the County Attorney for services on an hourly rate. Others pay "indirect cost" charges.

<sup>13</sup> Given the County's dual role of providing some services to all County residents and other services to only unincorporated residents, there will be issues that help one group at the expense of the other. In these cases, the most equitable allocation of cost should be the driving factor in how the issue is resolved.

multi-year period. However, a recent study of Oregon cities and counties suggests that cost savings may be a more effective tool for addressing funding limitations than governments expect.

**What revenues can be raised to supplement or supplant property tax revenue?**

Options for raising new revenue are actually somewhat limited, particularly without legislative action. Some options include:

**Reimbursement for Management of Capital Projects** - One option that has not been aggressively pursued is charging capital projects for all of the costs directly associated with acquiring land, resolving legal issues, developing contracts, and managing the design and construction elements including public notices. These costs are currently unrecovered in most cases, the exception being new positions approved in FY 99 to expedite the stormwater capital program. Reimbursement based on time records would generate revenue to the County's General Fund.

This revenue will vary with the size of the capital program, but the capital program has steady funding from the CIT for the foreseeable future. Project costs for many projects are not final so there is still some opportunity to incorporate project management costs. At a recent Board workshop, the Board discussed the concept of asking the Florida Legislature to allow some portion of CIT revenue to be used to cover operating impacts of new projects. Direct recovery of overhead could achieve similar results without legislative action.

**Collection of Delinquent Fees and Fines** - An estimated \$5 million in court fees and fines are levied but not collected each year. While a portion may not be recoverable under any circumstances, an aggressive collection process would recover a portion of these revenues. Recovering 10 percent of the fees would generate \$500,000. A proposal has been developed by County Administration for a collection effort primarily relying on one or more

outside collection agencies with minimal use of existing in-house budget staff to transmit records to the vendor(s) and monitor collections. The potential for revenue, however, may decline as Revision 7 is implemented and some fees and fines are transferred to the State of Florida.

**New or Expanded User Fees** - Historically, the County has not sought to allocate any significant portion of its costs to the users of many County services. Due to the nature of many of the countywide services, fees cannot be charged. Other programs may have restrictions placed on fees if grant dollars are used.

One area for consideration is fees for the use of the County's regional parks. Admission fees, reservation fees, scheduling and/or use of facilities fees, and concession fees are potential areas for new or increased fees, and mirror the efforts by state and federal parks to recover a higher portion of annual operating costs.

Other potential areas for review: dog and cat tags, sales of maps and publications, and various program fees. Currently, the County inspects child-care facilities and recovers about one-tenth the cost of that program. The child-care program costs over \$700,000.

**Increase in Occupational License Fees** - Statutes provide for a maximum 5 percent increase in County occupational license fee revenue every other year. A 5 percent increase would generate about \$65,000 per year.

**Motor Vehicle Inspection Fee** - *legislative action required* - An annual State inspection fee of \$10.00 is levied within Hillsborough County. The County could seek the authority to add a local fee to the State fee and have the State collect the fee and distribute the proceeds to the County of origin. If necessary, the funds could be used to support environmental programs of EPC or transportation-related programs. Optimally, funds could be raised without earmarking the funds for any specific

program. Each \$1 added to the State fee is estimated to generate \$300,000 per year.

**Indigent Care Sales Surtax** - *legislative action required* - Current legislation restricts how this local option sales surtax may be used. As a result, it is separated from other countywide revenues. Eliminating the restrictions on how this sales tax may be used or expanding the list of eligible uses would allow the Board greater flexibility in establishing priorities between countywide programs. As indicated in an earlier footnote, the tax rate is currently lowered because eligible expenditures historically were far short of the revenue generated from the tax, and an excessive amount of revenue built up.

**Advertising Revenue** - Various newsletters distributed by County agencies could accept limited advertising in order to defray a portion of the cost of mailings.

**Parking Fees** - Existing monthly parking fees are not comparable with private parking rates. While higher fees place employees in downtown locations at a disadvantage to those with free parking in outlying areas, most downtown employees do not have access to County parking, and are already subject to market rates. Both employee parking rates and public parking rates for County-owned facilities could be raised to market rates.

