
17. Understanding County Finance

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Each county is required to provide financial reports. These reports are classified according to their content and the purposes for which they are used. Internal reports are generally prepared to monitor financial progress throughout the year. Annual financial reports are mandated by the state and require strict adherence in terms of content and timing. This chapter examines the legal requirements of financial reporting, explains the purpose of audit reports, as well as describes the basics of fund accounting.

FINANCIAL STATEMENTS

Generally, local governments provide operating statements throughout the year (monthly or quarterly) that include year-to-date revenues and expenditures and compare this information with the corresponding budget categories. These statements, described above as internal reports, are available for public review but are primarily used to manage the budget. The reports generally include a narrative explaining unanticipated revenue or expenditure changes, any finance numbers that appear inconsistent with the budget plan, or any events or developments that have an impact or are anticipated to cause a financial impact on the annual budget.

ACCOUNTING AND FINANCIAL REPORTING RULES

The Government Accounting Standards Board (GASB) establishes and updates a set of minimum standards and guidelines for local government financial reporting and accounting. These policies are referred to as Generally Accepted Accounting Principles (GAAP). The following is a summary of those principles¹:

Principle 1: That accounts be maintained on a GAAP basis and demonstrate compliance with finance-related legal requirements.

Principle 2: That funds be the basis for maintaining financial records.

Principle 3: That eleven basic types of funds are used in governmental accounting.

Principle 4: That governments maintain a minimum number of funds and only those required by law.

Principle 5: That accounting records maintain a distinction among the capital assets of proprietary funds, fiduciary funds, and governmental funds.

Principle 6: That the historical cost of capital assets (land, buildings, equipment, and infrastructure) and long-term debt be maintained in the accounting records.

Principle 7: That depreciation of capital assets be recorded in the accounting records.

Principle 8: That accounting records maintain a clear distinction between long term liabilities attributed to a specific fund and those attributed to the general government.

Principle 9: That the accrual basis of accounting be used for government-wide financial statements and for proprietary and fiduciary funds, and that the modified accrual basis of accounting be used for fund specific financial statements.

Principle 10: That an annual budget be adopted, budgetary control be provided by the accounting system, and the budget be compared annually with the actual results of the operations.

Principle 11: That inter-fund transferred be recognized and reported depending on whether the transfer involves reciprocity.

Principle 12: That a common terminology and classification system be used throughout all financial records.

Principle 13: That interim financial reports be prepared and that the format of the comprehensive annual financial report (CAFR) follow a specific format.

The GASB routinely evaluates and considers modifications to GAAP that provide clarity and prudence in financial reporting.

INDEPENDENT AUDITS

COUNTIES AUDITS: REASONS AND LEGAL REQUIREMENTS

The GASB and Government Finance Officers' Association (GFOA) have recommended that the financial statements of all governments be independently audited and, according to Chapter 218.39, Florida Statutes, each Florida county shall have an annual financial audit of its accounts and records completed within twelve months of the end of the fiscal year by an independent certified public accountant retained by the county and paid with its public funds.

Chapter 218.33, Florida Statutes, also provides that the county audit report be a single document that includes a financial audit of the county as a whole and, for each county agency other than the board of county commissioners, an audit of its financial accounts and records, including reports on compliance and internal control, management letters, and financial statements. In addition, the board of county commissioners may elect to have a separate audit of its financial accounts and records in a manner required for the other county agencies. This separate audit shall be included in the county audit report. Moreover, Chapter 218.33, Florida Statutes, requires each county to follow uniform accounting practices and procedures as promulgated by the state which include a uniform classification of accounts. Among other things, this uniformity in accounts enables data collections to occur state-wide.

After the audit is completed, Chapter 218.32, Florida Statutes, requires the chair of the board of county commissioners and the chief financial officer of the county to sign the annual financial report. Moreover, Chapter 218.39, Florida Statutes, provides that at the conclusion of the audit, the

auditor shall discuss with the board chair or designee all of the auditor's comments that will be included in the report. The county's written statement of explanation or rebuttal concerning the auditor's findings, including corrective action to be taken, must be filed with the board of county commissioners within 30 days after delivery of the auditor's findings. This statute further requires that all audit reports and the county's written statement of explanation or rebuttal must be submitted to the Auditor General within 45 days after delivery of the audit report to the BCC, but no later than twelve months after the end of the fiscal year.

In addition to following recommendations from GASB and GFOA and complying with state law, the results of an independent audit, as described in the previous paragraphs, enables the board of county commissioners to make more confident decisions and constructive changes to improve operations, and helps control or curtail circumstances involving inefficiencies or fraud.

AUDITOR SELECTION PROCESS

In Florida, the selection of an Independent Auditor must follow strict guidelines outlined in Chapter 218.391, Florida Statutes. The process begins with the board of county commissioners establishing an audit selection committee made up of, at a minimum, each county officer or designee and one member of the board or designee. The public shall not be excluded from the proceedings.

The Audit Selection Committee has the responsibility to do the following:

- 1) Establish evaluation criteria to include: ability of personnel, experience, ability to furnish the required services, and other factors determined by the committee to be applicable.
- 2) Publicly announce the Request for Proposals (RFP).
- 3) Provide interested firms with an RFP.
- 4) Evaluate proposals provided by qualified firms (note: compensation cannot be the predominant factor used to evaluate proposals).
- 5) Rank no less than 3 firms deemed the most qualified.
- 6) The board of county commissioners shall inquire as to compensation if not part of the evaluation criteria and negotiate an agreement with the number one ranked firm.
- 7) If unsuccessful, the board may negotiate with the next ranked firm (note: only one firm can be negotiated with at one time).
- 8) A written agreement is required.

BASICS OF ACCOUNTING

THE CONCEPT

The accounting system provides the record-keeping framework in which transactions authorized in the budget are logged.² Every financial transaction, whether a bank deposit, a receipt for recreation fees, a payment of overtime, or any other transaction, is recorded in an account. These transactions are aggregated into interim financial reports that managers use to maintain budget

compliance throughout the year. At the end of the year, all transactions are compiled into a comprehensive annual financial report (CAFR) which shows the actual results of all transactions during the year.

In order to be effective, accounting must be accurate, timely, and formatted to answer key budget questions. The system should have a common set of standards so that transactions are recorded the same way over time, enabling the user of this information to track trends and compare financial periods. As previously provided, Florida law requires such consistency in reporting to enable one to compare between different jurisdictions as well as comparing a jurisdiction's records from year to year.

BASIS OF ACCOUNTING

Many of the standards that guide accounting practices originated in the private sector. The general rule in the private sector is to use the *accrual basis of accounting* because it works well for businesses that sell a product or service: "in accrual accounting, revenues from the sale of products are recognized when they are both earned and measurable, and expenses for raw materials and labor are recorded when they are used in the production process."³ According to GASB 34, Government Propriety Fund Statements (including financial data for enterprise and internal service funds) should be prepared using the accrual basis of accounting.

