

# **Nassau County Fiscal Sustainability Study**

**September 2, 2008**

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# Goals of the Study Program

- Provide County with a powerful tool to forecast and to analyze budgetary trends.
- Compare Nassau County expenditures with those of its peer group.
- Forecast County's budget.
- Analyze the projected operating and capital budgets.
- Provide recommendations for fiscal sustainability in both the operational and capital budgets.

# How Can Nassau County Chart a Sustainable Strategy for its Future?

## ■ Factors out of County's control

- Federal policies
- State policies including
  - Property Tax reform
  - Local government revenue caps
- National and state economies

## ■ Factors County does control

- Growth management policies
- Budget structure and Budget Policies
- Control over expenditures

# Outlook Summary



September 2, 2008

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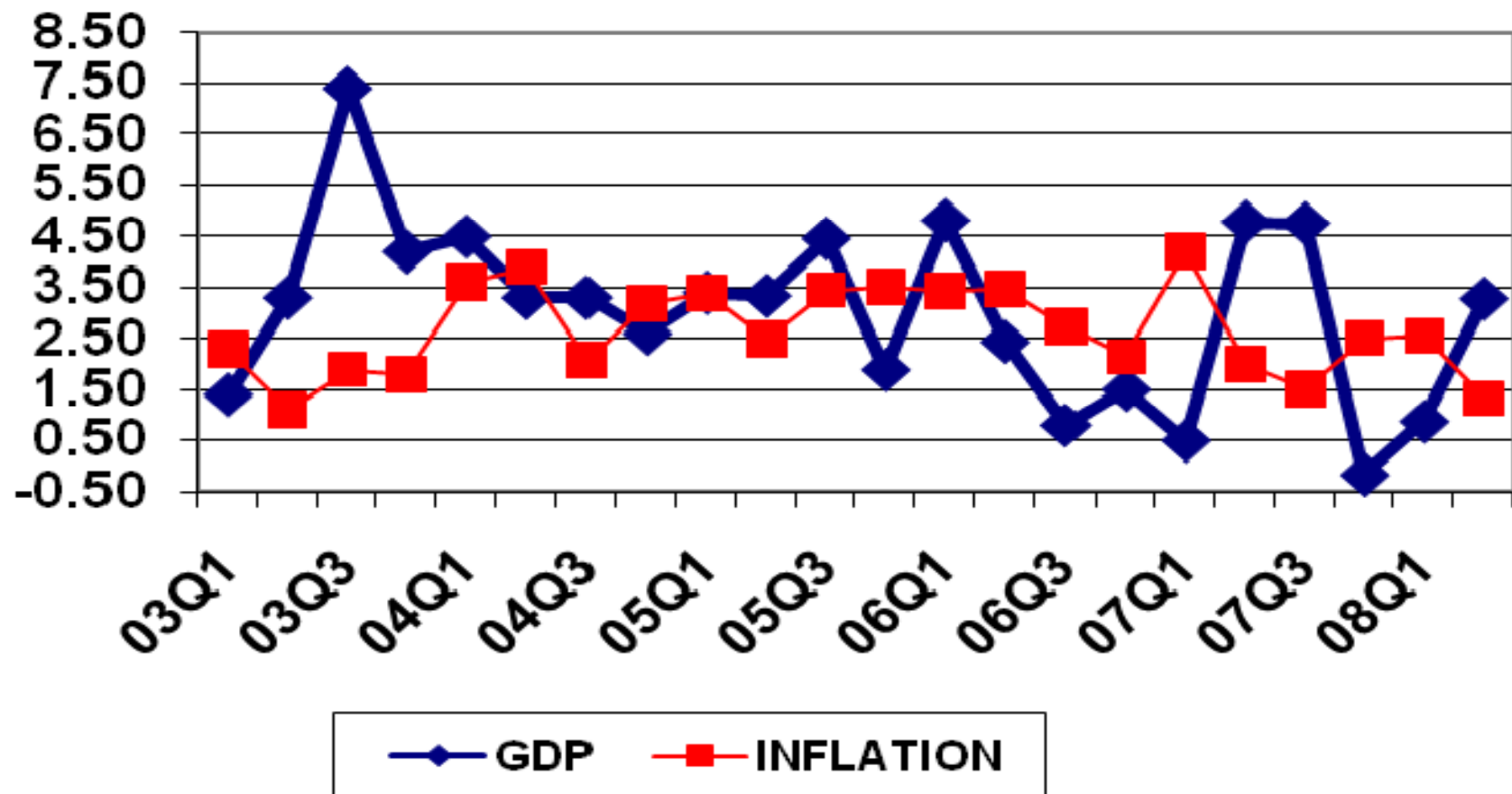
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# U.S. Forecast Summary 2008 – 2011

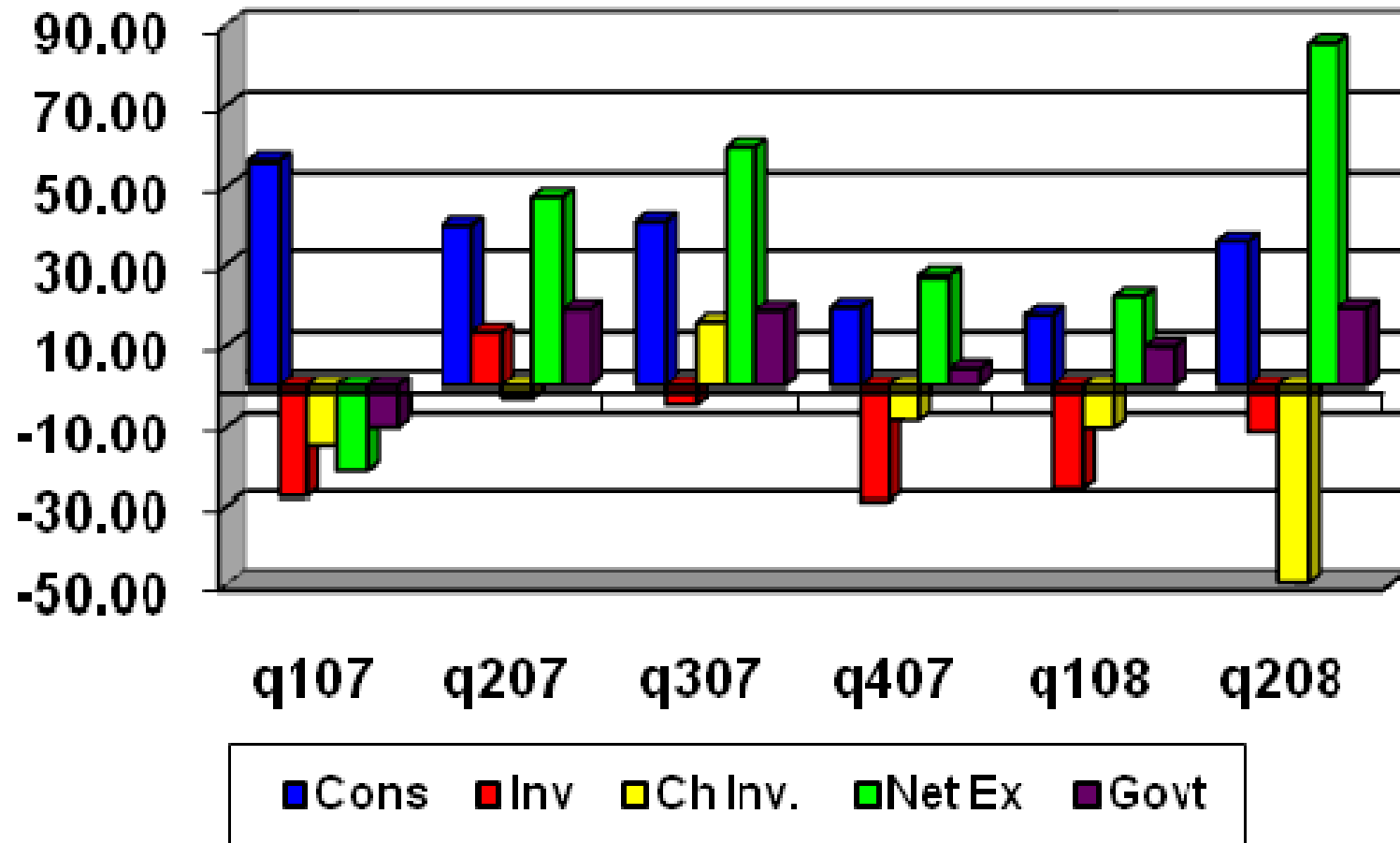
- 2007Q4-2009 Q2– Recession
  - Full fledged financial panic
  - High energy prices
  - Housing correction
  - Fed cuts interest rates and floods economy with liquidity ending panic
- 2009 2<sup>nd</sup> half - Slow recovery
  - Mortgage interest rates remain low
  - Housing market bottoms
  - Weaker trajectory for consumption
  - Stronger exports from a weaker dollar
- 2010-2011 Recovery builds momentum
- Main forecasts risk – energy price spike or financial panic