## **UNINCORPORATED AREA SERVICES**

Options can be separated out between those that reduce funding needs and those that provide supplemental or supplanting revenues.

### **What costs can be cut or shifted?**

**Grants** - Applications for grants are less numerous for unincorporated services, but the same issues apply as with those for countywide services.

**Privatization** – As indicated earlier, opportunities exist for competitive outsourcing of services. One

example is maintenance along roadways, medians, and the landscaping in medians throughout the unincorporated area. Other opportunities may include maintenance contracts for recreation facilities.

**Operational Support** – With an increasing concern over the operational impact of new facilities, the Board has looked at creative opportunities to shift the operating cost of new facilities to private organizations. An example of this is the proposal to have local organizations or non-profit agencies operate new recreational facilities approved for construction through the use of the CIT. While these proposals are still in the formative stage, there appears to be reasonable potential for some new facilities to be operated without County operational funding.

**Functional Consolidation** – Unincorporated services provide the greatest opportunities for functional consolidation with one or more municipalities. The Charlotte-Mecklenburg, North Carolina model may be a mechanism for retaining the independence of city government and county government but cutting overhead by consolidating selective services. In the case of the City of Charlotte and Mecklenburg County, both the City and the County have responsibility for providing selective services to the entire metropolitan area. Consolidation may even allow different service standards for different geographic areas (urban versus suburban, suburban versus rural) while capturing efficiencies of centralized administration and greater flexibility in the use of human and capital resources.

### **What revenues can be raised to supplement or supplant property tax revenue?**

Options for raising new revenue include:

**Reimbursement for Management of Capital Projects** – This is the same issue addressed earlier for countywide services. While many of the management functions are funded with countywide

funds, there are selective costs funded with unincorporated property taxes within operating departments (Public Works, Fire Rescue, Planning and Growth Management, etc.) that could be shifted to other funding sources.

**New or Expanded User Fees** - As with countywide services, the County has not aggressively implemented user fees, although user fees are more common for unincorporated services than for countywide services. As previously mentioned, some programs can recover fees, using a sliding scale if necessary to preclude pricing residents out of access to programs. A typical application of this concept is youth recreation fees, where those youth who qualify for free or reduced-price school lunches also qualify for free or reduced-price recreational opportunities in the form of “scholarships.” Programs that compete with private day-care providers or non-profit agencies have a greater justification for a high level of cost recovery—and can incorporate the scholarships approach as needed to keep from pricing residents out of using services.

Another consideration is that as fees are raised, usage will decline. Some jurisdictions use fees as a method to control demand for certain services. Others judge how high fees can be set before they significantly reduce the quantity of services demanded.

Prospects for new or higher fees include recreation programs, fire inspections for commercial properties, ambulance service fees, and planning and permitting fees.

**Ambulance fees warrant special discussion:** In an effort to improve response to medical emergencies that require the attention of paramedics, County ambulance crews now turn over patients who do not require the care of a paramedic to private ambulance companies that staff their ambulances with emergency medical technicians. By not transporting a patient to the hospital after responding to a call for service and determining on

the scene that the patient’s condition is stable, the County allows a private ambulance company to charge the patient and the County loses the revenue. The County could consider levying a “treat-but-don’t-transport” fee to the patient or, alternately, charge the private ambulance company a flat fee for any patient turned over for transport by a private ambulance after the County has responded.

**Public Services (Utility) Tax** – This is a typical municipal funding source in a majority of states. At last count, this tax is levied by 305 municipalities in Florida, as well as by most urban, charter counties (Dade, Broward, Palm Beach, Duval, Orange, Volusia, and Alachua).<sup>14</sup> Essentially, it reflects a tax of up to 10 percent on certain components of a bill for utility services (telecommunications, piped and bottled natural gas, electricity, and water). Revenue potential is estimated at about \$40 million based on maximum rates, which most jurisdictions levy, or \$4 million per one percent of tax. Some exemptions are allowable. Unlike property taxes, new residents, renters and short-term residents all directly participate in paying this tax and the revenue from new residents begins quickly.