For tax supported government operations that do not earn revenue, the accrual basis of accounting does not provide useful information. For example, the cost of responding to a sheriff deputy's call has little connection to the amount of taxes paid by the caller. For that reason, governments use the *modified accrual basis of accounting* for other government type funds. Chapter 129.06, Florida Statutes, actually requires that county accounting records for general government operations be maintained on the "modified accrual basis" of accounting. In this format, revenues are recorded when available and measurable, and expenditures are recorded when services or goods are received and related liabilities are incurred.

A third basis of accounting is the *cash basis of accounting*. Basically, this method only recognizes a transaction when actual cash is exchanged, whether it is a receipt or expenditure. This is similar to how most people keep their personal check books. While some government budgets in the country may employ this method for certain types of budgeting, state law and general accepted accounting principles dictate that accounting and financial reporting be on a modified or accrual basis, depending on the type of fund referenced above.

FUND ACCOUNTING

IDENTIFYING FUND TYPES

Unlike businesses that generally combine the results of their operations into one consolidated report, a county government divides its operations into funds and creates a separate report for each type of fund. County funds are usually created by law, either by state law or through legislative approval by the board of county commissioners. The fundamental purpose of establishing different funds is for fiscal control. The law that establishes the fund includes strict requirements regarding the use of revenues that come into a fund.

Fund accounting requires counties to keep separate records for each fund the county has established. The number of funds depends on the size and complexity of the county's operations. There are eleven basic types of funds required by the Government Standards Accounting Board

(GASB). These funds are grouped into three broad categories: governmental, propriety, and fiduciary. Following is a breakdown of each category:

Governmental Funds

- General Fund (Accounts for general operations: Sheriff, Parks, etc.)
- Special Revenue Fund (e.g., Tourist Tax Fund)
- Debt Service Fund (e.g., 2008 Series Debt Service Fund)
- Capital Projects Fund (e.g., Capital Projects not located in other funds)
- Permanent funds (e.g., Cemetery Care Fund)

Propriety Funds (Business Type Funds)

- Enterprise Funds (e.g., Solid Waste Fund or Water/Sewer Funds)
- Internal Service Funds (e.g., Fleet Maintenance or Technology Fund)

Fiduciary Funds

- Investment Trust Funds (e.g., Countywide Cash Investment Fund)
- Private-Purpose Trust Funds (e.g., Employees' Credit Union)
- Pension Trust Funds (e.g., Employees' Retirement Fund)
- Agency Funds (e.g., Local Option Sales Tax Fund)

DESCRIPTION OF FUND TYPES

The **General Fund** is usually the largest and most important in terms of the operating budget. There is only one general fund, and it is defined as general because it contains all transactions not provided for in any other fund.

The **Special Revenue Fund** is typically used to account for a source of revenue that has specific restriction on its use. For example, a special revenue fund may be established to account for the use of a federal grant because the use of the proceeds is limited. Separating the revenue and expenditure transactions makes it easier to audit and account for the use of the grant. A county may elect to have more than one revenue account.

The **Debt Service Fund** is used to account for the financial resources to pay the principle and interest on debt. For example, a debt service fund would be established for a General Obligation Bond to evidence that the money has been set aside exclusively to repay the debt on this bond. Depending on the county's financial policies, there may be several debt service funds (i.e. one for each bond obligation).

The **Capital Projects Fund** is used to account for the financial resources needed to pay for capital projects within the county. The fund will reflect the revenues (i.e., transfer from bond proceeds, grants, etc.) and reflect the expenditures paid (i.e., to engineers, contractors, etc.). The primary purpose of the fund is to control expenditures on projects. Keeping a detailed report on a project in the general fund is more difficult, thus the importance of a separate capital projects fund.

The **Permanent Fund** is used to provide for provide a permanent source of revenue for a specific purpose. It is basically an endowment where the interest earned from the revenue is used to continue a service (e.g., maintenance of a cemetery or funding a special scholarship). The use of the earnings are legally restricted.

The **Enterprise Fund** is used to account for services that are supported by fees on customers (e.g., water, waste water, electricity, docks, golf courses, etc.). By establishing a separate fund for each operation, the board of county commissioners can determine whether the operation is bringing in enough revenue to pay for the cost of providing the service. GASB principles also require an enterprise fund to be set up if debt is being backed by the fees generated by the activity. This is an important distinction between enterprise funds and revenue funds as service charge revenue cannot be used as collateral for revenue bonds in special revenue funds.

The ***Internal Service Fund*** is similar to enterprise funds except they account for services provided within the government (i.e., to other departments or funds) rather than to the public. Each user department or fund is charged proportionately for the amount of service they are provided. Two examples are maintenance of the county's vehicles and service of county-wide technology. Establishing an internal service fund tracks actual usage and cost by department or fund and can encourage more efficient use of these services.

The ***Investment Trust Fund*** is used to commingle funds (can include funds from other jurisdictions in the county) and held in trust and invested.

The ***Private-Purpose Trust Fund*** is similar to investment funds except the funds are held in trust for individuals or private organizations.

The ***Pension Trust Fund*** is used to hold funds in trust to pay for employee retirement benefits. There is usually a Board of Trustees that oversees the fund investments and expenditures.

The ***Agency Fund*** is used to account for funds paid into an account where the government services as the custodian of resources on behalf of other governments. For example, the county has a local option sales tax account that distributes some of the proceeds to cities based upon a predetermined formula.

FINANCIAL POLICIES

Financial policies are used to guide the board of county commissioners and staff in making financial decisions within the county. Good policies incorporate legal requirements governing accounting, fund management, budgeting, reserves, debt management, investments, general purchasing, capital expenditures and other financial related matters with additional constraints or financial provisions imposed by the BCC.

There are many good reasons for establishing county financial policies. Following are a few of these reasons:

- 1) Improve understanding of county finances. Public financial management is very complicated and a set of uniform policies helps all parties (i.e. BCC, staff, and the public) to better understand why certain decisions are made.
- 2) Facilitate consistent application. Financial policies provide a guide for managing the county's finances to facilitate consistency and help employees understand county financial expectations.
- 3) Improve public's perception of county government. Meaningful financial policies can instill public confidence in the board of county commissioners in terms of financial oversight of public funds.
- 4) Provide continuity after election of new commissioners. Established financial policies enable new elected officials to assume office without having to make major changes in the financial management of the county. Although newly elected commissioners may want to change some policies, the existence of policies promote continuity for the financial operations of the county.
- 5) Establish a basis for addressing emergencies. Every county will experience the unexpected. Some unanticipated events can have a severe financial impact on the county. Foresight in establishing policies to handle such emergencies can enable the county to maintain financial solvency during and after the event.

Florida statutes provide numerous policies that should be included in a county's financial policies. For example, an investment policy should include reference to Chapter 218.414, Florida Statutes. The policy should identify whose responsible for investment of funds, what specific types of investment instruments can be used, what the investment objectives are, a description of the bidding process, a statement of the diversification guidelines, provisions to ensure there is adequate liquidity, and guidelines to explain what is ethical and prudent conduct.

The Government Finance Officers Association (GFOA) is a good resource to assist a county with developing draft financial policies. Surprisingly, many county governments still have not developed and promulgated detailed financial policies.