# RECENT TRENDS IN GDP AND INFLATION

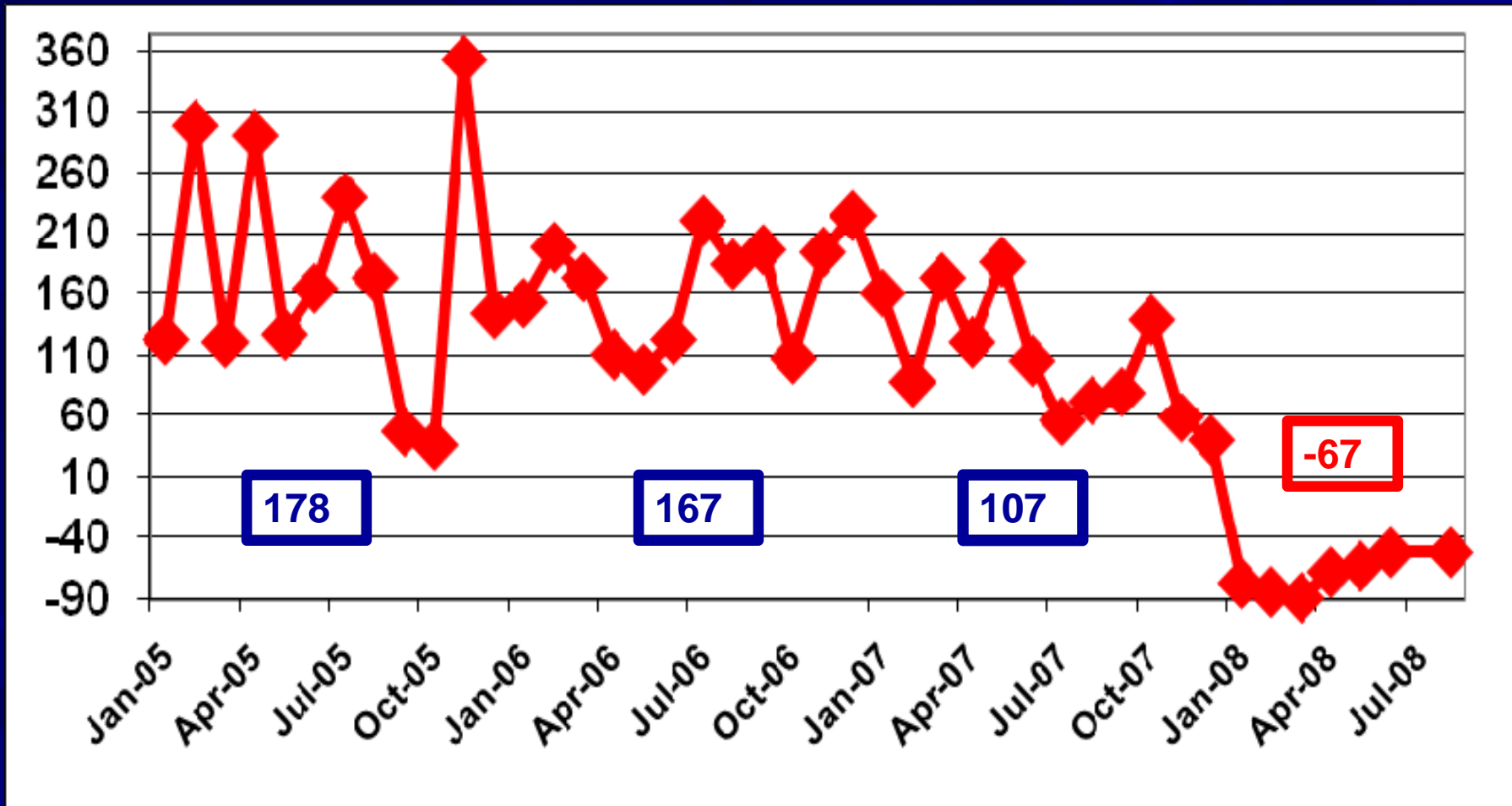


# GROWTH IN REAL GDP

IN BILLIONS OF 2000\$

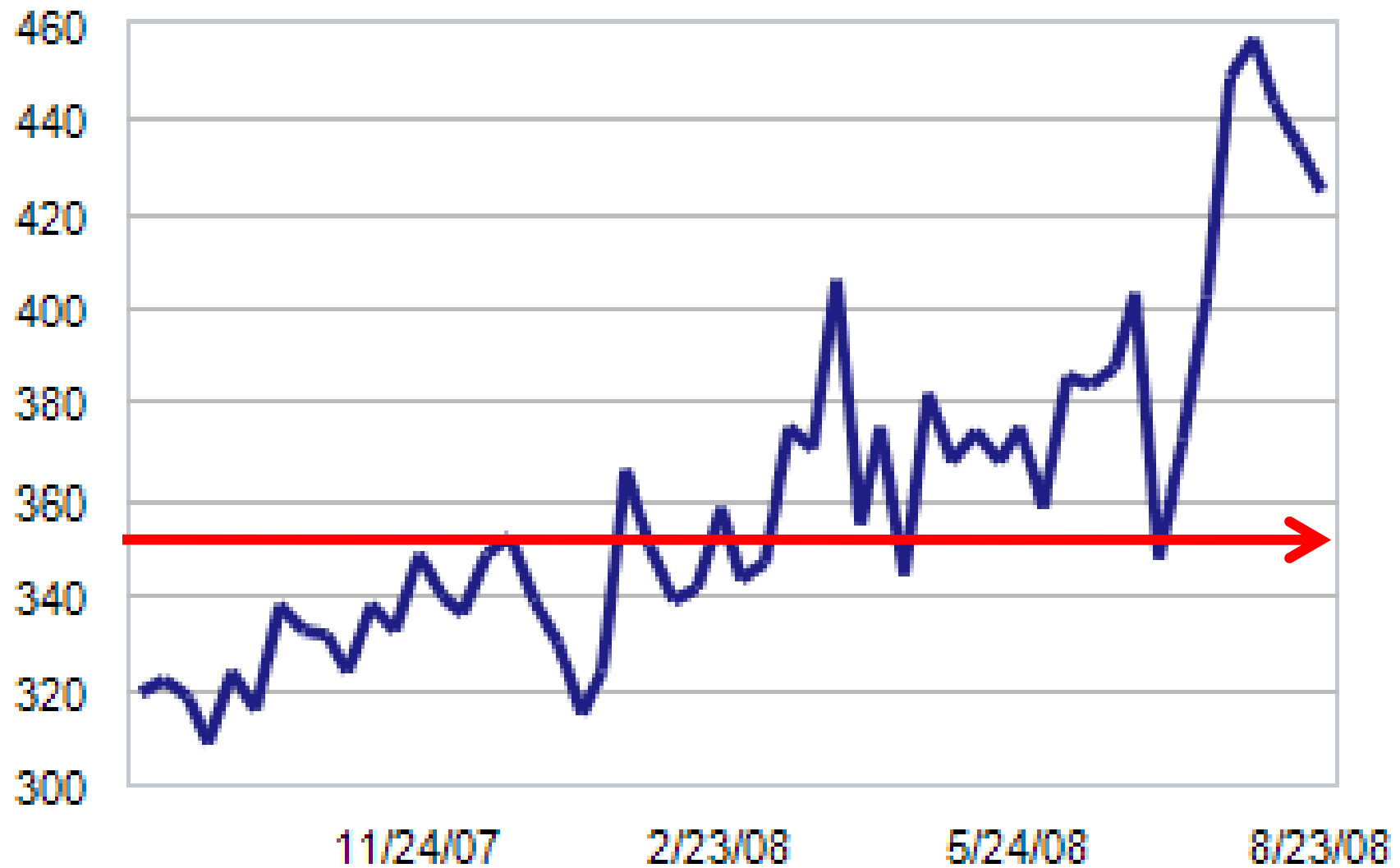


# Growth in Payroll Employment





## Weekly Jobless Claims Ths, SA



# Housing Market Conditions

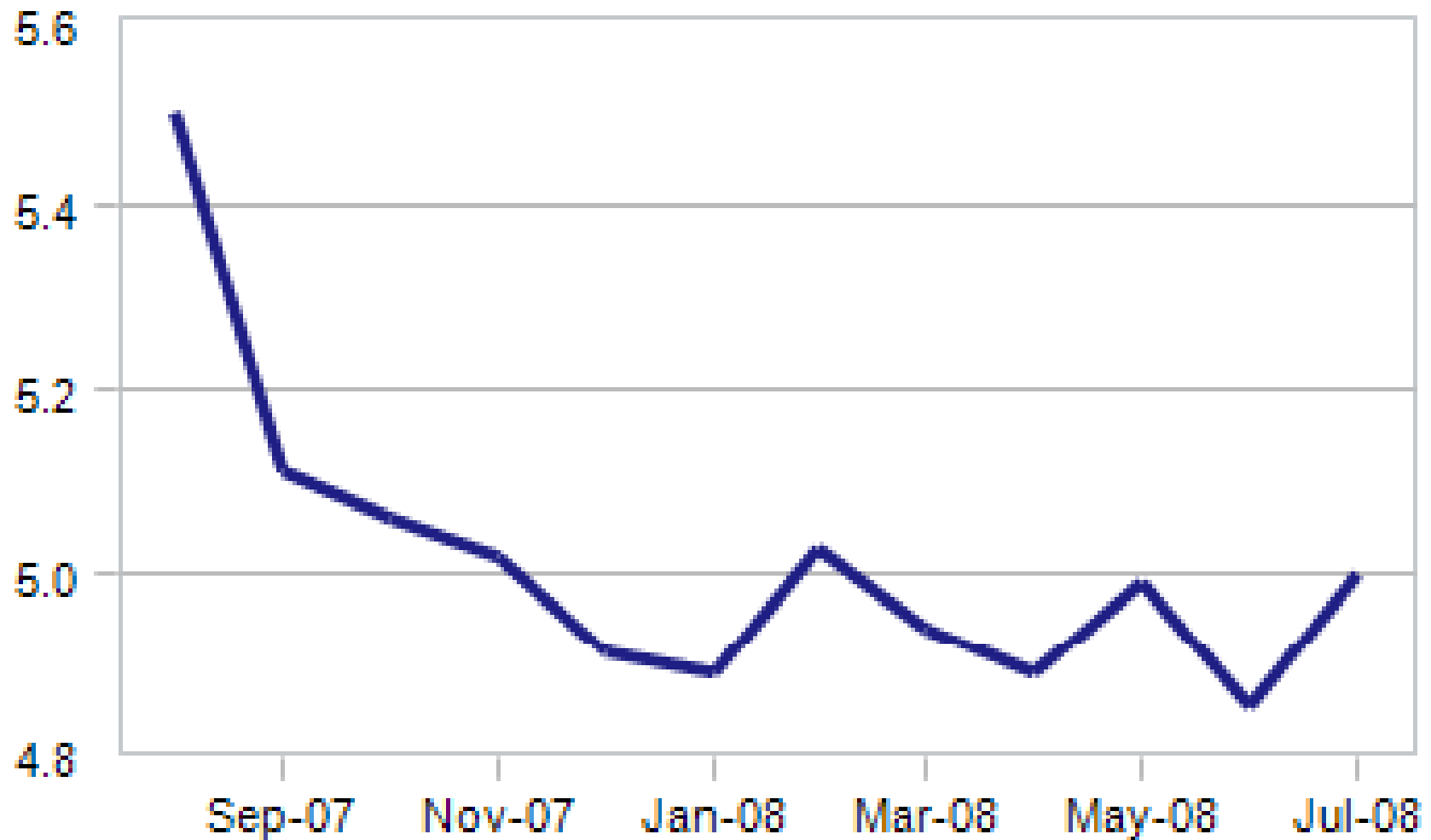


September 2, 2008

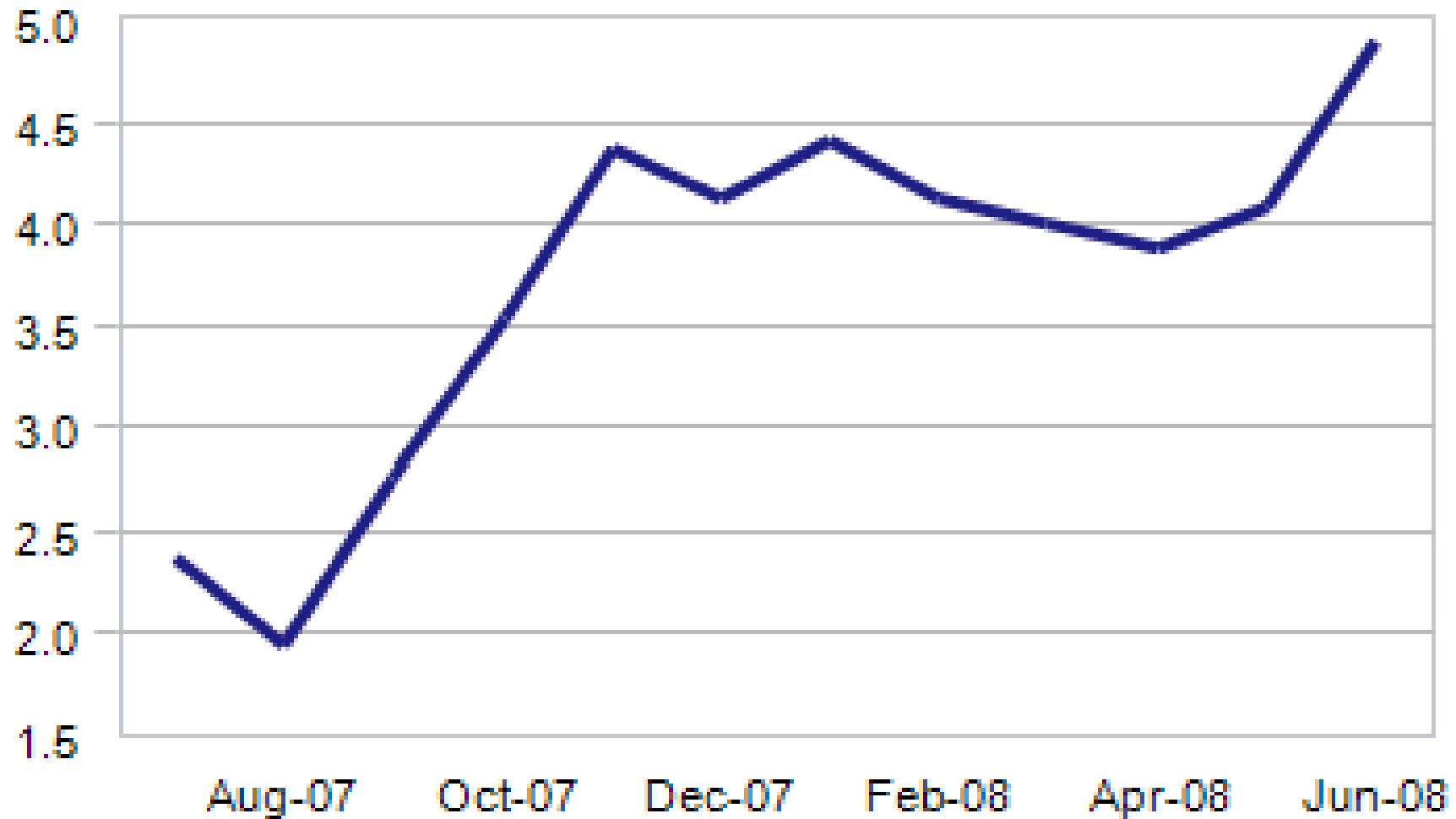
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## Existing Home Sales Mil, SAAR