Telecommunications providers have sought to simplify taxes in Florida by consolidating state and local taxes into a single statewide tax administered by the State. This effort is continuing at the state level. An implication of consolidating telecommunications taxes is that local governments such as Hillsborough County that do not currently utilize such taxes may not receive the same “revenue neutral” treatment extended to governments that are levying the taxes. Revenue

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<sup>14</sup> A proposal to implement this tax locally was opposed strongly by TECO Energy in 1997, although no attempt has been made to seek elimination of the utility taxes levied by Tampa, Temple Terrace, or Plant City. TECO Energy’s opposition to Hillsborough County’s proposed tax appeared to reflect two concerns: First, the impending deregulation of electricity and potential for competition from suppliers not subject to local regulation. Second, the recent acquisition of People’s Gas by TECO Energy exposed the firm to similar issues related to taxation of natural gas.

neutrality is a guarantee that a government will not lose revenue regardless of changes in rates, allowances/exemptions, or administrative procedures.<sup>15</sup>

**Franchise Fees or Right-of-Way Usage Fees –** *legislation may be required.* This is a gross receipts fee typically levied by municipalities on telecommunications services and some other utilities such as cable television. Franchise fees are based on gross receipts while right-of-way usage fees reflect either gross receipts or the number of linear feet or linear miles of public right-of-way on which utilities run lines. It is not likely that franchise fees or right-of-way fees will be replaced by a statewide flat telecommunications tax. While right-of-way usage fees do not require legislative action, the County would likely require legislative action to adopt added franchise fees.

**Stormwater Assessment** - The existing annual assessment generates about \$330,000 from each dollar of assessment on a typical household (Equivalent Residential Unit or “ERU”). The current rate is \$12 per ERU.

This revenue may be adjusted annually and is collected along with property taxes. Unlike property taxes, the assessment does not change with assessed value of property.<sup>16</sup>

Special assessment revenue has strict limits on use, so stormwater assessment revenue is limited to stormwater improvements and operations. Both operations and improvements are currently subsidized by other revenues: The CIT is committed

<sup>15</sup> A guarantee of revenue neutrality for those local governments with existing taxes may come at the expense of lower revenues for governments with no existing level of revenue to protect.

<sup>16</sup> Since assessment of commercial and industrial property is based on the amount of impervious surface in comparison to a typical residential unit, a small increase in fees for a residential unit will have a much larger impact on a strip shopping center or office complex.

to stormwater projects and property taxes are committed to stormwater operations.

## **Challenges to Diversifying the County’s Revenue Portfolio**

While the intent of this report is not to reach specific conclusions on what direction the County should pursue, there are challenges to be faced in implementing revenue diversification:

- ✓ Any proposal will have opponents and some opponents will have the resources to undermine public support of any proposal.
- ✓ Reducing reliance on property taxes may require severe circumstances. Fiscal crises are the typical circumstances that lead to revamping of tax structures and spending patterns.

*If current revenue and expenditure trends continue, added operating revenue may be required.*

*In the short term, opportunities to shrink the budget through priority setting and swapping out alternate revenues for property taxes appear to best address the County’s reliance on property taxes.*

Specific policy direction on the subsidy of grant-initiated programs and, potentially, the scheduled rejustification of all programs could control the growth of expenditures. The County’s zero-base budget process is an outcome-based process capable of facilitating such review.

Heavier reliance on user fees with specific cost-recovery goals would provide a more reasonable mix of stability, adequacy, and fairness. Cost-based fees would adjust to meet changes in funding requirements when costs increase, providing increased stability and adequacy. User fees are also generally regarded as fair and consistently rated fairer than property taxes.

Elimination, where possible, of self-imposed restrictions on the use of revenues would provide the Board with the greatest opportunity to respond quickly to changes in needs and Board-identified

priorities. A Board-approved multi-year plan to control expenditure growth and shift towards less reliance on property taxes through the use of user fees are added mechanisms to achieve results.