REFERENCES

Bland, Robert L., and Irene Rubin. *Budgeting: A Guide for Local Government*. International City and County Management Association. 2007.

NOTES

¹A portion of GASB Codification of Governmental Accounting and financial reporting as of June 2006 as referenced in Bland (2007).

² Bland, Robert L., and Irene Rubin. *Budgeting: A Guide for Local Government*. International City and County Management Association. 2007.

³ Bland and Rubin, p. 109.

19. County Revenue Sources

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In Florida, county revenues are derived from three sources: (1) taxes imposed by the counties, (2) non-tax charges imposed by the counties, and (3) other governmental (e.g., state and federal) revenues that are shared with, directly imposed on behalf of, or given to the counties. The Florida Constitution prescribes a county’s ability to generate these first two revenue sources. The Constitution authorizes the levy of ad valorem (value-based) taxes on real and tangible personal property but preempts the county’s ability to levy other taxes (e.g., sales, gas, tourist, utility) to the state. Non-tax revenues (e.g., user fees, impact fees, special assessments) may be imposed by county ordinance without state legislative authority.

The examination of the revenue sources for Florida’s counties is not complete unless one remembers that Florida has granted its counties strong *home rule* powers. These *home rule* powers are different for charter and non-charter counties, but the powers of *home rule* are extended to each. These powers include the ability to locally develop revenue solutions, provided the solutions are not in conflict with general or special laws and the constitution. Accordingly, the analysis of whether a revenue source is legally authorized is often not whether the State Legislature has granted counties the power to do something, but whether the Legislature has taken away counties’ power.

TAXES

AD VALOREM PROPERTY TAXES

While ad valorem property taxes are the most significant revenue sources for Florida’s counties, the taxes are subject to significant limitations. The Constitution prescribes the rate or amount of the tax that may be levied:

- Ten mills for “municipal purposes.”
- Ten mills for “county purposes.”
- When authorized by law, a county furnishing municipal services may levy additional taxes within the limits fixed for municipal purposes
- The ten mills for county purposes and municipal purposes may be exceeded if approved by electors: (1) for two years for general governmental purposes and (2) for payment of bonds
- Statutory caps: Within the 10 mill caps, the Legislature requires super majority and unanimous votes to exceed certain defined millage rates, making the ability to increase taxes by way of either millage or value increases difficult.

In addition to the limits on the rate of taxes that may be levied by a county, other constitutional constraints exist on the ability to levy ad valorem taxes. The additional limitations include the following:

Referendum Required–Debt. Any pledge of ad valorem taxes for debt that extends beyond 12 months must be approved by vote of the electors.¹

Uniformity of Tax Rate. The rate of ad valorem taxes must be uniform throughout a taxing unit. Accordingly, a county cannot levy an extra one mill of ad valorem tax on only commercial property for a specified purpose. The tax rate must be the same across all property use categories and, as a general matter, throughout the county.²

Just Value. All property must be assessed at “just value” for purposes of ad valorem taxes.³ “Just value” has been defined by the courts to mean fair market value which is that price a willing buyer would pay to a willing seller, each acting without compulsion to either buy or sell.

Public Purpose. Ad valorem taxes can only be used for valid public purposes and only when any private benefit or gain is incidental to the primary public purpose. The revenue derived from ad valorem taxes may be used for general governmental functions – those functions that make and sustain an organized, civilized society without regard to use, benefit, or burden.⁴

Municipal Real and Substantial Benefit. The services and facilities funded with ad valorem taxes must provide a real and substantial benefit to municipal areas within a county.⁵

Exemptions.

- **Homestead Exemptions:** The Florida Constitution authorizes and the Florida Legislature implemented a tax exemption on homestead property that the first \$25,000 of assessed value of homestead property is not subject to taxation.⁶ In January 2008, voters approved the doubling of the \$25,000 exemption up to \$50,000.⁷ In November 2010, voters approved an additional homestead tax exemption for military personnel deployed outside the United States.⁸
- **“Save Our Homes”:** This constitutional amendment limits the annual increase in the assessed value of homestead property to the annual change in the Consumer Price Index, or three percent, whichever is smaller.⁹
- **“Portability”:** The SOH benefit is transferable from one homestead to another, beginning January 1, 2007.¹⁰
- **Cap on taxable value of non-homestead property:** There is a 10 percent cap on increases in assessed value of non-homestead properties, beginning January 1, 2009.¹¹
- **“Save Our Seniors”:** Counties may, by ordinance, enact an additional \$50,000 homestead exemption to property owners aged 65 and older that have a household income of \$20,000 or less (may be adjusted for inflation).
- **“Granny Flats”:** Counties may, by ordinance, grant an additional exemption for additions or improvements to homestead property that is built to provide primary living quarters for parents or grandparents, over the age of 62, of the property owner (or owner’s spouse). The exemption applies only to those improvements that have been made after January 7, 2003, but is equal in amount to the increase in the

assessed value resulting from the construction or 20 percent of the total assessed value of the property as improved, whichever is less.¹²

- **Wind and Renewable Energy:** The Legislature may, by general law, prohibit consideration of changes or improvements to residential real property which increase resistance to wind damage and installation of renewable energy source devices as factors in assessing the property's value for ad valorem taxation purposes.¹³
- **Conservation Land:** The Legislature must provide a property tax exemption for real property encumbered by perpetual conservation easements or other perpetual conservation protections, defined by general law and provide for classification and assessment of land used for conservation purposes, and not perpetually encumbered, solely on the basis of character or use.
- **Working Waterfront:** Assessment is to be based upon use of land used predominantly for commercial fishing purposes; land used for vessel launches into waters that are navigable and accessible to the public; marinas and drystacks that are open to the public; and water-dependent marine manufacturing facilities, commercial fishing facilities, and marine vessel construction and repair facilities and their support activities, subject to conditions, limitations, and reasonable definitions specified by general law.¹⁴
- **Immune property:** property owned by the federal government, the State of Florida, and its counties.¹⁵
- **Exempt property:** Property owned by municipalities when used for public purposes is exempt from ad valorem taxes as is property that is used predominantly for educational, literary, scientific, religious, or charitable purposes.¹⁶ No exemption may be granted by either the Legislature or the counties that is not authorized by the Constitution.¹⁷

LOCAL OPTION SALES TAXES

The Legislature has authorized eight local option sales taxes to counties (listed and explained below), but some of them are restricted to certain types of counties. For example, only counties with a population of 50,000 or less, as of April 1, 1992, may levy the Small County Surtax. The local option sales tax base extends to all admissions, rentals of property, and sales of items of tangible personal property subject to the state sales tax and the payment for all services taxable under the state sales tax base, including commercial cleaning services, pest control services, and security services. The local option sales tax base applies only to the first \$5,000 of the purchase price of an item of tangible personal property and telecommunication services while the state sales tax applies to the entire purchase price regardless of amount. The \$5,000 limitation of the local option sales tax does not apply to payment for services. The \$5,000 cap on other taxable transactions restricts the revenue collections of the local option sales taxes to an amount much lower than the revenues generated by the state general sales tax without the cap.