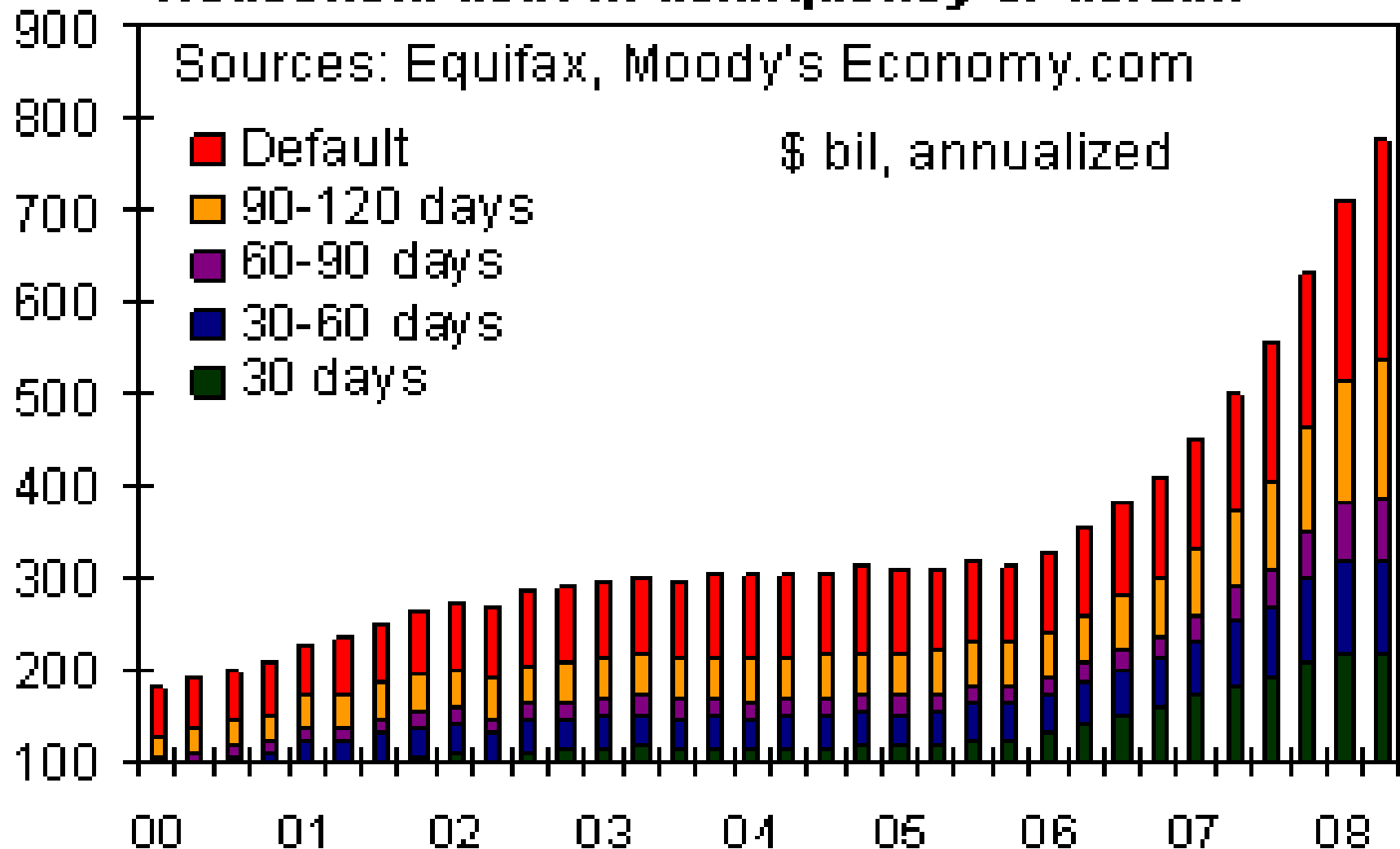


## Consumer Price Index % change year ago



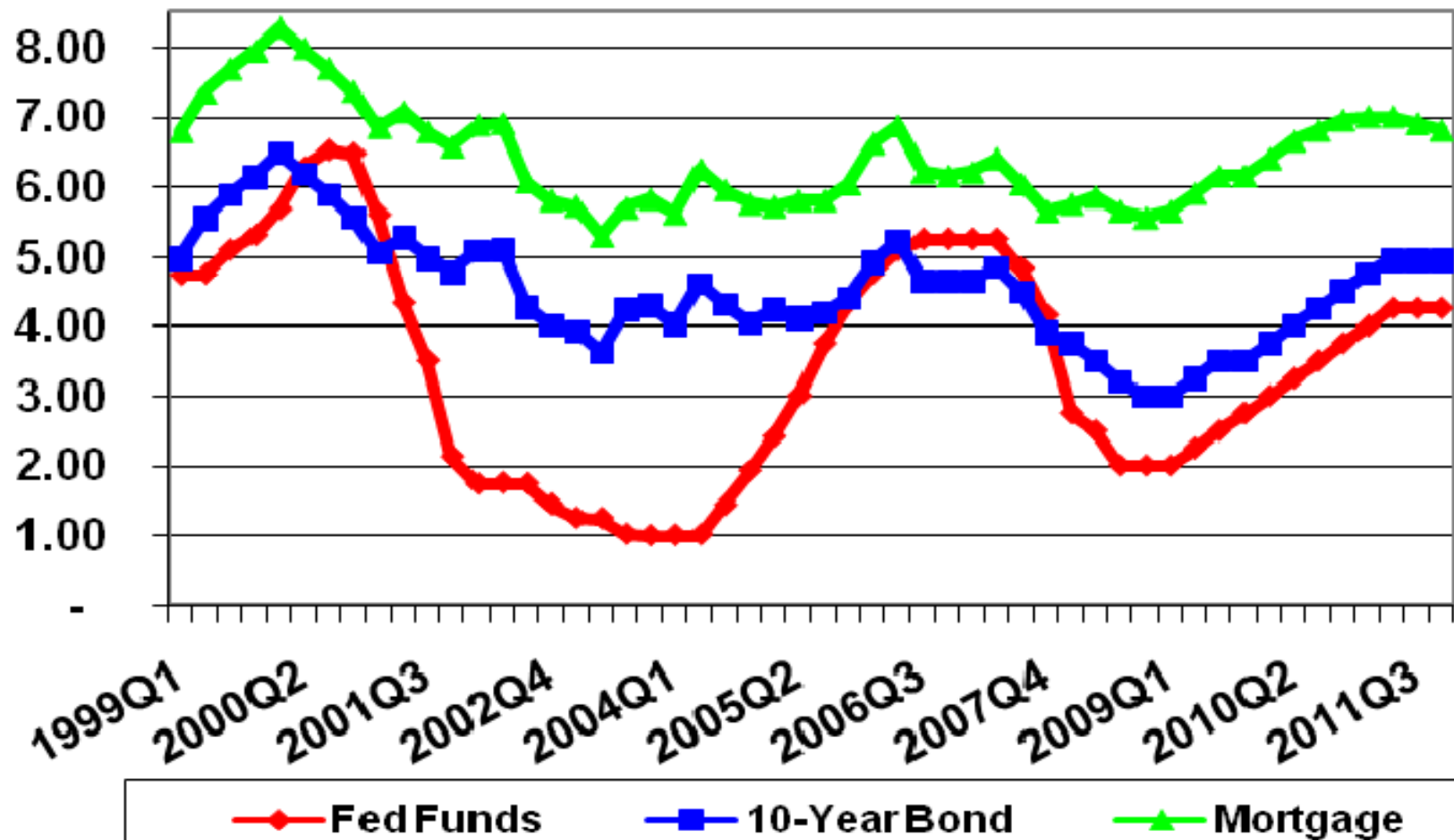
## Households Buckle Under the Stress

### Household debt in delinquency or default



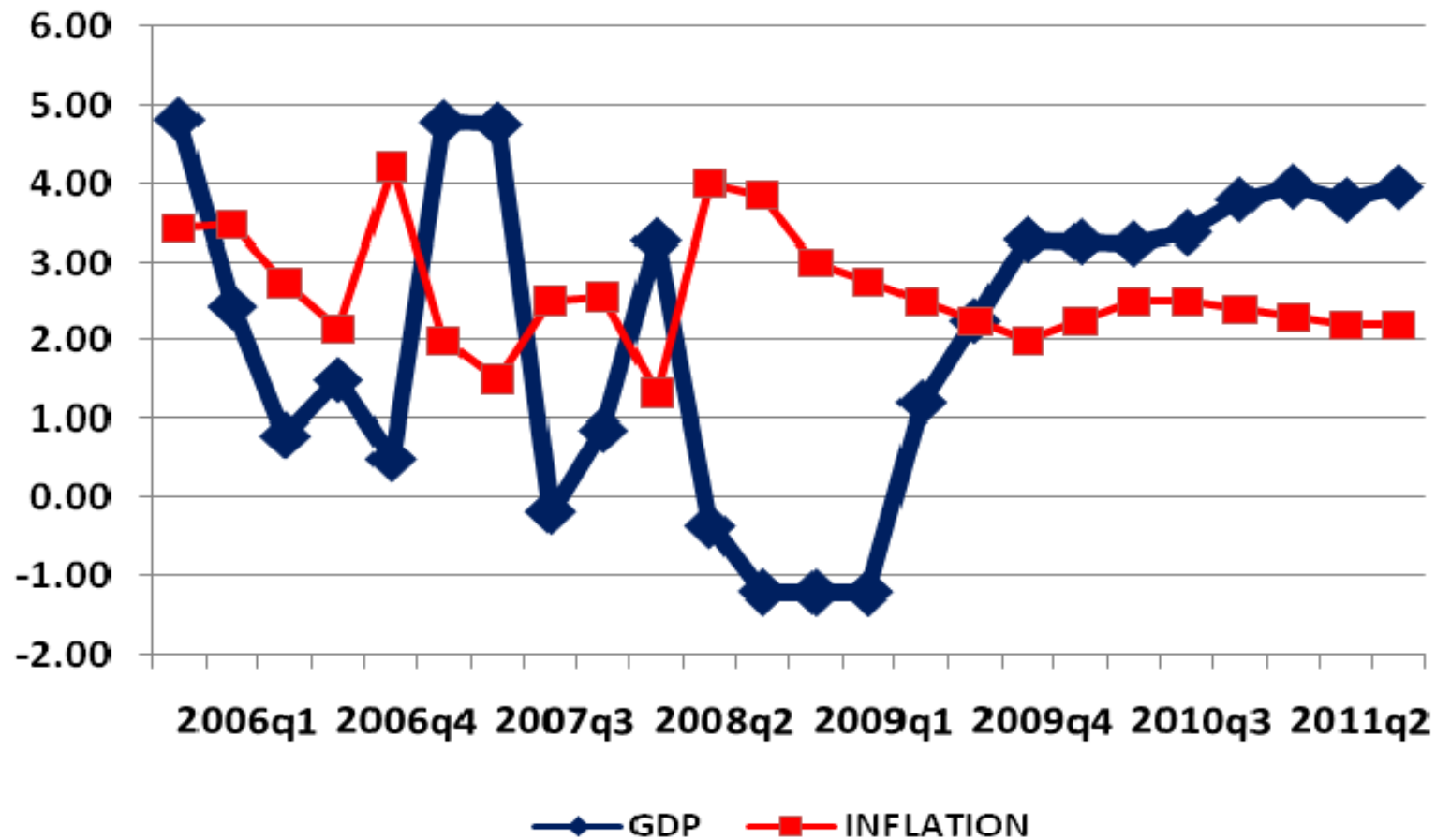


# INTEREST RATES



# GDP AND INFLATION

(Percent growth SAAR)



# Nassau County Summary

## ■ 2008-2009

- Recession impacts the County
- Slowdown in migration limiting population growth
- Single Family housing market bottoms
- Condo market still unstable
- Land prices eroding

## ■ 2010 – 2011

- Migration improves
- Housing markets begin more normalized growth
- Employment growth recovers

# Key Forces Driving Nassau County's Economy

- Tourism and conventions drive the coastal areas. These are important, but they are now largely built out.
- County is a bedroom to Duval, but roadway connections are limited and the major employment centers in Duval are in South County not near Nassau.
- Rayonier is the major landowner and has only recently begun to consider developing its massive holdings.
- With the most attractive coastal areas fully developed it is unclear what volume of growth can be attracted to the more remote areas of Nassau.
- Growth will continue to be modest in the near term

# Nassau Migration 2000-2006 (7-Year Totals)

	In	Out	Net
Total Migration US and Foreign	13,958	10,999	2,959
Total Migration US	13,827	10,901	2,926
Total Migration from Florida	7,289	6,265	1,024
Total Migration from US-Non Florida	6,538	4,636	1,902
Total Migration Foreign	131	98	33

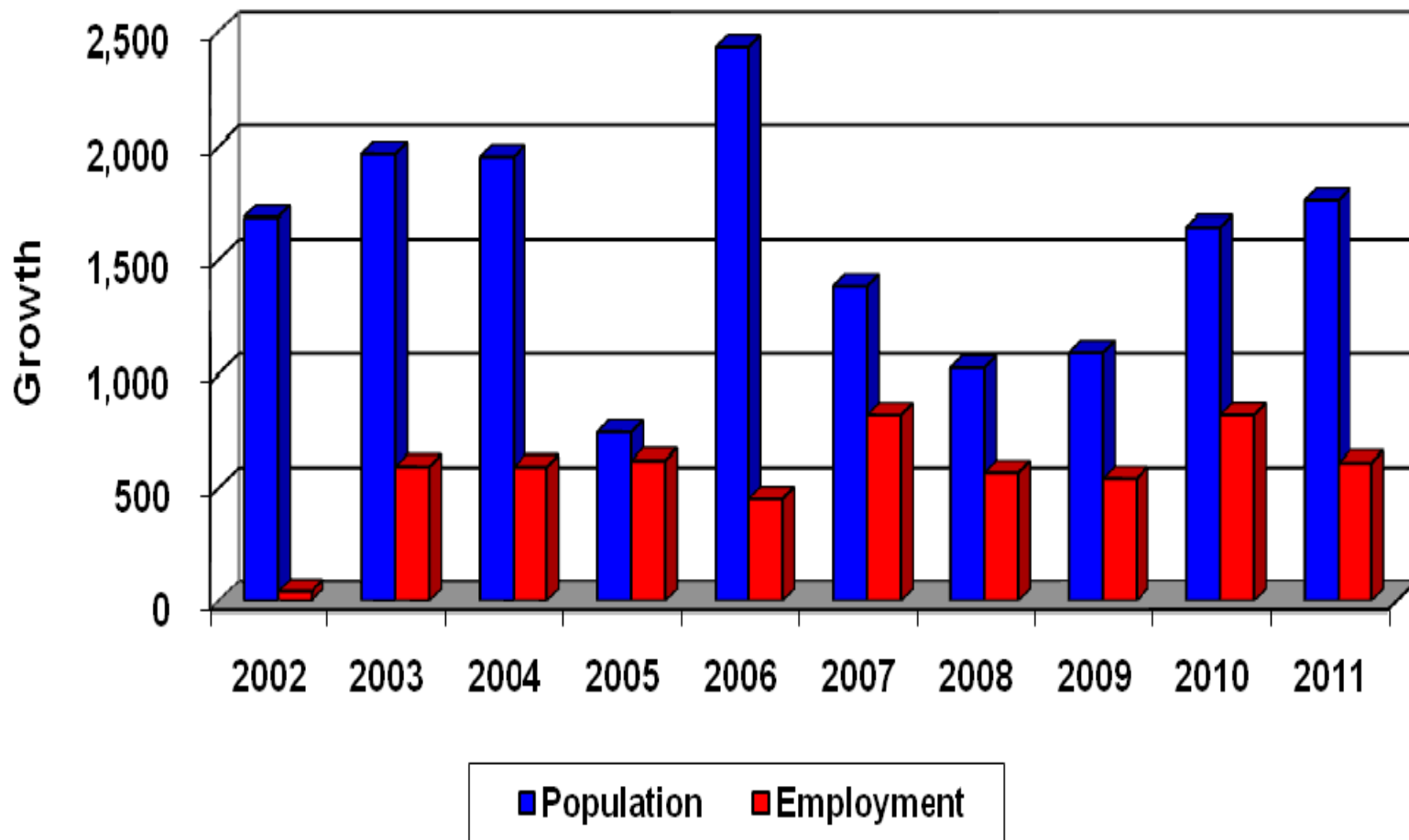
In Migration		Out Migration	
GA	1,344	GA	1,176
SC	138	AL	90
AL	78	SC	60
IL	60		