1) Local Government Infrastructure Surtax¹⁸

The Infrastructure Surtax may be levied countywide, with referendum approval, by the county commission or the governing bodies of municipalities representing a majority of the county population. The Infrastructure Surtax is limited in rate to one-half or one percent. The tax proceeds must be shared between the county and the municipalities within the county under an interlocal

agreement or under the half-cent sales tax formula provided in statute.¹⁹ The surtax may also be shared with the school board.

General Uses. The Infrastructure Surtax revenue may be used to finance, plan, and construct infrastructure. Additionally, surtax revenues may be used to acquire land for public recreation or conservation or protection of natural resources and to finance the closure of county-owned or municipally-owned solid waste landfills that are already closed or required to close by the order of the Florida Department of Environmental Protection. Fifteen percent of the surtax revenues may be expended on economic development activities under certain circumstances. The surtax revenues may also be used for expenditures for the construction, lease, maintenance, utilities, or security of courthouse facilities, as defined in section 29.008.

Special Uses for Small Counties and Areas of Critical State Concern. In addition to the general uses outlined above, certain counties and the municipalities within those counties may use the Infrastructure Surtax proceeds for any public purpose after certain conditions are met. The certain counties are those counties with a population of 50,000 or less on April 1, 1992 (“Small Counties”), and counties designated as areas of critical state concern. Those counties and the municipalities within those counties may use the surtax proceeds for any public purpose if all of the following conditions are met:

- 1) The surtax was imposed before July 1, 1992.
- 2) Debt service obligations are met.
- 3) The county's comprehensive plan is in compliance with the Growth Management Act.
- 4) The county adopted an amendment to the ordinance levying the surtax.

Counties that are designated areas of critical state concern may not expend more than 10 percent of the Infrastructure Surtax proceeds for any public purpose other than infrastructure needs.

Parks and Recreation Uses. The Legislature has authorized certain defined counties in which 40 percent or more of the just value of real property is exempt or immune from ad valorem taxation and in which the population is greater than 75,000 to use the Infrastructure Surtax proceeds for the operation and maintenance of parks and recreation programs and facilities established with the proceeds of the surtax.

Charter County Uses. Miami-Dade County and all other charter counties may use the revenue for the additional purpose of retiring bonds that were issued before July 1, 1987, and for bonds that were issued to refund such bonds.

Rate Limitations. The Infrastructure Surtax may be levied at a rate of one-half or one percent. The combined rate of all the local sales taxes may not exceed one percent, omitting the Charter County Transit System Surtax from this calculation limitation.

2) Small County Surtax²⁰

Small counties, defined as those with a population of less than 50,000 on April 1, 1992, may levy a one-half or one percent sales tax denominated the Small County Surtax.

Method of Imposition. The method of imposition depends on the uses of the revenue. The Small County Surtax may be imposed by county ordinance enacted with an “extraordinary vote” of the county commission, if the revenue will be used for “operating purposes” or any other public purpose except servicing bonded indebtedness. “Extraordinary vote” is not defined in the applicable statute, but by conventional practice appears to mean a majority plus one member of the governing board. If the Small County Surtax revenues are to be used to service bonded indebtedness, the surtax must be approved by referendum and, it appears, by extraordinary vote of the county commission.

Uses of the Revenue. If approved by referendum, the tax revenues may be used for “servicing bonded indebtedness to finance, plan, and construct infrastructure and to acquire land for public recreation or conservation or protection of natural resources.” These uses are similar to those provided in the Local Government Infrastructure Surtax. If not subjected to referendum approval, which is solely within the county commission’s discretion, the revenue may not be pledged to retire bonded indebtedness, but may be used “for any public purpose authorized in the ordinance under which the surtax is levied.”

Rate Limitations. The Legislature authorized the rate to be either one-half or one percent, but limited the combined rate for all the local sales taxes to one percent, except for the Charter County Transit System Surtax, which Small Counties have no authority to levy.

3) Indigent Care And Trauma Center Surtax for Certain Large Counties²¹

Counties with a population above 800,000—except for consolidated counties (Duval) and counties authorized to levy a county Public Hospital Surtax (Miami-Dade)—can levy a one-half percent local sales tax to fund indigent health care and trauma center care. Four counties currently meet the Surtax qualifications: Broward County, Hillsborough County, Palm Beach County and Pinellas County. The Indigent Care Surtax may be adopted by extraordinary vote of the governing board members or with referendum approval. The levying county must develop a detailed health care plan to meet certain requirements.²²

Further, the revenue must be shared with a certain type of trauma center.²³ The Legislature authorized the rate to be one-half percent and limited the combined rate of all the local sales taxes to one percent, omitting the Charter County Transit System Surtax from this limitation.

4) Indigent Care and Trauma Care Surtax for Counties with a Population of Fewer Than 800,000²⁴

Effective July 1, 2004, counties with a population of fewer than 800,000 may seek referendum approval of a Surtax for the purpose of funding trauma care services provided by a licensed trauma center. The rate is limited to 0.25 percent. The combined rate of this surtax and the other surtaxes except the Charter County Transit System Surtax may not exceed one percent. The Indigent Care and Trauma Surtax expires four years after the effective date of the surtax, unless reapproved by referendum.

5) Voter-Approved Indigent Care Surtax²⁵

Effective July 1, 2004, counties with a population of 800,000 and less may seek referendum approval of a surtax for the purpose of funding indigent health care.

Uses of the Revenue for Small Counties. The proceeds of the Voter-Approved Indigent Care Surtax levied by a small county may be pledged for new or existing bond indebtedness to finance, plan, and construct a public or not-for-profit hospital and any land acquisition related thereto, if the governing body of the county determines that such a hospital existing at the time of issuance of the bonds would more likely than not otherwise cease to operate; the issuance of debt must be by extraordinary vote of the governing body of the county. Effective June 17, 2005, counties with a population of fewer than 50,000 can levy an indigent care surtax by referendum vote at a rate not to exceed one percent.

Limitations on Rate. For counties with a publicly supported medical school, the rate may be one-half or one percent. For all other counties with a population of 800,000 or less, the rate is limited to 0.5 percent.

The combined rate of this Surtax and the other surtaxes may not exceed one percent, except in counties with a publicly supported medical school and counties with a population of fewer than 50,000, where the rate may not exceed a combined rate of 1.5 percent.

6) County Public Hospital Surtax²⁶

Available only to Miami-Dade County, the County Public Hospital Surtax allows the board of county commissioners to impose a surtax of 0.5 percent by extraordinary vote of the governing board. Proceeds shall be used to supplement the operation, maintenance, and administration of the county public general hospital. Miami-Dade currently has this levy in place. This surtax and the Small County Surtax, the Indigent Care Surtax, and Local Government Infrastructure Surtax are restricted to a combined one percent.

7) Charter County Transportation System Surtax²⁷

Those counties that have adopted a charter and those counties that have consolidated with one or more municipalities may levy the Charter County Transportation System Surtax. The surtax may be up to one percent. This Surtax may be imposed by a charter amendment approved by a majority of the electorate within the county or by countywide referendum. The proceeds of this surtax may be used for development, construction, equipment, maintenance, operation, and supportive services, including a countywide bus system, and related costs of a fixed guideway rapid transit system, or for the development, construction, operation, or maintenance of roads or bridges in the county. This surtax is not subject to, and may be in addition to, the combined one percent for the County Hospital Surtax, the Small County Surtax, the Indigent Care Surtax, and Local Government Infrastructure Surtax.

8) Fire Rescue Services²⁸

Those counties that do not already have two unexpired discretionary surtaxes may impose a new discretionary sales surtax of up to one percent for emergency fire rescue services and facilities. “Emergency fire rescue services” are those preventing and extinguishing fires, protecting and saving life and property from fires or natural or intentional acts or disaster, enforcing fire prevention codes and laws pertaining to the fire prevention and control, and providing pre-hospital emergency medical treatment. If the surtax is authorized, the county authority must develop an interlocal agreement to be executed with participating jurisdictions. Once the county authority has adopted an ordinance, and after an interlocal agreement has been entered into, the levy of the surtax must be placed on the ballot by the governing authority of the county enacting the ordinance. The surtax will take effect if approved by a majority of the electors of the county voting in the referendum. The interlocal agreement is a condition precedent to holding the referendum. After the levy of the surtax has been approved by referendum, the following conditions must be met:

- The Department of Revenue must administer, collect, and enforce the surtax as required under s. 212.054(4), Florida Statutes;
- The surtax, less the department’s costs of administration, must be distributed by the county to the participating jurisdictions. The county imposing the surtax may charge an administrative fee for receiving and distributing the surtax, provided that the fee equals the costs incurred and does not exceed 2 percent of the surtax collected; and

- The appropriate portions of proceeds must be distributed to the participating jurisdictions under the interlocal agreement.

After the surtax is in effect and collections have begun, a county and any participating jurisdiction entering into an interlocal agreement must reduce the ad valorem tax levy or any non-ad valorem assessments for fire control and emergency rescue services in the next and subsequent budgets by the estimated amount of surtax revenues.

The use of surtax proceeds does not relieve any local government from complying with the provisions of chapter 200, Florida Statutes, and any related provisions of law that establish millage caps or limit undesignated budget reserves and procedures for establishing rollback rates for ad valorem taxes and budget adoption. In any year that surtax collections exceed the estimated collections, the surplus shall be used to further reduce ad valorem taxes in the next year. These proceeds shall be applied as a rebate to the final millage after the TRIM notice is completed in accordance with this provision. Municipalities, special fire control and rescue districts, and contract service providers that do not enter into an interlocal agreement are not eligible to receive a portion of the surtax proceeds collected and are not required to reduce ad valorem taxes or non-ad valorem assessments.

LOCAL MOTOR FUEL TAXES

Constitutional Gas Tax²⁹

The Florida Constitution authorizes the imposition of a two cents per gallon tax on motor fuel and special fuel (diesel) to finance the acquisition and construction of roads as defined by law (the “Constitutional Gas Tax”). The tax is collected by the Florida Department of Revenue and is transferred to the State Board of Administration (SBA) for allocation to the counties. The SBA is required to calculate a distribution factor based on the sum of three weighted ratios: one-fourth in the ratio of county area to state area, one-fourth in the ratio of the total county population to the population of the state in accordance with the latest available federal census, and one-half in the ratio of the total Constitutional Gas Tax collected in each county to the total collected in all counties of the state during the previous fiscal year.

County Fuel Tax³⁰

The Legislature has levied the “County Fuel Tax,” a one cent per gallon tax on motor fuel and special fuel for distribution to county governments. The statutory formula for distributing the statewide proceeds is the same one used to distribute the Constitutional Gas Tax.

LOCAL OPTION MOTOR FUEL TAXES

In addition to the two cents constitutional gas tax for counties levied by Article XII, section 9(c)(4), Florida Constitution, that was implemented by the Legislature in section 206.47, Florida Statutes, and the one cent County Gas Tax that has been imposed by the Legislature and earmarked for counties pursuant to section 206.60, Florida Statutes, counties may impose up to 12 cents of local motor fuel taxes.

The 12 cents of optional motor fuel taxes are divided into three categories: the original six cents motor fuel tax authorized by section 336.025(1)(a), Florida Statutes (the “Original Six Cents Gas Tax”); five cents tax authorized by section 336.025(1)(b), Florida Statutes, as created in the Environmental Lands Management (“ELMS”) legislation, at section 336.025(1)(b), Florida Statutes (the “ELMS Five Cents Gas Tax”); and the penny tax authorized by section 336.021, Florida Statutes, now titled the “Ninth Cent.”

Uses of Local Option Motor Fuel Taxes. The statutorily authorized uses of the three taxes differ, as do the methods of imposition and the requirement that the revenue be shared with municipalities. The Original Six Cents Gas Tax may be used by small counties for transportation and other infrastructure projects under certain circumstances. The ELMS Five Cents Gas Tax may be used for transportation expenditures needed to meet the capital improvements element of an adopted comprehensive plan or for expenditures needed to meet immediate local transportation problems and for other transportation-related expenditures that are critical for building comprehensive roadway networks. The Ninth Cent is restricted solely to transportation expenditures.

Method of Imposition. Any of the three local option motor fuel taxes may be subject to referendum approval at the discretion of the governing board of the county. The Original Six Cents Gas Tax is the only one that may be imposed by a simple majority vote of the county commission; the Ninth Cent and the ELMS Five Cents Gas Tax must be approved by an extraordinary vote of the governing board members.

LOCAL TOURIST DEVELOPMENT TAXES

Base and Rates. After being recommended by a Tourist Development Council, whose members are appointed by the county commission, a tourist development tax levied in the county for the first time must receive referendum approval prior to imposition. A county may levy a tourist tax at a rate up to five percent; when it is deemed to be a high tourism impact county, the rate may be up to six percent.

The initial tax may be either at a one percent or two percent rate and shall be levied on all short-term residential rental charges subject to the Transient Rental Tax imposed in section 212.03, Florida Statutes, which includes all residential rentals for a period of six months or less.

An additional one percent tax may be levied by extraordinary vote of the governing board or by a referendum of any county that has levied either the one percent or the two percent tax for a minimum of three years and that does not levy a Convention Development Tax.

Additionally, a county may levy up to another two percent tax for the purpose of promoting tourism. Paragraph 3(l) allows a one percent tax to be levied by majority vote of the governing body of the county. When a county levies the one percent tax authorized in Paragraph 3(l), it qualifies to levy an additional one percent tax authorized in Paragraph 3(n) by majority plus one vote of the membership of the governing body of the county.

Both Paragraphs 3(l) and 3(n) allow the additional taxes to be used to promote tourism. Alternatively, revenues from the one percent impose pursuant to Paragraph 3(l) and 3(n) may be used to finance a professional sports facility, and Paragraph 3(l) revenue may also be used to finance a retained spring training franchise and a convention center and for the operation and maintenance of a convention center.