**Modest volumes of net migration of about 420 per year**

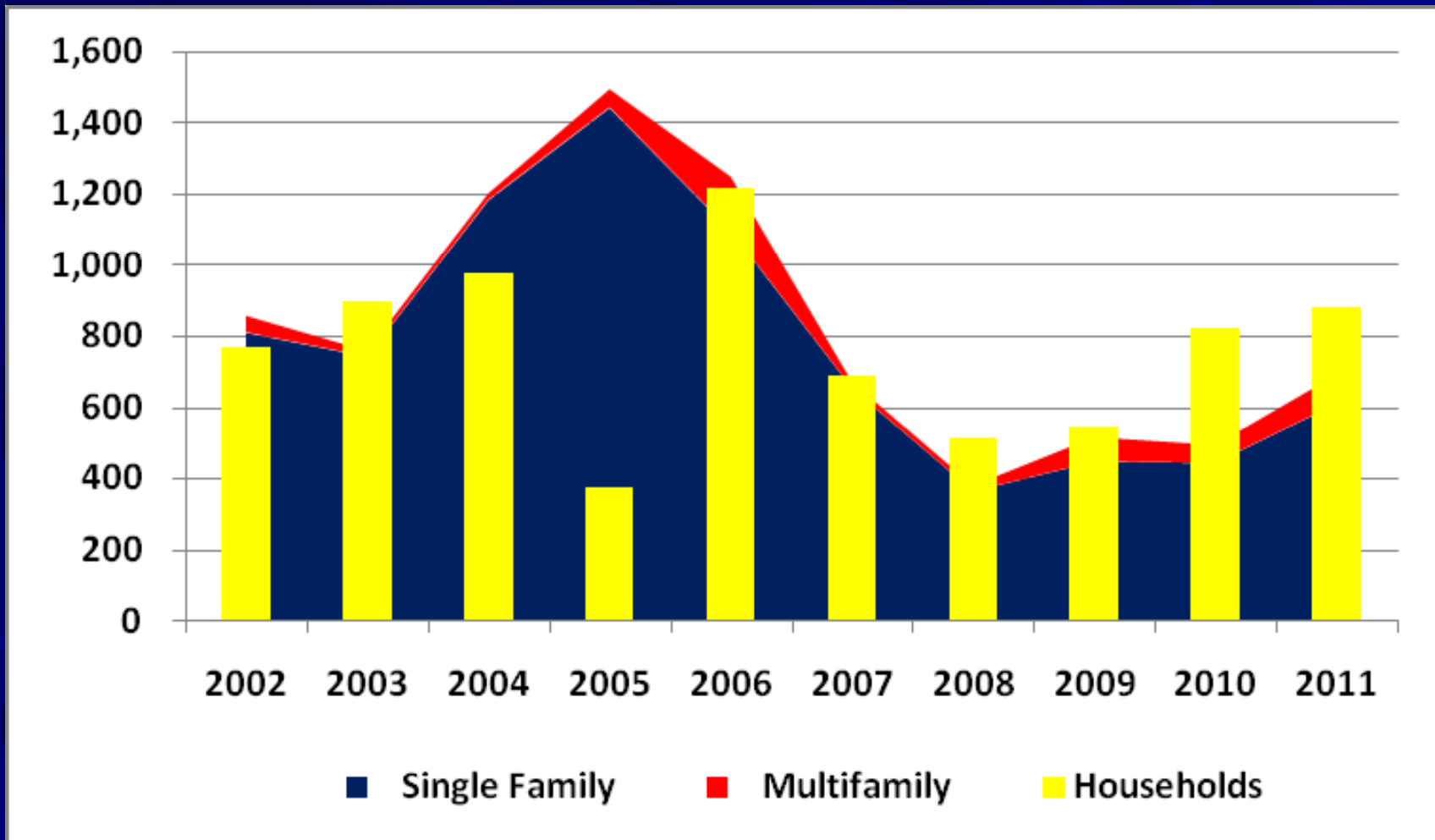


# NASSAU COUNTY

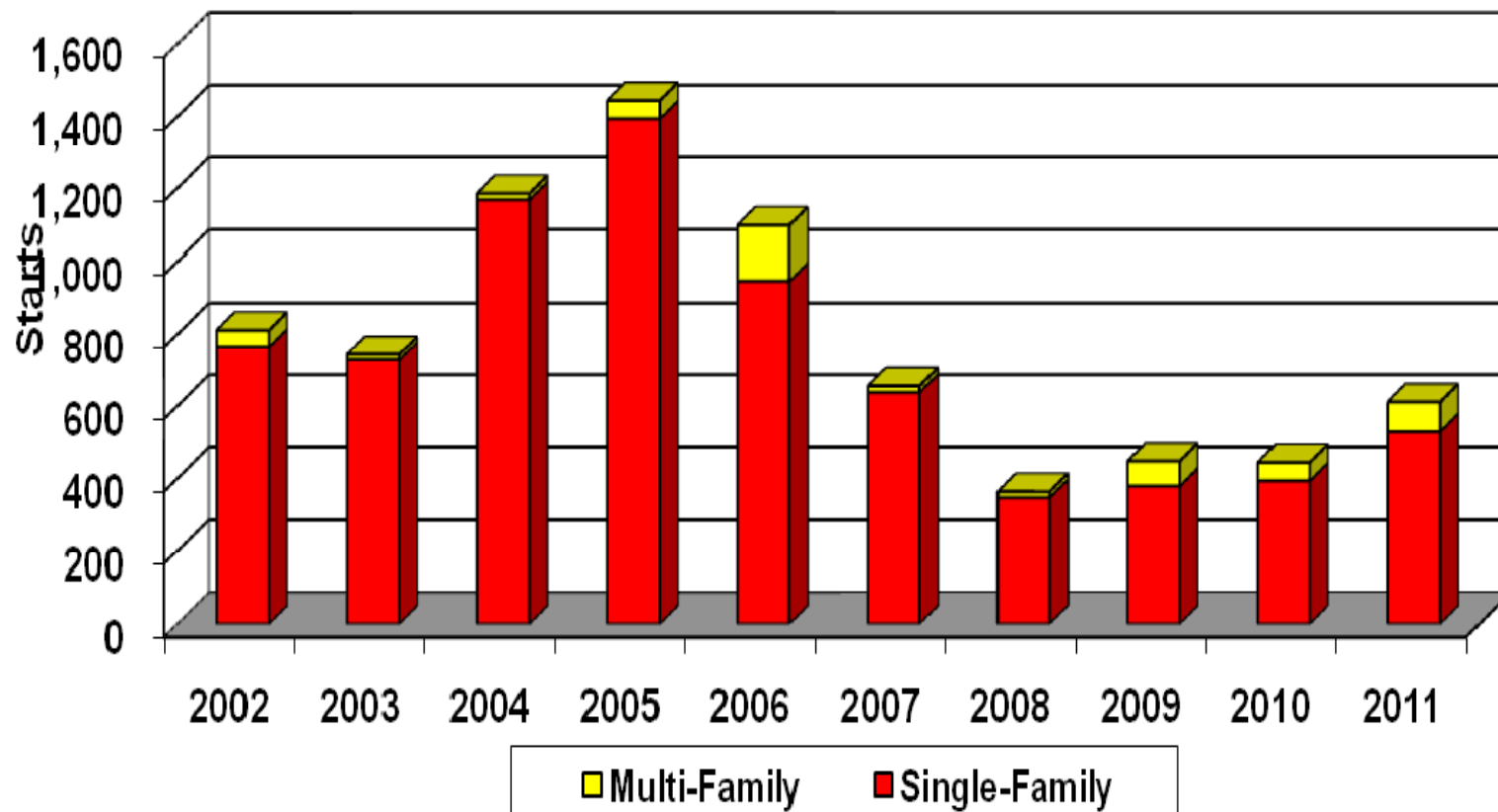
## GROWTH IN POPULATION AND EMPLOYMENT



# Nassau County Households v. Housing Starts



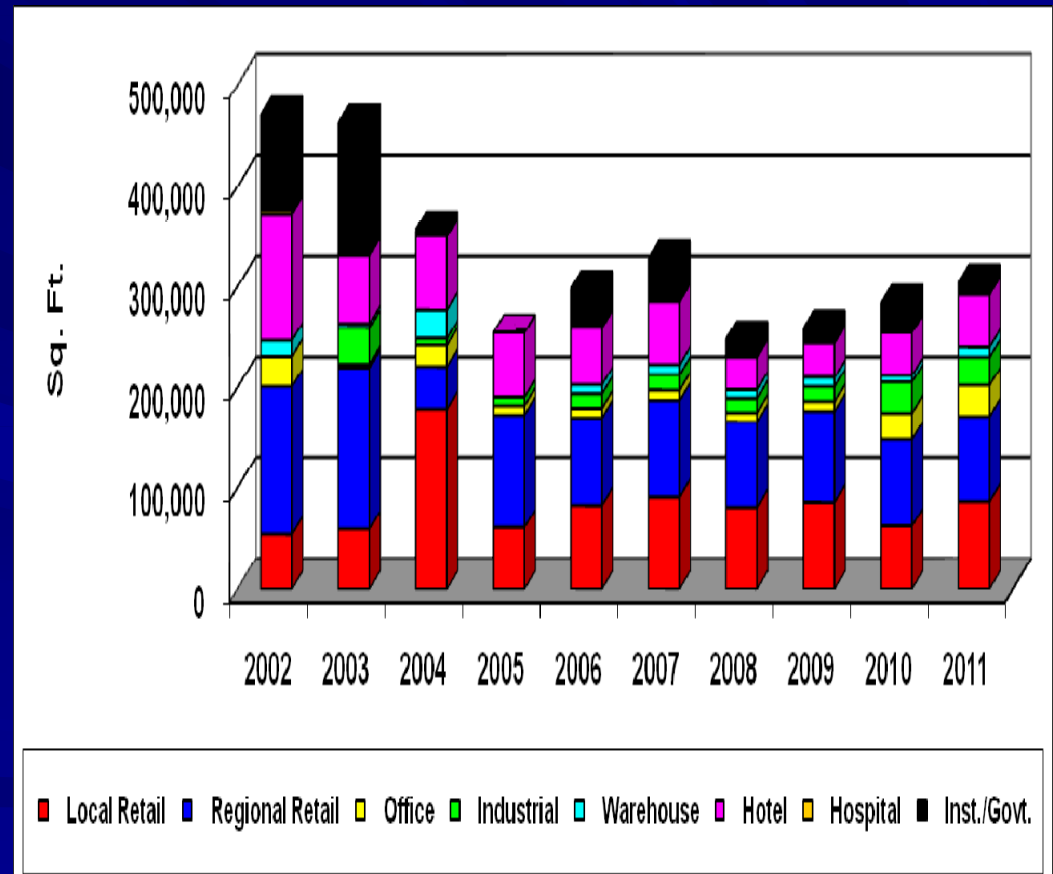
# Nassau County Housing Starts



# Non Residential Construction

## (Square Feet Installed)

- Major boom in commercial construction from 2000 to 2004.
- Future forecast has now cooled due to market conditions.



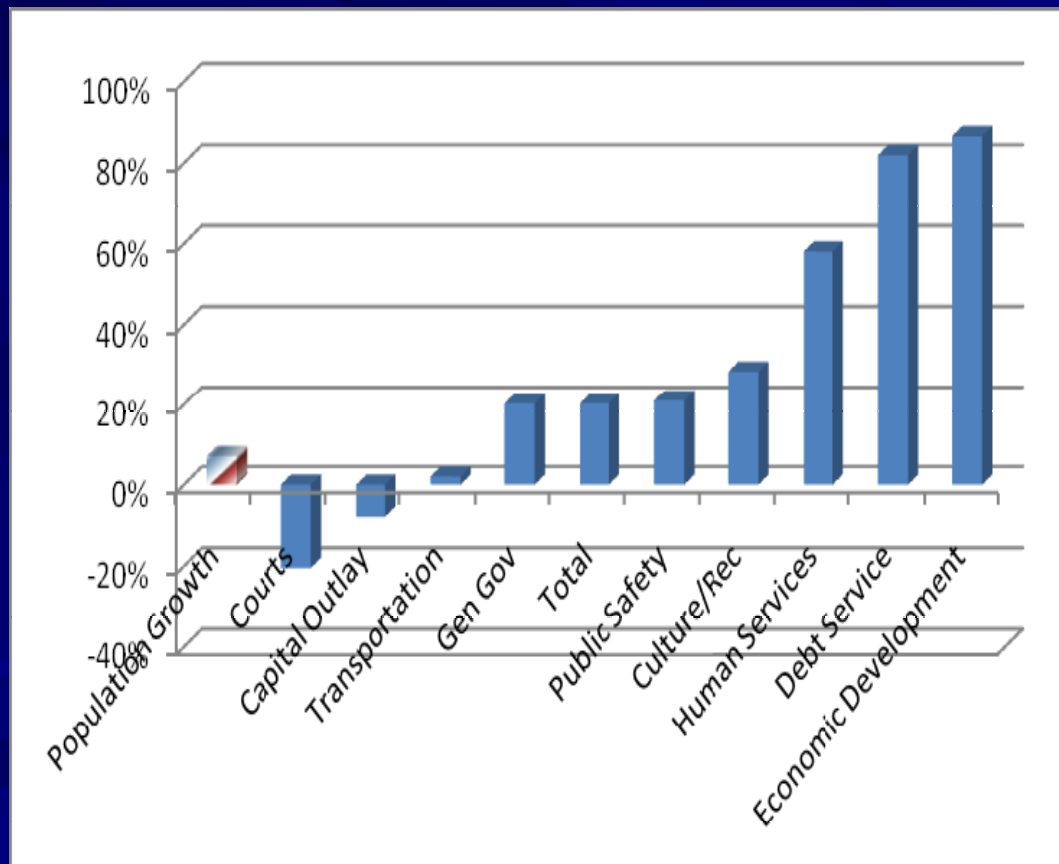
# Is Nassau County's Budget Fiscally Sustainable? No!

- Operating budget may be sustainable over time, but is highly dependent upon many variables.
  - Economic environment will continue to weaken, especially for ad valorem revenue
  - Recent changes to State law further limit growth in ad valorem revenue
  - Budget is overly reliant on ad valorem revenue
  - Costs are relative high compared to peer group
- Capital Improvement Plan and Capital Budgeting are deficient.
- Overall budget balance is weak primarily because of the capital budget



# Need to Control Growth in Spending

## --Comparison of Population Growth to BOCC Expenditures 2004-07



- From 2004-2007
- Population increased 7%
- Spending increased 20%
- Audited financial report basis

# Nassau County Peer Group Comparison

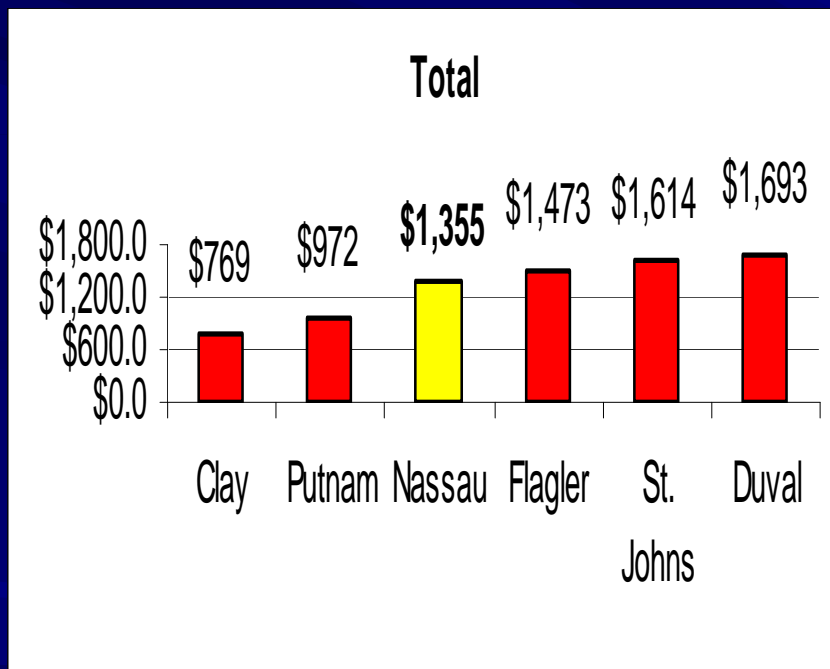
- We selected a group of peers for comparison: Duval, St. Johns, Clay, Flagler, and Putnam.
- Compared Nassau County's expenditures to peer group on a per capita population basis.
- Universal Chart of Accounts ("UCA") codes are used for expenses.
- Audited Financial Reports used are FYE 2006 and populations used are 2006 BEBR Estimates.
- Every County must report their budget to the State each year using specified UCA codes for each type of expenditure.
- These actuals represent the County's actual spending for the fiscal year.

# UCA Codes Used

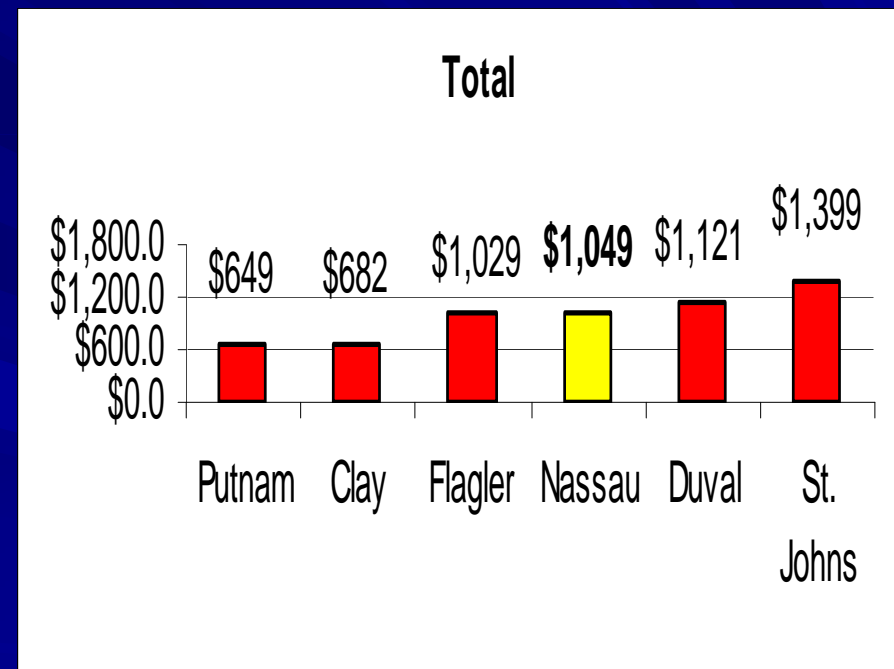
- General Government – 511 – 519
- Fire Rescue – 522 & 526
- Culture & Recreation – 571 – 579
- Law Enforcement – 521 & 523
- Economic Development – 551 – 559
- Physical Environment – 531 – 539
- Transportation – 541 – 549
- Human Services – 561 – 569
- Court Related Costs – 601 – 769
- Other Public Safety – 524, 525 & 527 - 529
- Analysis performed two ways:
  - 1) General, Special Revenue, Capital & Debt Service Funds Used
  - 2) General and Special Revenue Funds Only

# Total Expenditures – Per Capita

■ Nassau County's overall expenditures are comparable to the average per capita of their peer group no matter how its measured



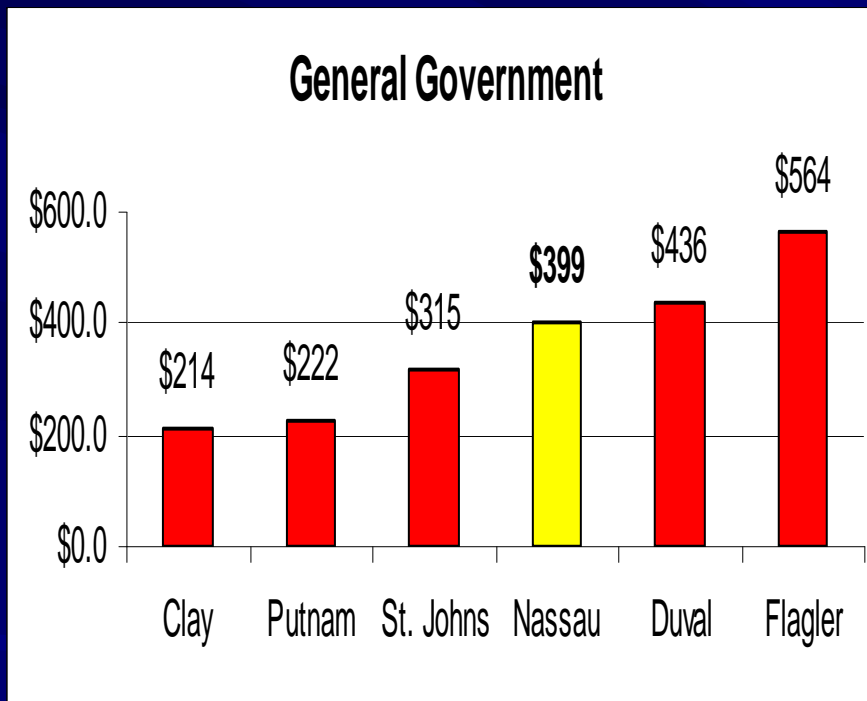
General, Special Revenue, Capital  
And Debt Service Funds Used



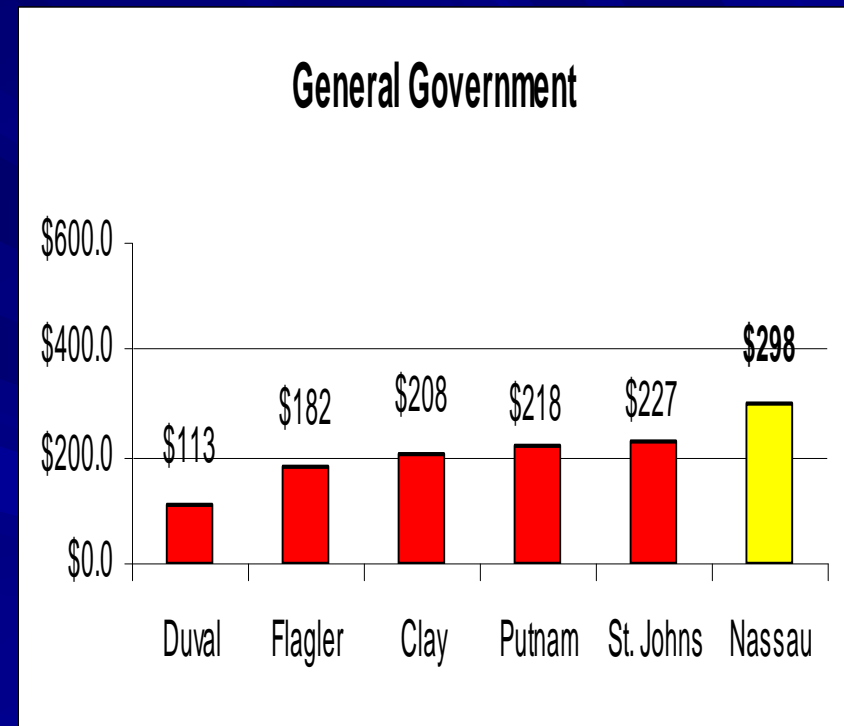
General and Special Revenue  
Funds Only

# General Government – Per Capita

Nassau County is higher than per capita average of its peers.