High tourism impact counties, currently defined to include Orange County, Osceola County and Monroe County, may impose an additional one percent tourist development tax.

Collection and Limitations on Use. The county has the option of collecting the tourist development tax; otherwise the Florida Department of Revenue collects the tax, subtracts a fee for administration, and remits the proceeds to the county.

The revenue must be deposited in the county's Tourist Development Trust Fund for use by the county in accordance with the provisions of section 125.0104, Florida Statutes. That section generally authorizes counties to use the revenue derived from the tourist development taxes imposed pursuant to sections 212.0104(3)(c), (3)(d), and (3)(n), Florida Statutes, to acquire and operate a convention center or sports stadium, to promote tourism, to build convention and tourist bureaus, and to finance beach improvements.

The use of tourist tax revenue is restricted to an activity, service, venue, or event that has as one of its main purposes the attraction of tourists as evidenced by the promotion of the activity,

service, venue or event to tourists. Counties with a population of less than 750,000 may also use the revenue to build and upgrade fishing piers, museums, zoological parks, and nature centers.

COMMUNICATIONS SERVICE TAX³¹

The Communications Services Tax (“CST”) is a tax on communications services. The tax base includes local land-line and long distance telephone services, mobile communications services, and cable television services. The tax base does not include Internet access and information services. Satellite services are also not subject to the CST; they are, however, subject to a tax levied by the state, a portion of which is distributed to local governments in proportion to their participation in the Half-Cent Sales Tax Program.

The CST applies only within the unincorporated area when levied by a county and may be used for any public purpose, including the pledging or repayment of debt. Charter counties may levy the CST up to a rate of 5.1 percent; non-charter counties up to 1.6 percent. The rate may be increased by a county’s decision not to charge permit fees for right-of-way use by dealers of communications services. For charter counties, the additional CST rate available is 0.12 percent and for non-charter counties, 0.24 percent.

With one exception, Chapter 202, Florida Statutes, preempts the county’s ability to levy taxes and impose charges on communication service providers. The one exception is for “pass-through providers.” These dealers may be charged up to \$500 per linear mile for use of the rights-of-way. A “pass-through provider” is a company that puts a communications facility in the right-of-way but does not pay the CST to that municipality or county.

PUBLIC SERVICE TAX³²

The Public Service Tax is statutorily authorized to municipalities. The authority has been expanded by the Florida Supreme Court to include charter counties also. It is a levy upon the purchase of electricity, metered natural gas, and telecommunication services. The levy upon electricity and gas is 10 percent. This levy may be put in place by majority vote of the board of county commissioners and may be used for general governmental purposes.

LOCAL OCCUPATIONAL LICENSE TAX³³

Counties may levy an occupational license tax. This tax is imposed upon businesses for the right to engage in business in that county. The tax may be put in place by ordinance. The adopted ordinance must include classifications of businesses, professions, and occupations that are subject to the tax. The ordinance must also establish the applicable rate structure.

MISCELLANEOUS TAX SOURCES

- Convention Development Tax (Miami-Dade, Duval and Volusia Counties)³⁴
- Miami-Dade County Local Option Food & Beverage Tax³⁵
- “911” Fee and “E911” Fee³⁶
- Intergovernmental Radio Communication and Automation Surcharge³⁷
- Hazardous Waste Tax³⁸
- Miami-Dade County Documentary Stamp Tax³⁹
- Green Utility⁴⁰

- School Crossing Guard Surcharge⁴¹
- Driver Education Surcharge⁴²
- Educational Facilities Benefit District⁴³

OTHER GOVERNMENTAL SOURCES: REVENUE SHARING

STATE REVENUE SHARING⁴⁴

The Revenue Sharing Trust Fund for counties consists of two state revenues: a portion of cigarette tax collections and a portion of net state sales tax collections, pursuant to sections 210.20(2)(a) and 212.20(6)(e)(5), Florida Statutes. The use of the state revenue sharing proceeds is restricted. There are three designated uses for the shared funds received by counties. The first category, the guaranteed entitlement, which is roughly equal to the amount a county received in the 1971-72 fiscal year, may be pledged and used for any county purpose. The second guaranteed entitlement, which equals the difference in the amount a county received in the 1981-1982 fiscal year minus the guaranteed entitlement, may be pledged and used for any county purpose, including acquiring insurance contracts from a local government liability pool. The remainders of the revenue may be used for any public purpose.

HALF-CENT SALES TAX PROGRAM⁴⁵

The local government half-cent sales tax program returns to municipalities and counties 8.814 percent of state sales tax proceeds remitted pursuant to Chapter 212, Florida Statutes. The local government share is based on the sales tax collected in each county. The county's share is determined by dividing the sum of the unincorporated area population plus two-thirds of the incorporated area population by the sum of the total county population plus two-thirds of the incorporated area population. The municipality's share is determined by dividing the sum of the population of the municipality by the sum of the total county population plus two-thirds of the incorporated area population. This revenue may be used for any county purpose. A county must be eligible for state revenue sharing in order to qualify for the half-cent sales tax.

Small counties meeting certain requirements may receive an additional distribution from the state appropriation act. The "Emergency Distribution" distributes a percentage of sales tax to counties with a population of 65,000 or less that meet the eligibility requirement. The "Supplemental Distribution" distributes \$592,000 to counties that are eligible to receive the Emergency Distribution and that have a certain percentage of the total population incarcerated in state and federal facilities.

PARI-MUTUEL REVENUE⁴⁶

The state, under the state constitution,⁴⁷ distributes the taxation of pari-mutuel pools to the counties in equal amounts. Before 2000 each county received \$446,500 annually. Beginning on July 1, 2000, the Legislature repealed the sharing of pari-mutuel revenues with counties and replaced that revenue with a portion of the state sales tax. The replacement revenue equals \$29,915,500 annually, which is apportioned equally among the 67 counties at \$446,500 each.

STATE HOUSING INITIATIVES PARTNERSHIP (SHIP)⁴⁸

The SHIP Act provides for documentary stamp tax revenue to be distributed to counties and eligible municipalities, if certain conditions are met. SHIP requires the creation of an affordable housing program and a review of regulatory barriers to affordable housing. The distribution is based on population with a \$350,000 annual minimum allocation for each county. The revenue must be shared by the county with eligible municipalities based on an interlocal agreement or by population when no interlocal exists.

HOME RULE REVENUE SOURCES

In addition to county imposed taxes and in addition to revenues that the state shares with counties, counties have the home rule and statutory authority to impose other revenue sources. Generally, these revenue sources are dedicated in their purpose and are tied in amount to the cost of providing the service or facility. While statutory authority may exist for some of them, they are all imposed at the local level, typically through an ordinance.

There are two basic categories of these revenue sources: non-ad valorem special assessments and fees. Special assessments and fees provide diversity to a county's financial portfolio, and they are sound revenue sources for dedicated purposes. In addition, the special assessment can be charged on the annual property tax bill, which guarantees an exceptionally high rate of collection. For this reason, the special assessment is a good revenue source to use for pledging against debt and being able to build infrastructure. Furthermore, the special assessment can be used to fund certain key services that counties provide: fire suppression, solid waste collection, and stormwater. However, again because of certain case law decisions and lack of statutory authority, other critical services are not eligible (e.g., emergency medical services).