General, Special Revenue, Capital  
And Debt Service Funds Used

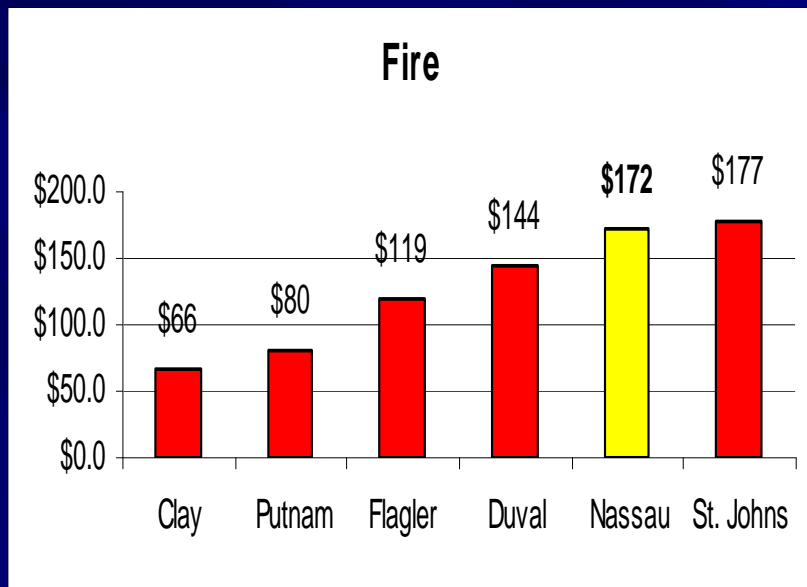


General and Special Revenue  
Funds Only

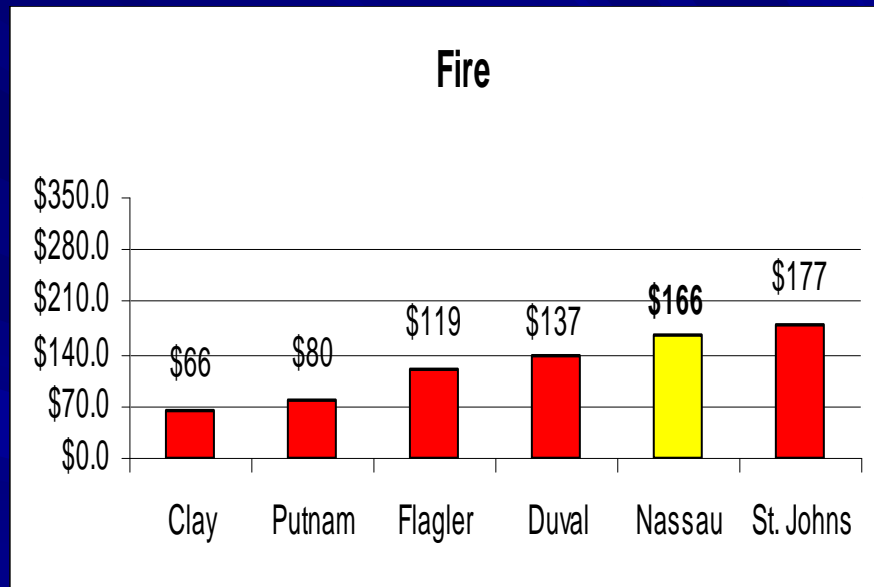


# Fire Rescue – Per Capita

**Nassau County is higher than per capita average of its peers.**



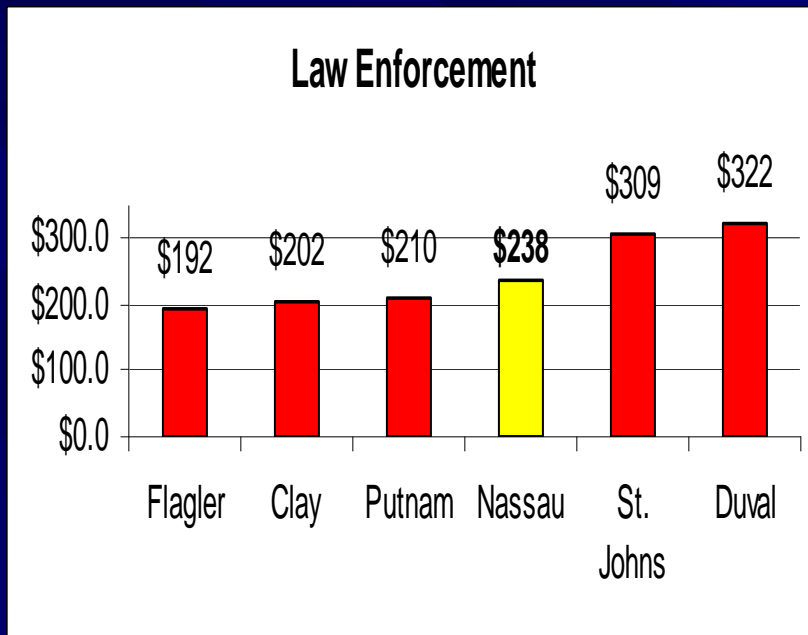
**General, Special Revenue, Capital  
And Debt Service Funds Used**



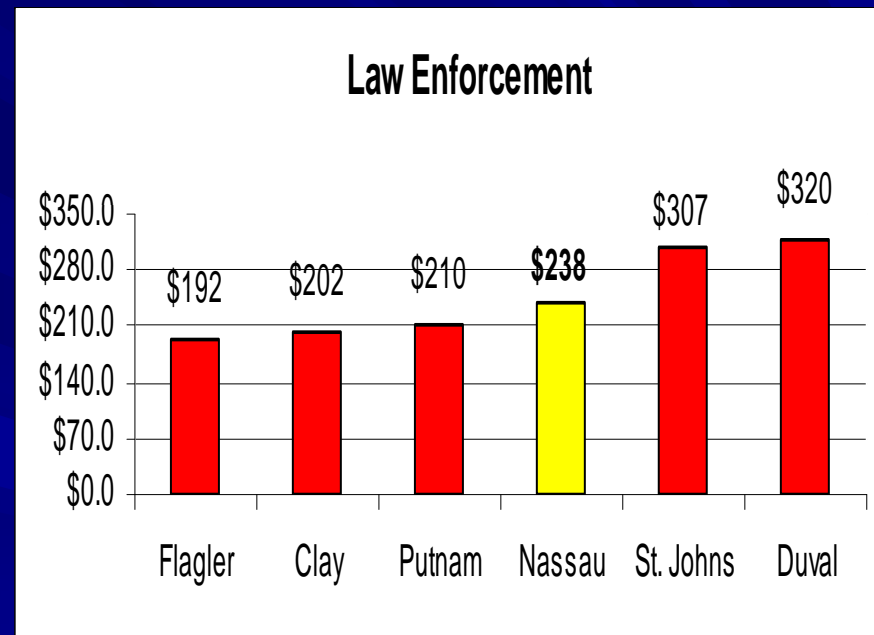
**General and Special Revenue  
Funds Only**

# Law Enforcement – Per Capita

**Nassau County is comparable to the per capita average of its peers.**



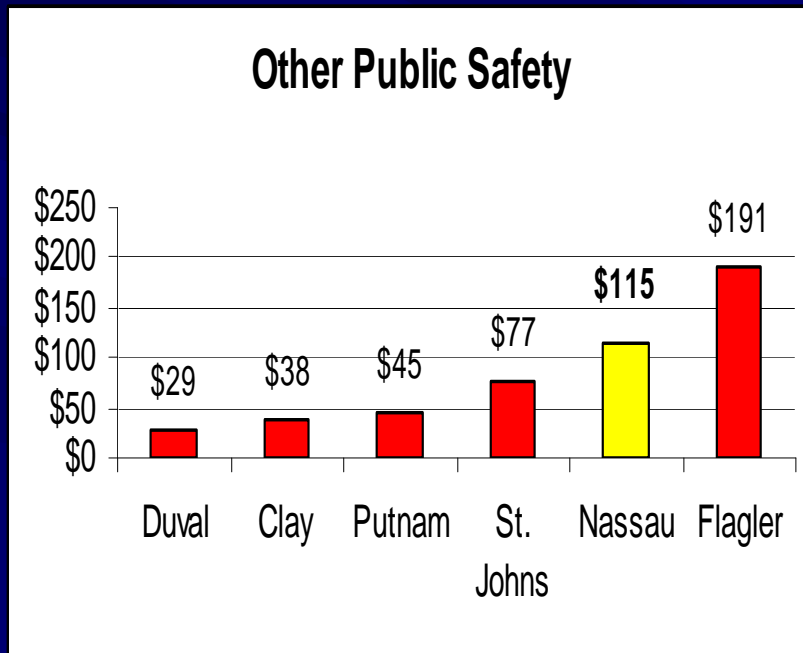
**General, Special Revenue, Capital  
And Debt Service Funds Used**



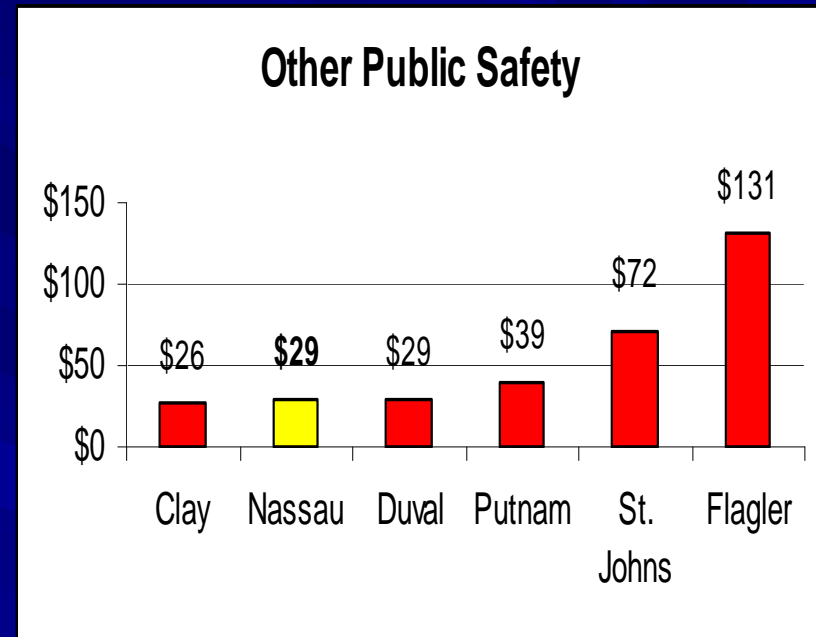
**General and Special Revenue  
Funds Only**

# Other Public Safety – Per Capita

**Nassau County is higher than per capita average of its peers.**



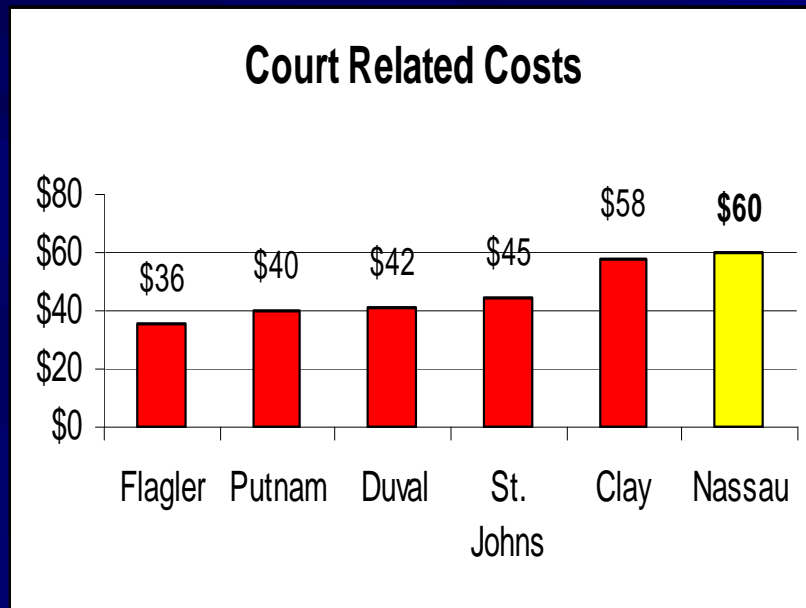
**General, Special Revenue, Capital  
And Debt Service Funds Used**



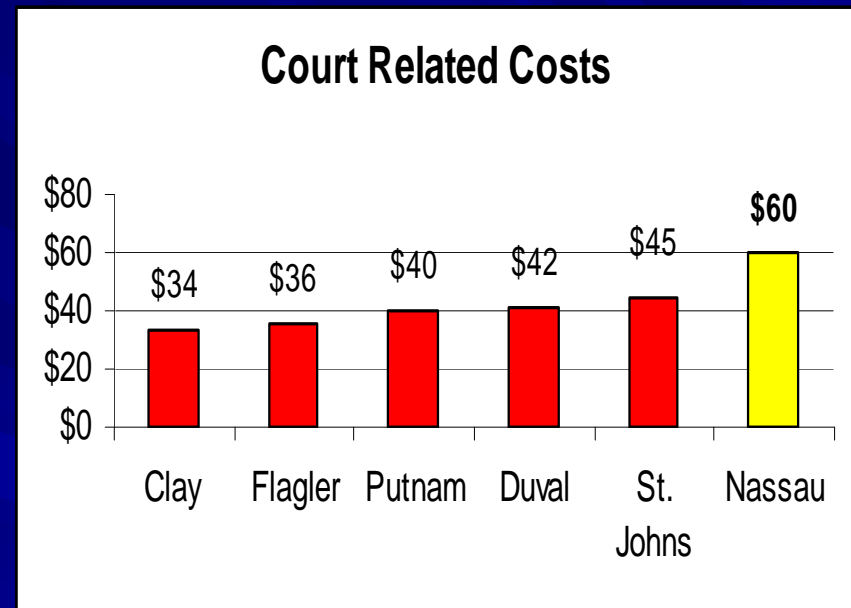
**General and Special Revenue  
Funds Only**

# Court Related Costs – Per Capita

**Nassau County is higher per capita average of its peers.**



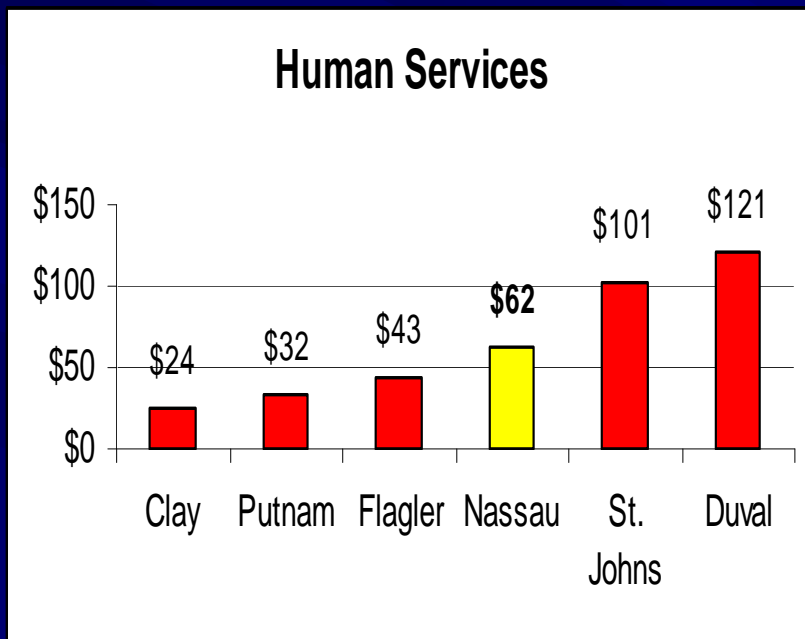
**General, Special Revenue, Capital  
And Debt Service Funds Used**



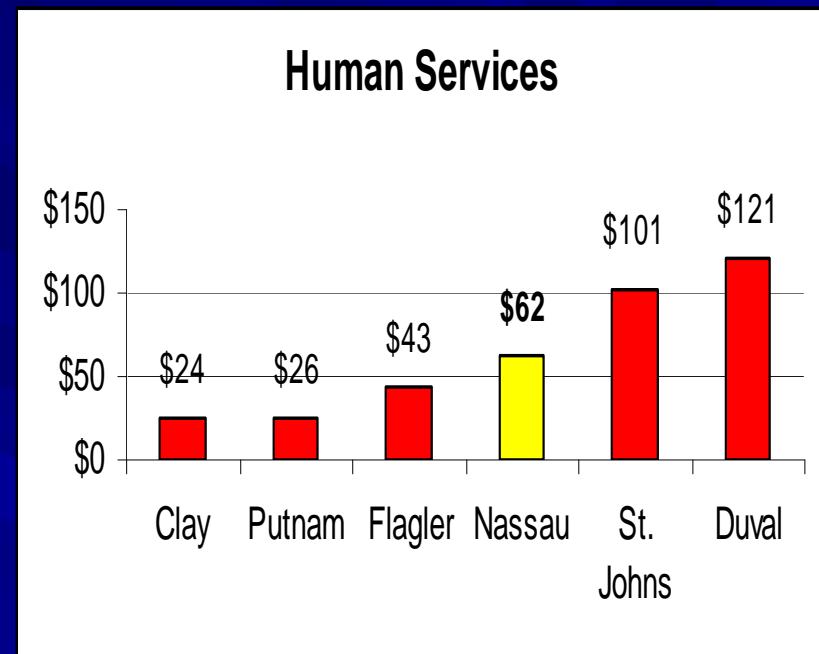
**General and Special Revenue  
Funds Only**

# Human Services – Per Capita

**Nassau County is comparable to the per capita average of its peers.**



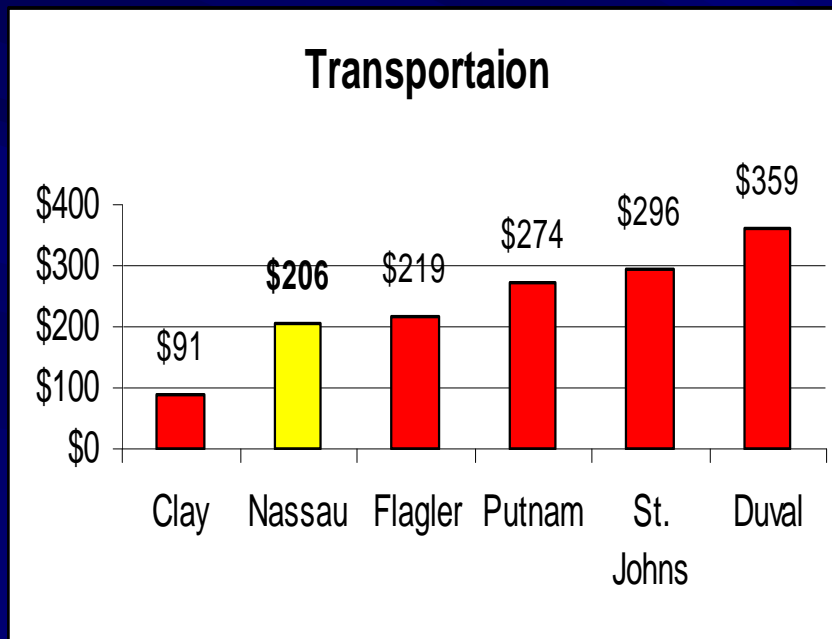
**General, Special Revenue, Capital  
And Debt Service Funds Used**



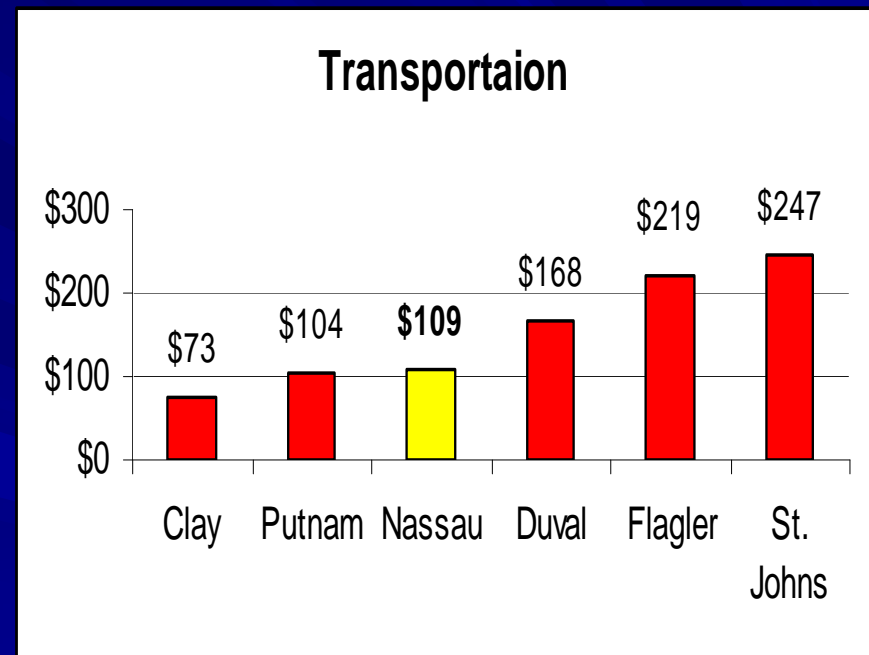
**General and Special Revenue  
Funds Only**

# Transportation – Per Capita

**Nassau County is far below the per capita average of its peers.**



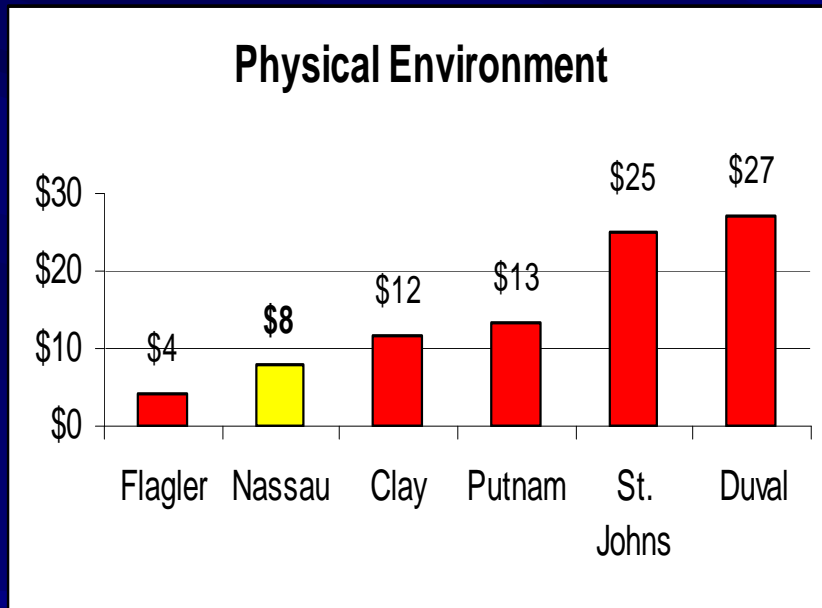
**General, Special Revenue, Capital  
And Debt Service Funds Used**



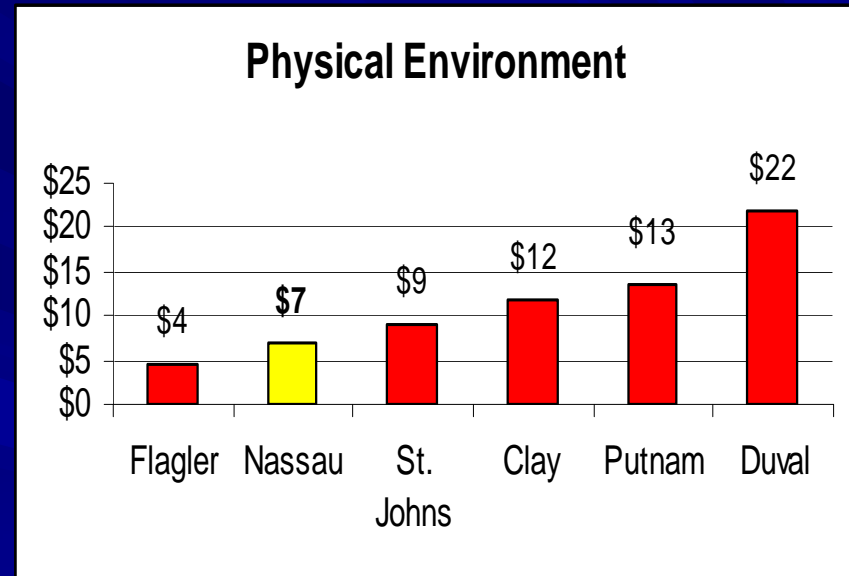
**General and Special Revenue  
Funds Only**

# Physical Environment – Per Capita

**Nassau County is below the per capita average of its peers.**



**General, Special Revenue, Capital  
And Debt Service Funds Used**

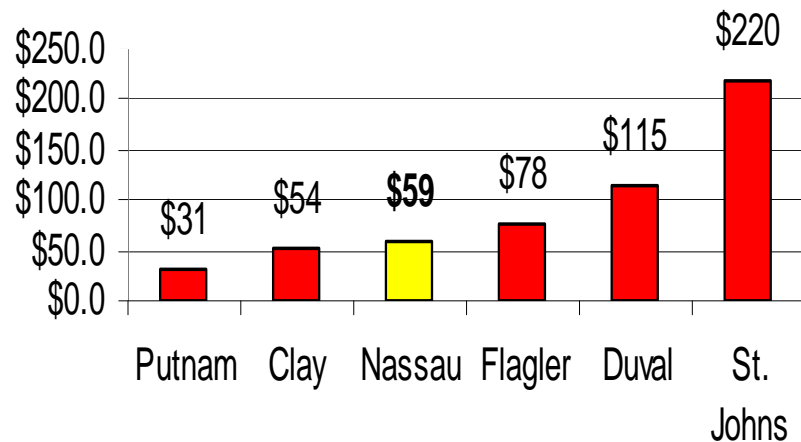


**General and Special Revenue  
Funds Only**

# Culture / Recreation – Per Capita

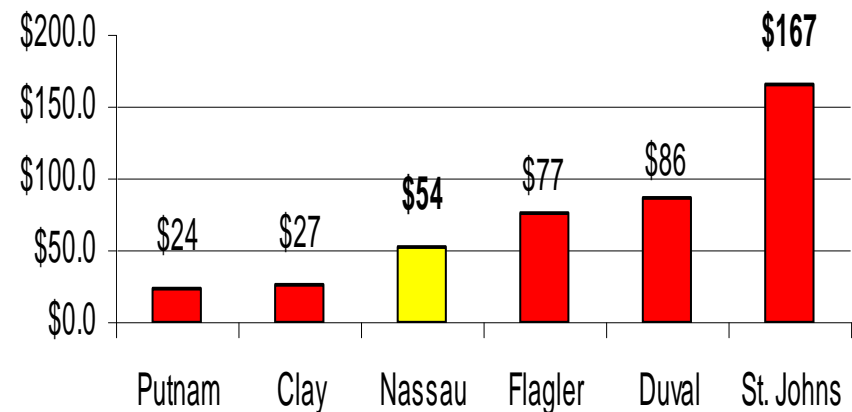
Nassau County is far below the per capita average of its peers.

Culture / Recreation



General, Special Revenue, Capital  
And Debt Service Funds Used

Culture / Recreation



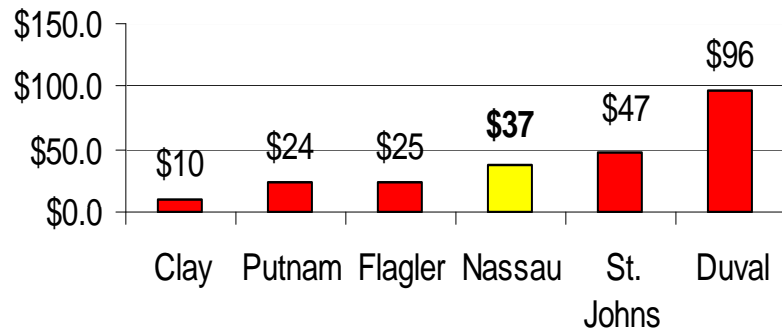
General and Special Revenue  
Funds Only



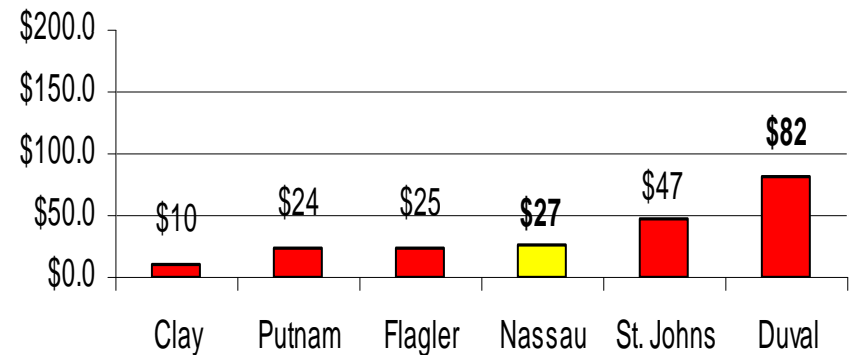
# Economic Development – Per Capita

**Nassau County is comparable to the per capita average of its peers.**

**Economic Development**



**Economic Development**



**General, Special Revenue, Capital  
And Debt Service Funds Used**

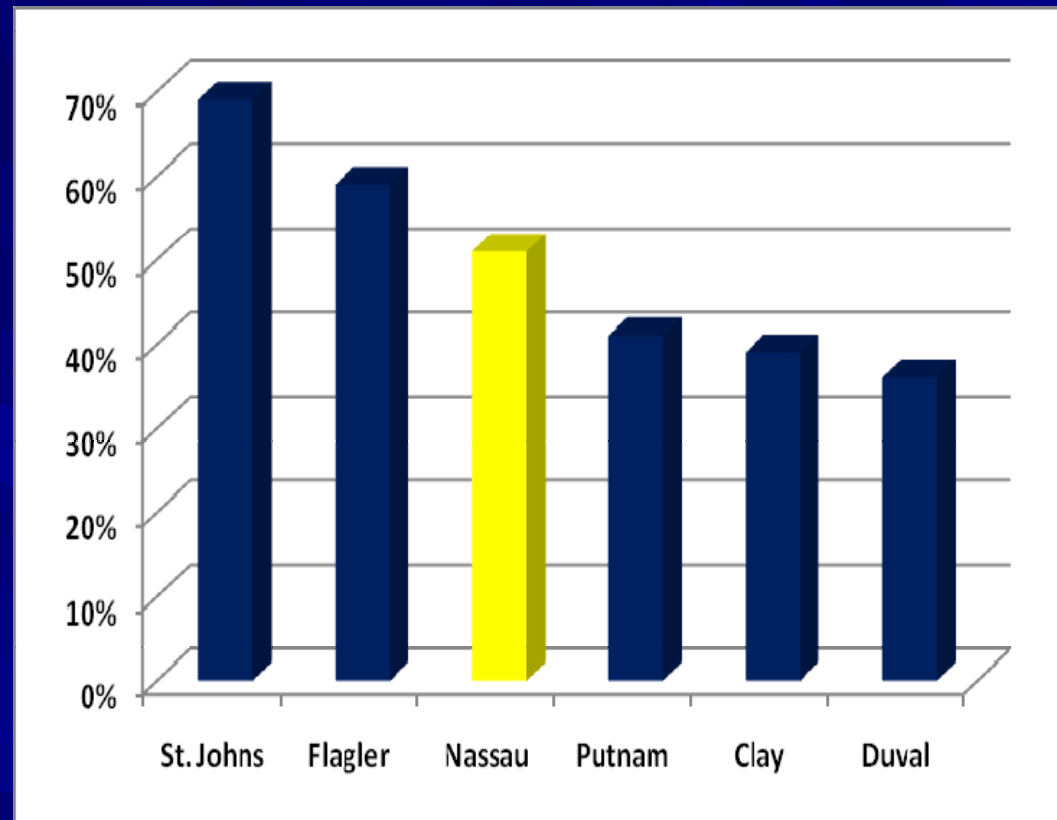
**General and Special Revenue  
Funds Only**

# Summary of Nassau Per Capita Expenditure Comparisons

	Higher	Average (Within 10% of Average)	Lower
Total Expenditures		X	
General Government	X		
Physical Environment			X
Transportation			X
Law Enforcement		X	
Fire Rescue	X		
Other Public Safety	X		
Culture / Recreation			X
Human Services		X	
Court Related	X		
Economic Environment		X	

# Nassau County is Overly Reliant on Property Taxes

- 51% of Nassau's general fund budget comes from property taxes
- This is relatively high
- It puts the County at risk



# Analysis of Nassau County's Budget and its Sustainability

- The sustainability of Nassau's budget was analyzed using FIAM
- FIAM is the Fiscal Impact Analysis Model
- FIAM estimates the costs and revenues associated with land use decisions.
- FIAM was developed as the prototype fiscal impact analysis model for the State of Florida.
- FIAM was developed by Fishkind & Associates, Inc. under contract with the Florida Department of Community Affairs ("DCA").
- FIAM was reviewed by a Peer Review Panel of the Urban Land Institute and endorsed for use.