Whether a fee, assessment, or charge authorized only by county ordinance, and not general law, is constitutionally permissible depends on the Florida case law requirements. This analysis is difficult, however, because various requirements exist for the different types of constitutionally valid fees.

NON-AD VALOREM SPECIAL ASSESSMENTS

The services and facilities that are generally available to be funded with non-ad valorem special assessments are the following:

- Solid waste collection, disposal and facilities
- Stormwater services and facilities
- Street system (road paving and maintenance) and Accessories (street lights)
- Fire suppression, alone
- Fire suppression and first response rescue (but not emergency medical services)

The legal test for being able to use a non-ad valorem special assessment as a revenue source is that the service or facility being funded must provide a special benefit to property (as opposed to a general benefit to the community at large).⁴⁹ In addition, the amount of the assessment must be fair and reasonable, when compared to the benefit received. The special assessments can be collected on the annual property tax bill.⁵⁰

FEES AND SERVICE CHARGES

Fees are imposed in two main categories: (1) those fees that must be tailored in amount to the cost of the service or regulation for which the charge is collected; and (2) those fees that are proprietary in nature and allow for a “reasonable profit.” Examples of fees in the first category include the following: impact fees on new growth (fire stations, schools, roads, parks), solid waste tipping fees, park admission fees, and stormwater utility fees.

The second category is typically in the utility fee-for-service realm and is generally not as significant for counties as it is for municipalities. For example, municipally-owned electric systems generally provide significant revenues for a municipality’s general fund. A good example of this second category for counties is an electric utility franchise fee.

The requirements for valid fees are generally derived from court case decisions in the state and require analysis. Typically, however, something must be derived in exchange for the payment of fees: a service or a facility. In addition, the fees are required to be reasonable in amount and many fees cannot exceed the cost of the service or regulation. Finally, when no statutory authority exists for the fee it often will need to be paid by choice in that the feepayer can avoid the payment of the fee somehow (e.g., by obtaining the service elsewhere or by choosing not to engage in the activity that triggers the fee).

The topic of impact fees merits discussion. These fees are total or partial reimbursement to counties for the cost of additional facilities needed because of the new development.⁵¹ Rather than imposing the cost of these additional facilities upon the general public, the purpose of impact fees is to shift the capital burden of growth from the general public to the developer and new residents. These fees have been used for water and wastewater utility needs, park needs, school facility needs, and roadways, among others. An impact fee levied by a local government must meet what is referred to as the “dual rational nexus test”⁵² in order to withstand legal challenge. First, there must be a reasonable connection, or rational nexus, between the anticipated need for additional capital facilities and the population growth generated by the new development. Second, the government must show a reasonable connection between the expenditures of the funds collected and the benefits accruing to the new development from those expenditures. The Florida Legislature has also enacted the Florida Impact Fee Act.⁵³ The requirements of that statutory section must also be met.

COURT FUNDING

Article V, section 14, of the state constitution requires counties to fund certain portions of the state court system. There are a few miscellaneous revenue sources that can be imposed to assist with some of these funding responsibilities, including: an additional \$65 Court Cost for court innovations, law libraries, legal aid programs, and juvenile alternative programs;⁵⁴ a Teen Court assessment;⁵⁵ a state court facilities surcharge;⁵⁶ and a court facility financing fee.⁵⁷ The state also imposes a \$4 per page surcharge on documents filed in the Official Records of the county, with \$2 of that charge being transferred to the boards of county commissioners for technology needs of the courts.⁵⁸

NOTES

¹ See Art. VII, § 12, Fla. Const.

² See Art. VII, § 2, Fla. Const.

³ See Art. VII, § 4, Fla. Const.

⁴ See Art. VII, § 10(a), Fla. Const.; *see also* City of Bradenton v. State, 102 So. 556 (Fla. 1924); Brandes v. City of Deerfield Beach, 186 So. 2d 6 (Fla. 1966); and State v. Daytona Beach Racing & Rec. Fac. Dist., 89 So. 2d 34 (Fla. 1956).

⁵ See Art. VII, § 1(h), Fla. Const.; *see also* City of St. Petersburg v. Briley, Wild & Assoc., Inc., 239 So. 2d 817 (Fla. 1970).

⁶ See Art. VII, § 6(a), Fla. Const.

⁷ See Art. VII, § 6(b), Fla. Const.

⁸ See Art. VII, §3, and Art. XII, §31, Fla. Const.

⁹ See Art. VII, § 4(d)(1), Fla. Const.

¹⁰ See Art. VII, §4(d)(8), Fla. Const.

¹¹ See Art. VII, § 4(g), Fla. Const.

¹² See Art. VII, § 4(e), Fla. Const.

¹³ See Art. VII, § 4(i), Fla. Const.

¹⁴ See Art. VII, § 4(j), Fla. Const.

¹⁵ See Park-n-Shop, Inc. v. Sparkman, 99 So. 2d 571 (Fla. 1957)

¹⁶ See Art. VII, § 3(a), Fla. Const.

¹⁷ See Archer v. Marshall, 355 So. 2d 781 (Fla. 1978); *see also* Sebring Airport Authority v. McIntyre, 783 So. 2d 238 (Fla. 2001).

¹⁸ See § 212.055(2), Fla. Stat.

¹⁹ See § 218.62, Fla. Stat.

²⁰ See § 212.055(3), Fla. Stat.

²¹ See § 212.055(4), Fla. Stat.

²² See § 212.055(4), Fla. Stat.

²³ See §212.055(4)(c), Fla. Stat.

²⁴ See § 212.055(4), Fla. Stat.

²⁵ See § 212.055(7), Fla. Stat.

²⁶ See § 212.055(5), Fla. Stat.

²⁷ See § 212.055(1), Fla. Stat.

²⁸ See § 212.055(8), Fla. Stat.

²⁹ See Art. XII, § 9(c), Fla. Const.

³⁰ See § 206.60, Fla. Stat.

³¹ See Ch. 202, Fla. Stat.

³² See §166.231, Fla. Stat.

³³ See Ch. 205, Fla. Stat.

³⁴ See § 212.0305, Fla. Stat.

³⁵ See § 212.0306, Fla. Stat.