# Type of Growth Determines Fiscal Impact

- Not all land uses are created fiscally equal.
- Certain land uses yield a higher fiscal benefit to Nassau County.
- At current expenditure levels, typical residential land uses do not pay for themselves unless at very high price points.
- Office, retail, industrial land uses have the ability to generate positive fiscal benefit.
- Mixed use development also has the ability to generate a positive fiscal benefit for the County.

# Fiscal Impacts of Various New Land Uses

- The following slides show the fiscal impacts of various types of new land uses.
- The calibrated FIAM quantifies the fiscal impacts (costs and revenues to the County) resulting from these developments.
- Operating and capital impacts are separately examined and summed.
- Costs and revenues analyzed over a 20-year horizon and presented in total and as the present value of the revenue flows.

# Fiscal Impact of One Single Family House - \$250,000

	Total	Present Value
Total Operating Revenue	\$52,889	\$20,997
Total Operating Cost	\$53,880	\$21,200
	=====	=====
Net Operating Impact	-\$990	-\$204
Total Capital Revenue	\$2,484	\$2,259
Total Capital Cost	\$18,024	\$13,940
	=====	=====
Net Capital Impact	-\$15,540	-\$11,681
Net Total Impact	-\$16,530	-\$11,885

# Fiscal Impact of an Office 50,000 sq. ft.

	Total	Present Value
Total Operating Revenue	\$1,976,454	\$783,090
Total Operating Cost	\$835,038	\$327,457
	=====	=====
Net Operating Impact	\$1,141,415	\$455,633
Total Capital Revenue	\$92,882	\$84,438
Total Capital Cost	\$345,872	\$314,429
	=====	=====
Net Capital Impact	-\$252,990	-\$229,991
Net Total Impact	\$888,425	\$225,642



# Fiscal Impact of a Retail Store 100,000 sq. ft.

	Total	Present Value
Total Operating Revenue	\$15,424,834	\$6,031,038
Total Operating Cost	\$977,470	\$383,311
	=====	=====
Net Operating Impact	\$14,447,365	\$5,647,727
Total Capital Revenue	\$374,425	\$340,386
Total Capital Cost	\$1,272,989	\$1,157,263
	=====	=====
Net Capital Impact	-\$898,564	-\$816,876
Net Total Impact	\$13,548,801	\$4,830,850

# Fiscal Impact of an Industrial Development of 50,000 sq. ft.

	Total	Present Value
Total Operating Revenue	\$1,120,368	\$422,642
Total Operating Cost	\$417,519	\$163,729
	=====	=====
Net Operating Impact	\$702,848	\$258,914
Total Capital Revenue	\$64,351	\$58,500
Total Capital Cost	\$295,304	\$268,458
	=====	=====
Net Capital Impact	-\$230,953	-\$209,957
Net Total Impact	\$471,895	\$48,957

# Summary of Fiscal Impact Examples by Land Use

	Total	NPV
1 Single Family Home	-\$16,530	-\$11,885
50K sf Office	\$888,425	\$225,642
100K sf Retail	\$13,548,801	\$4,830,850
50K sf Industrial	\$471,895	\$48,957
100 Single Family Homes	-\$1,653,043	-\$1,188,506
Mixed Use Development	\$11,819,642	\$3,482,675

# No Growth

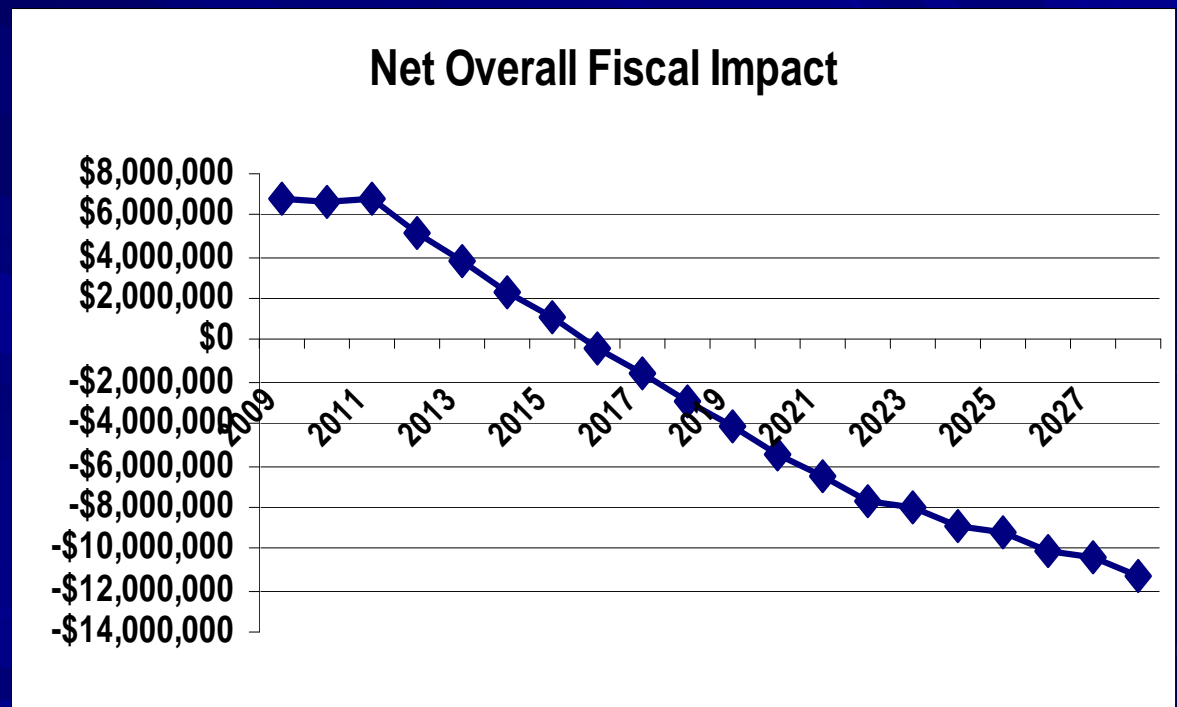
## What are the Fiscal Impacts?

- FIAM was used to examine the fiscal impacts of no further growth in Nassau County.
- What if there was a complete moratorium on all future growth?
- Can the current budget and levels of service be maintained for the existing residents and the current land uses?
- The answer is no.

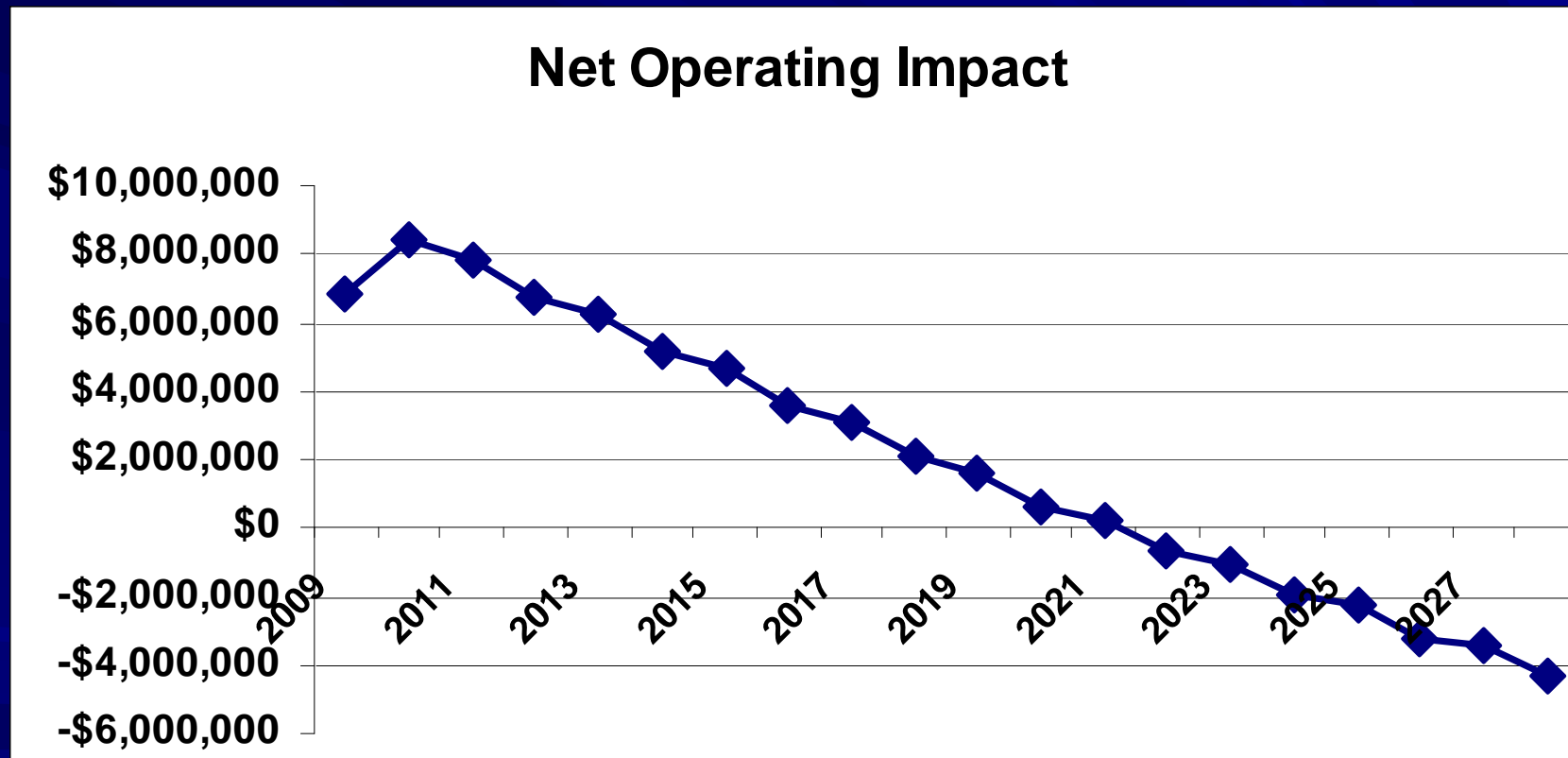
# Fiscal Impacts of No Growth

- The current fund balance is consumed over time.
- Operating budget may be sustainable over time.
- However, capital budget becomes deficient in regards to maintenance of existing faculties.

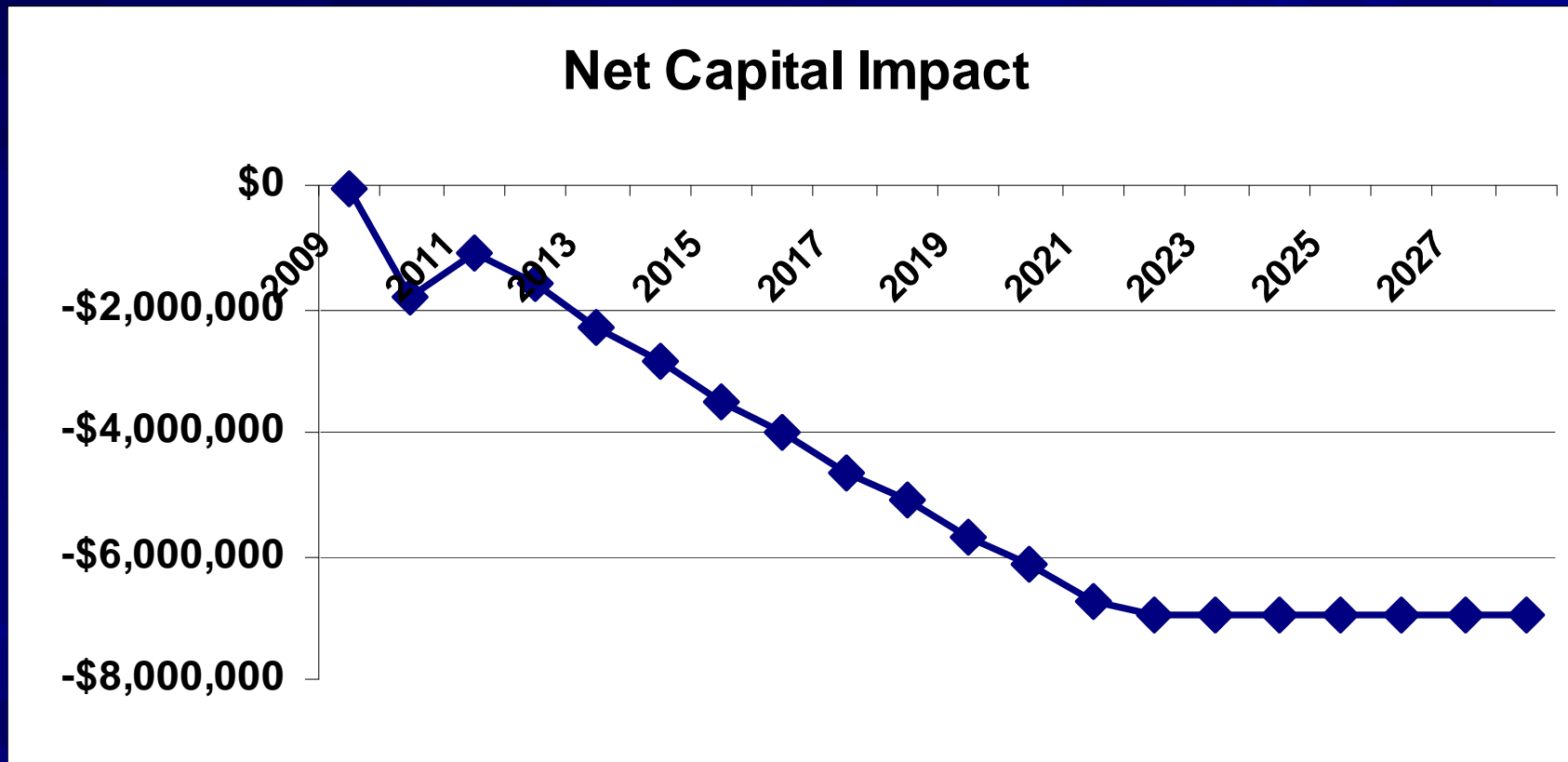
## Net Fiscal Impact No Growth



# Operating Fiscal Impact – No Growth Scenario



# Capital Fiscal Impact – No Growth Scenario



# No Growth Scenario

	Total	Present Value
Total Operating Revenue	\$1,828,209,973	\$738,198,768
Total Operating Cost	\$1,772,940,246	\$696,607,507
	=====	=====
Net Operating Impact	\$55,269,727	\$41,591,260
Total Capital Revenue	\$62,865,666	\$43,065,829
Total Capital Cost	\$150,104,133	\$69,197,223
	=====	=====
Net Capital Impact	-\$87,238,467	-\$26,131,394
Net Total Impact	-\$31,968,740	\$15,459,866



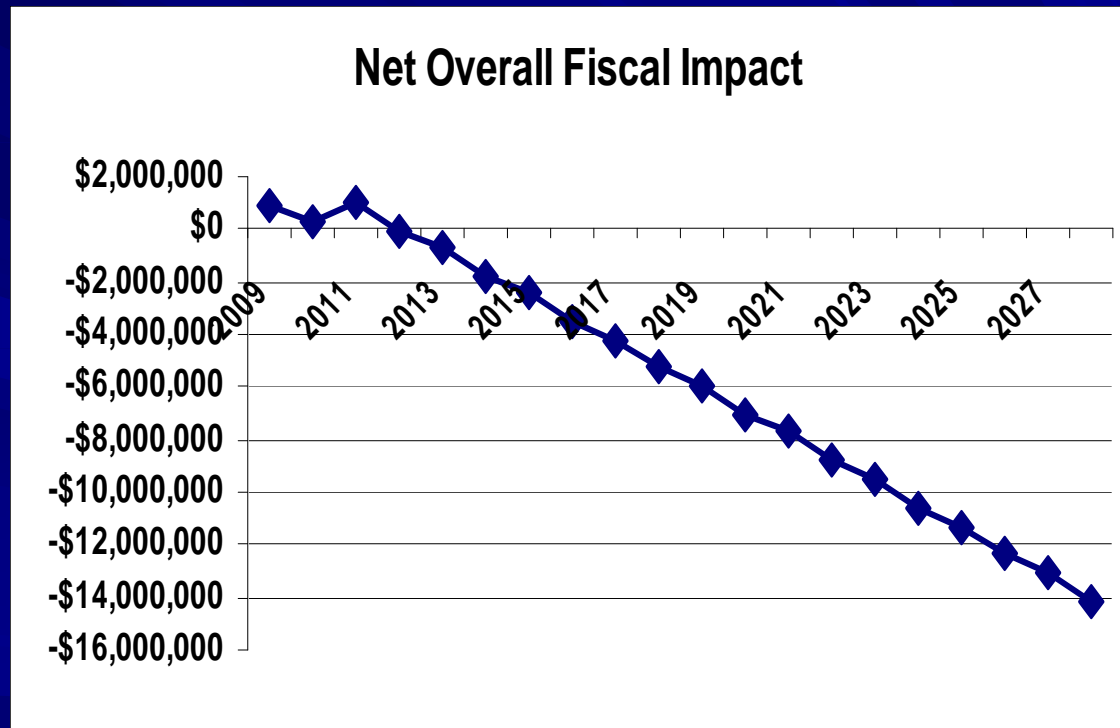
# Is the Budget Sustainable with Expected Growth?

- What are the fiscal impacts of expected growth?
- We took our short term forecast of growth in population and employment for Nassau County and extended it 20 years
- Used FIAM to estimate the impacts
- The current budget structure is not sustainable even with expected growth.

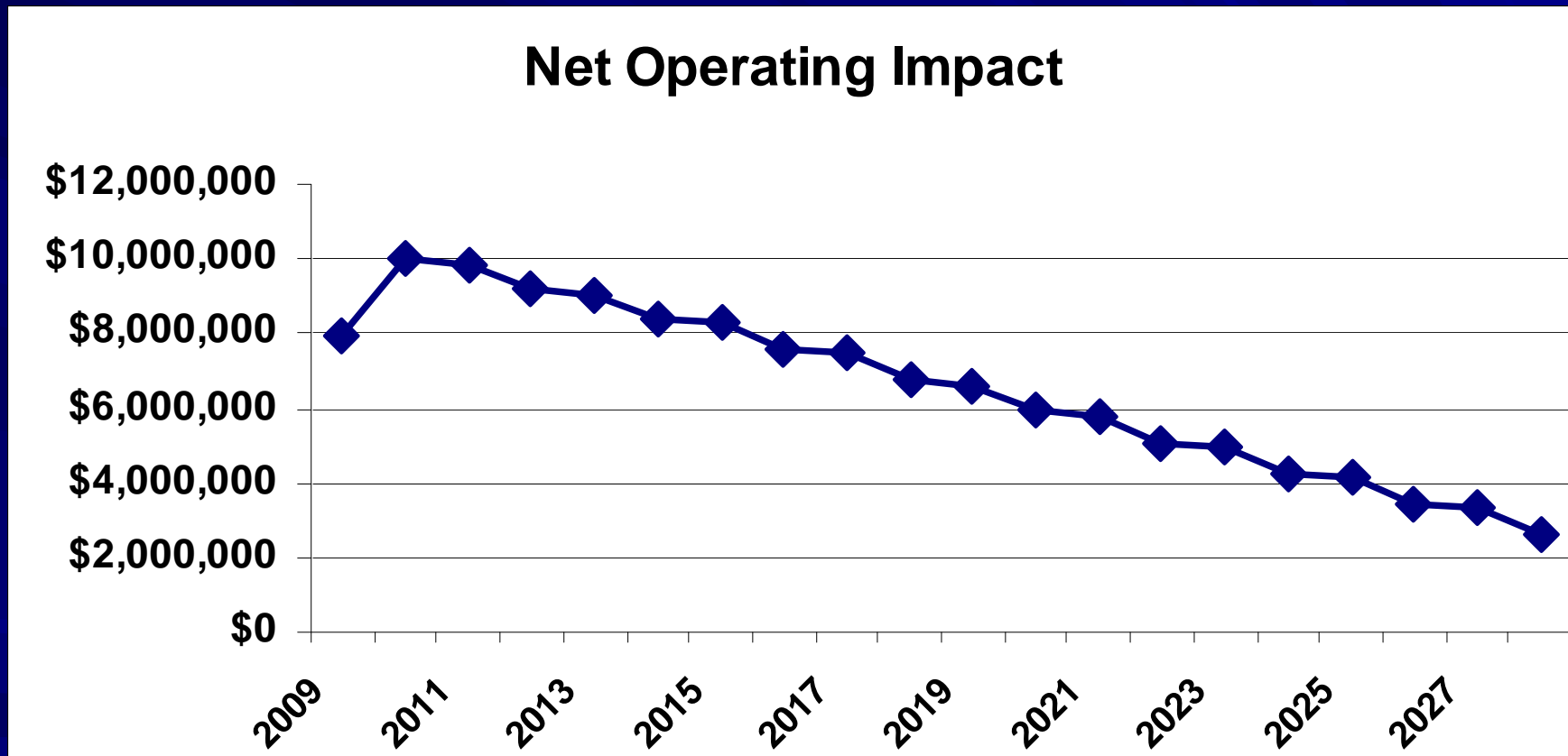
# Fiscal Impact of Expected Growth

- Future growth mirroring historical growth patterns cannot be sustained.
- Operating budget may be o.k. in the future.
- However, capital budget is severely deficient causing an overall negative fiscal impact.

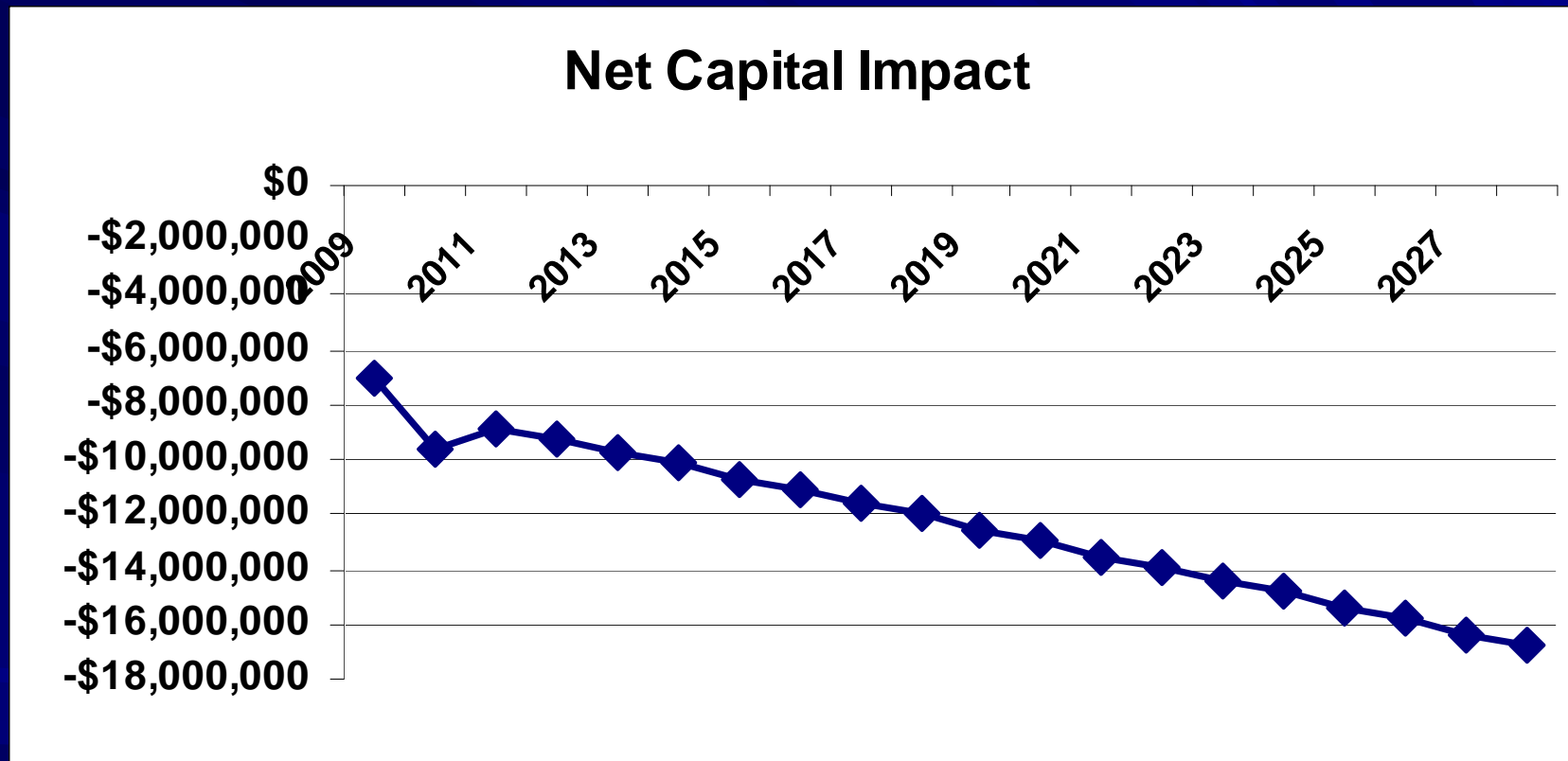
## Net Fiscal Impact of Expected Growth



# Operating Fiscal Impact – Growth Scenario



# Capital Fiscal Impact – Growth Scenario



# Net Fiscal Impact – Growth Scenario

	Total	Present Value
Total Operating Revenue	\$2,289,741,958	\$866,039,765
Total Operating Cost	\$2,151,049,397	\$797,796,079
	=====	=====
Net Operating Impact	\$138,692,561	\$68,243,686
Total Capital Revenue	\$144,016,296	\$72,536,331
Total Capital Cost	\$374,054,633	\$155,044,563
	=====	=====
Net Capital Impact	-\$230,038,336	-\$82,508,232
Net Total Impact	-\$91,345,775	-\$14,264,546

# Policy Implications and Options

- Current budget structure is not sustainable due to deficiencies in capital funding
- Fortunately, the County has a substantial surplus that provides a period of time to adapt to current budgetary reality
- County needs to address both its
  - Operating budget
  - Capital budget
- The operating budget is sustainable, but only at the detriment of the capital budget.

# Pathway to Fiscal Sustainability

- Reduce Expenditures over Time
  - General Government Expenditures and Fire Rescue Expenditures high compared to peer group
  - Reduction to average peer group levels very helpful
- Correct capital budget structure
- Dedicate 1 cent sales tax for capital funding
- Increase impact fees to updated cost levels
- Implement MSBU/MSTU for capital facilities funding
- Designate an annual capital maintenance fund
- Reinstate the recently rescinded gas tax

# Reducing Expenditures

- Reduce General Government and Fire Rescue to average level of peer group.
  - General Government - \$49 per capita reduction
  - Fire Rescue - \$54 per capita reduction
- \$103 per capita total reduction in expenditures.
- Saves \$7.0 million per year.
- This can be achieved over time.



# Improve Capital Budget Structure

- County should consider using MSBUs to compliment impact fees
- Nassau County Resolution 2006-151, Section 3.1 calls for consideration of MSBU's and MSTU's when capital improvements are directed for a specific area of the County.
- Current impact fees do not cover capital costs
  - Resolution 2007 – 170, Section 5.6 calls for an annual impact fee schedule review.
  - Existing road impact fee covers only 13% of capital cost for single family home.
- MSBU assessments used in lieu of or in conjunction with impact fees to fund capital for benefiting properties and to provide for concurrency
- Can be used for operating/maintenance needs, too.
- Reserve 1 cent sales tax for infrastructure funding

# Fiscal Monitoring – Capital Budget

- County can install a fiscal monitoring program.
- Fiscal surplus in excess of required fund balance levels is devoted to capital budget.
- Unrestricted general fund money such as property tax and sales tax proceeds are used.
- This plan uses the County's FIAM in order to help fund future capital improvements.

# Budgetary Policies & Procedures

- Nassau County Resolutions 2006-151 and 2007-150 established financial policies for Operating Budgets, Fund Balances, Revenues, Expenditures, Capital Improvements, and Debt Management.
- These policies lay the framework for sound financial and budgeting decisions.
- Continue to follow policies in order to be effective in this time of budgetary stress.

# Budget for Results and Outcomes – Performance Measurements

- Critical to proper management
- Linked directly to budget for every department
- Based explicitly on program goals and tied to program mission or purpose
- Focus on quantifiable outcomes
  - Ex.) Per employee cost levels, specific cost reduction goals, expenditure growth level goals
- Comparisons over time and to peer groups
- Verifiable, understandable, transparent
- Monitored and used in managerial decision making on a regular basis

# Fund Balance Reserve Policies

- Florida state statute 129.01(2)(c) states a cash balance reserve shall not exceed 20% of the total receipts and balances of the budget;.
- Nassau County Resolution 2006-151, Section 2.5 calls for a cash balance reserve of 5% of the operating expenditure budget to be phased in over 3 years from FY07 to FY09.
- Suggested fund balance levels FGFOA Recommendation:
  - 10%-to-20% of regular revenues
  - 15%-to-25% of regular expenditures
- Areas subject to hurricanes should build up greater reserves.
- Recommended cash fund balance for Nassau is 20% of total receipts and balances of the budget given the potential for hurricanes in a coastal area.

# Current Expenditure Funding

- Budget policy must insist on a balanced budget for current expenses strictly from current revenues.
- Nassau County Resolution 2006-151, Section 3.3 prohibits “one shot” revenues from funding recurring expenditures.
- “One Shot” revenues include bond issues, court settlements, or tax collection windfalls according to Resolution 2006-151, Section 3.3.
- These are excellent guidelines

# Capital Budget Needs

- Capital budgeting needs improvement
- County has produced its first 5-Year Capital Improvement Plan (“CIP”)
  - This is a good first step
  - Plan is based on available revenue
  - Staff also developed more comprehensive estimates for capital needed to serve existing development and new growth
- County will need to develop additional revenue sources to fund capital needs
- This is crucial to maintaining the quality of life in Nassau County



# Nassau County Current 5-Year CIP – Based on Available Revenue

- Nassau County produced its first 5-Year CIP last year
- The Plan is based on currently available revenues, which is appropriate
- Current 5-Year CIP contains 81% of all expenses in 1<sup>st</sup> year
- This structure makes best use of current impact fee balances for roadways

5-Year CIP		
2008	\$	24,832,812
2009	\$	2,560,480
2010	\$	1,607,600
2011	\$	296,958
2012	\$	1,531,824
Total	\$	30,829,674



# Unfunded Potential Capital Projects

- County staff has identified \$258.9 million worth of unfunded capital needs.
- These needs combine
  - Backlogs of existing capital needed for existing land uses
  - Increases in capacity to serve future growth
- There are no revenue sources currently identified to fund these needs

Transportation	\$218,637,915
Recreation/Beach	\$499,250
Yulee Library	\$11,250,000
Sheriff Admin Building	\$23,103,290
New Fire Stations	\$5,360,000
Total	\$258,850,455

# County Can Develop an Adequate Capital Funding Plan

- Costs are large, but County can develop a long range plan to fund these needs
- Update impact fees
- Reserve 1 cent sales tax for infrastructure funding
- MSTU/MSBU structure is efficient and equitable method to fund major facility needs including
  - Transportation
  - Parks and Recreation
  - Public Buildings including Sheriff and Library

# Debt Policy

- Long lived capital facilities are appropriately funded from debt proceeds paid off over time.
- Resolution 2006-151, Section 6.8 states County will use special assessment, revenue, or other self-supporting bonds rather than General Obligation bonds whenever possible.
- Resolution 2006-151, Section 6.2 states County will not use debt financing to fund current operations.
- Resolution 2006-151, Section 6.11 states debt financing will not exceed 90% of the useful life of capital item and in no event extend beyond 30-years.
- Continue to address these policies and the others listed in Resolution 2006 -151, Section 6 must be followed to help insure sound financial decisions.

# Multiyear Budgeting

- Critical to project future budgetary needs
- One year at a time not optimal practice
- As FIAM analysis demonstrated the existing structure is not sustainable
- Multiyear view of the budget provides the ability to make smaller adjustments over time and to avoid crisis decision making

# Conclusion

- County operating budget is sustainable
- However, the capital budget is deficient
- Therefore, the overall budget is not sustainable
- Operating budget recommendations
  - Control costs especially for general government and for fire/rescue
- Expand capital improvement plan
  - Reserve 1 cent sales tax for infrastructure (over time)
  - Increase capital funding with MSBUs and updated impact fees
  - Develop a true capital maintenance program
- Understand fiscal implications of new growth and budget accordingly
- Build upon current budgetary policy structure by adding
  - Multi-year budgeting
  - Results oriented budgets for all departments
  - Expand reserves for emergencies