- ³⁶ See § 365.171, et seq., Fla. Stat.
- ³⁷ See § 318.21(9), Fla. Stat.
- ³⁸ See § 403.725, Fla. Stat.
- ³⁹ See § 201.031, Fla. Stat.; *see also* Thomas v. DOR, 466 So. 2d 1069 (Fla. 1985)
- ⁴⁰ See § 369.255, Fla. Stat.
- ⁴¹ See § 318.21(11), Fla. Stat.
- ⁴² See § 318.1215, Fla. Stat.
- ⁴³ See § 1013.356, Fla. Stat.
- ⁴⁴ See Ch. 218, Part II, Fla. Stat.
- ⁴⁵ See Ch. 218, Part VI, § 212.20, Fla. Stat.
- ⁴⁶ See § 212.60(6)(e)(7), Fla. Stat.
- ⁴⁷ See Art. VII, § 7, Fla. Const.
- ⁴⁸ See Ch. 420, Part VII, Fla. Stat.
- ⁴⁹ See *City of Boca Raton v. State*, 595 So. 2d 25 (Fla. 1992).
- ⁵⁰ See § 197.3632, Fla. Stat.
- ⁵¹ See *City of Dunedin v. Contractors and Builder's Ass'n of Pinellas County*, 312 So. 2d 763 (Fla. 2d DCA 1975).
- ⁵² See *Hollywood, Inc. v. Broward County*, 431 So. 2d 606 (Fla. 4th DCA 1983) and *St. Johns County v. N.E. Fla. Builders Assoc.*, 583 So. 2d 635 (Fla. 1991).
- ⁵³ See § 163.31801, Fla. Stat.
- ⁵⁴ See § 939.185(1)(a), Fla. Stat.
- ⁵⁵ See § 938.19, Fla. Stat.
- ⁵⁶ See § 318.18(13), Fla. Stat.
- ⁵⁷ See § 318.18(13), Fla. Stat.
- ⁵⁸ See § 28.24, Fla. Stat.

20. Capital Budgeting

Robert E. Lee

In this chapter we examine what is meant by capital budgeting, the purpose of a capital improvement plan, the process in developing such a plan, the conflicts a county encounters when developing their plan, legal requirements imposed upon Florida counties, and some policy questions that should be addressed in preparing for this process.

CAPITAL IMPROVEMENT PLAN

A capital improvement plan (CIP) is a plan that identifies needed capital improvements for a period of time, typically over a five-year period. There are four types of capital improvements¹:

Infrastructure: Includes such general-purpose assets as streets, storm drainage, water and sewer lines, waste water treatment facilities, street lighting and sidewalks.

Public buildings: Includes government offices, courthouses, warehouses, police and fire stations, jails, school facilities, airport facilities, community centers, and other public-purpose structures.

Equipment: Items that are large or costly, including computers, vehicles (e.g., police and fire), communications (e.g., telephones and emergency communications), and machinery. In some governments, computer software is considered to be equipment for budgeting purposes.

Land Acquisition: Includes the cost of purchasing and preparing land for construction or for use for parkland or even a landfill.

PURPOSE OF A CAPITAL IMPROVEMENT PLAN

As with the operating budget, the demand for capital improvements in a county always far exceeds the financial resources available to fund all requested needs. Therefore, developing a CIP enables the board of county commissioners to establish priorities based on need.

A CIP also enables the county to coordinate agreed upon funding requests to reduce unnecessary delays, coordinate grant funding, and avoid conflicting construction projects. For example, it would be poor planning to resurface a road one year and plan to tear it up again next year to replace an aging sewer line or to not delay an expensive building renovation two years if waiting on a grant cycle will enable the project to be paid for with state or federal funding. A well-constructed CIP will enable a county to avoid such costly mistakes.

A responsible CIP also enables a Florida county to successfully implement level of service standards for public facilities as outlined in Chapter 163, Florida Statutes. State law necessitates a capital improvement element in a county's comprehensive plan. In addition, a rational, long-term plan for capital improvements can enhance a county's bond rating. Investors and bond-rating agencies consider the CIP as part of their decision-making process.

THE CAPITAL IMPROVEMENT PLAN PROCESS

The budget calendar provides the road map to the preparation and adoption of the CIP and capital budget. The capital budget is the first year of the CIP, and it is incorporated and annually approved with the operating budget.

Like the operating budget, the cycle for capital planning and budgeting, is information-intensive, relying on data collected to justify inclusion into the final document. The process typically has three stages: planning, budgeting, and implementation.

Because of the long-lived impact of these expenditures and the politics that impact the selection process, the planning stage may be the most important phase. During this phase, projects are identified, evaluated, ranked, and scheduled. Unlike the operating budget cycle, capital planning is linked to the county's comprehensive planning requirements and the two should be somewhat congruent.

An effective capital budgeting process typically begins with an inventory of existing capital investments and an evaluation of their current condition. It can sometimes be difficult to obtain funding for maintenance and repair because there is generally an absence of any public interest group to lobby for such funding. Politically, new construction possesses much greater appeal than renovation or repairs of existing assets; albeit, attention to the repair and renovation needs may provide returns that greatly exceed comparable investment in new construction.

CAPITAL IMPROVEMENT PLAN CONFLICTS

When evaluating capital, several conflicts must be considered. The first, a follow-up to the preceding paragraph, is the struggle to ascertain whether to spend for maintenance or spend for new construction. The Government Services Accounting Board (GASB), which provides accounting principles for government agencies to follow, now requires governments to account for their assets (GASB 24). This requirement forces all governments to evaluate their existing capital inventory, thus providing more information for the board of County Commissioners to consider when ranking projects.

The second conflict involves the criteria for ranking projects: economic or need as compared to political criteria. For example, a board of county commissioners may represent four election districts throughout the county. The board may desire to distribute capital expenditures in an equitable manner to ensure each district has a proportionate share of funding. However, if 75% of the road repair work needed is in only one district, does the board allocate 75% of the road repair funds to that one district where the need is or do they distribute these dollars based on geography, providing a similar amount in each district?

Another consideration is how best to pay for each capital expense. For example, does the county adopt a pay-as-you-go policy, spending only funds that are currently available? Or, does the county accept a pay-as-you-use policy, electing to finance projects through debt financing? Generally, counties do both, depending on the size, type, and use of the capital expenditures being considered. If

bond financing is used, Chapter 129.02, Florida Statutes, requires a bond interest and sinking fund budget shall be made for each county and for each special district included within the county budget having bonds outstanding.

Whether to integrate the operating budget cycle with the CIP and capital budget cycle or conduct them separately is another decision that can create conflict. Often, counties work on the CIP separately, then incorporate the capital budget within the annual operation budget, albeit clearly separating the capital budget items for easy reference.

Another decision is whether a capital budget will be adopted for each special district included within the county budget or a consolidated capital budget will be adopted providing for the consolidation of capital projects for the county and special districts. Chapter 129.02, Florida Statutes, provides this option for Florida counties.

Finally, and often overlooked, is determining who is going to be responsible for implementing each capital budget item identified. It should not be assumed that each department will be responsible for their own capital projects. Implementation of infrastructure projects can be particularly complicated and require expertise in many areas. Assigning responsibility to capable people is paramount to successful completion.

ESTABLISH CAPITAL IMPROVEMENT PLANNING POLICIES

Establishing policies to guide the CIP preparations and deliberations is paramount. Policy considerations should include:

Who will be involved in the preparation of the CIP?

How often will CIP budget estimated be updated?

What approvals are needed to amend the CIP?

Will capital projects guide any land use or permissive development decisions?

How will the county's comprehensive plan amendments/updates impact the CIP?

REFERENCES

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NOTES

¹ Bland, Robert L., and Irene Rubin. *Budgeting: A Guide for Local Government*. International City and County Management Association. 2007, p. 149.

