

Gadsden County Board of County Commissioners

Budget Workshop Item #1 May 16, 2023

To: Honorable Chairman and Members of the Board

From: Edward J. Dixon, County Administrator

Title: Fiscal Year 2023-2024 Preliminary Budget Overview

Review and Approval: Edward J. Dixon, County Administrator
Georgette Daniels, Assistant County Administrator

Statement of Issue:

This budget discussion item seeks Board guidance on the development of the FY 2023-2024 Preliminary Budget.

Fiscal Impact:

This item has a fiscal impact based on Board direction in developing the FY 2023-2024 Preliminary Budget.

Staff Recommendation:

WORKSHOP

Report and Discussion

Executive Summary:

The development of the FY 2023-2024 budget reflects a continued focus on annual budget constraint and the continuous year-round internal efforts that drive innovation, produce efficiencies, and realize, when possible, cost savings. Gadsden County recognizes that budgeting is not only a year-round process, but must become an ongoing, multi-year process that reflects the Board's longer term fiscal policies and priorities for the community and requires necessary decision making through the annual budget adoption process. Each budget is interdependent on prior actions and influences the future financial condition of the County as well as the options available to address conditions in future budgets.

Through this process, the County will begin to make multi-year strategic investments to address our most pressing issues of the day, as well as addressing our long-term goals for the community. We have done so by keeping taxes and fees as low as possible to keep the community affordable, while developing and demonstrating agility and stability to handle numerous significant unforeseen issues, the pandemic, recession, and inflation.

As the County develops the FY 2023-2024 budget, the County is geared to perform a county-wide compensation survey. Salaries have not been updated since 2009. Additionally, the Florida legislature is considering significant changes to the Florida Retirement System (FRS) which will prove fiscally challenging. While approved changes were less than previously thought, the impact of proposed FRS changes could exceed as much as 35-45% of all the County's new property tax collections for FY 2023-2024. No additional significant financial support was provided in the bill. In addition, the impacts of the FRS legislation will be recurring and therefore require a recurring source of revenue to pay for the changes. Based on preliminary estimates discussed later in this item, the County projects modest property tax growth for next year which at the current millage rate will make it challenging to provide the resources necessary to support the impacts. Finally, even if the fiscal impact becomes less through the legislative process, it is still anticipated to have a significant fiscal impact.

First, the budget will still be constrained by modest property tax and general revenue growth, continued inflation, and an extremely competitive job market. The following budget recommendations are based on the changes provided by the Florida Association of Counties concerning FRS. All recommendations are set to ensure a balanced budget with continued investment in the highest needs of the community while controlling or reducing increases in costs to the smallest levels necessary to ensure stable funding for our most critical public safety services:

- Implementing the planned county-wide compensation survey (to be presented in a separate budget discussion item once completed);
- Development and implementation of the increase to the Emergency Medical Service / Fire Rescue service);
- Continued support for the Sheriff's budget, including continued funding for the pay plan for sworn officers to achieve and maintain recruitment and retention efforts;

- Increased funding for the Supervisor of Elections operations;
- Continued funding for primary healthcare and community health service partners;
- One new general revenue supported position; and
- Capital funding to maintain strategic, long-term investments in infrastructure, parks and the development of shovel-ready products.

We now know that the legislative session has provided a recurring impact as a result of FRS legislation that will require increased funding from the County in the amount of \$411,000. That's a 13% increase over last year. The increase impacts on our projected property tax growth for the next fiscal year. Significant increases to the County's annual cost will occur. Typically, increases in property taxes are used to fund the normal inflationary increases to the budget, the Constitutional Officers, Gadsden County government personnel costs and other costs necessary to provide community services. Without substantial budget reductions available, a countywide millage rate increase would be necessary to offset the cost of the proposed legislation. While we have ended the legislative session, the June budget workshop will provide recommendations and strategies to balance the FY 2024 budget. Based upon changes to FRS that result in a significant cost increase to the County, a preliminary budget will be developed providing options for the Board to consider at the June budget workshop. The budget is also being developed with a view of a national and state economy still experiencing heightened inflation.

Economy Snapshot

While the national economy rebounded quicker than expected from the impacts of COVID, pent up consumer demand led to increased spending before the global supply chain returned to normal output. The rapid increase in consumer spending, along with an expanding economy, an increased demand for petroleum products, the large amount of federal funds infused into the economy, and the Russian invasion of Ukraine caused a surge in inflation. Gadsden County is not immune from global nor national economic ebbs and flows.

Prior to COVID, the Federal Reserve had slowly reduced rates to 1.5%, but when the impacts of COVID initiated a sudden recession, the Fed reduced rates to nearly zero. However, inflationary times are here. Inflation places an enormous burden on consumers purchasing everyday goods and services, the impacts are just as, or even more significant for local government. Inflationary pressures have caused other increases throughout the budget that will continue into FY 2024. While fuel costs were somewhat stabilized due to our participation in a State of Florida gas contract, other increases are reflected in the cost of supporting utilities; the repair and maintenance of the County fleet (including ambulances and public works equipment); contractual obligations ranging from maintenance services to technology support; the repair and maintenance of County facilities; and capital construction and road paving bids.

Also, being small and rural, Gadsden County is being forced to address the impacts of an extremely competitive job market, historically low salaries, and a metropolitan center 30 minutes away that is experiencing virtually no unemployment. Alas, they can siphon our best talent away, easily. To

become an employer of some choosing, in Fiscal Year 22, the County gave \$2,000 bonuses to every employee and provided \$500,000 in recurring revenue to help the Sheriff address deputy shortages in law enforcement. Additionally, the Board gave a bonus of \$3,000 this fiscal year to all employees. Mid-year the BOCC increased salaries for Paramedics and EMT's.

Analysis:

Initial FY 2024 Policy Guidance

To ensure the budget is developed in a strategic and transparent manner, the Board annually adopts a Budget Calendar. The FY 2024 budget calendar has been approved. Throughout the item, funding options to address adopted strategic initiatives related to employee compensation, Elderly Affairs, children, affordable housing, infrastructure development and supporting the law enforcement are presented.

While the May 16, 2023 workshop is conducted early in the budget process, revenue projections and expenditure details are still being developed and reviewed by staff. Several additional key budget elements have or will occur prior to the Board's next Budget Workshop:

- May 1, 2023, Constitutional Officer budget submissions
- May 4, 2023, State of Florida Legislative Session ends
- June 1, 2023, Property Appraiser provides preliminary property values
- County departments have submitted initial operating and capital budget requests to the Office of Management (OMB) for review. OMB has submitted preliminary budget requests for final review by the County Administrator prior to presentation at the June workshop.

In addition, the Board may wish to provide additional policy guidance at this workshop for use in preparing the FY 2024 Preliminary Budget to be presented at the June, 2023, budget workshop.

Preliminary FY 2024 Budget

While the economy continues to rebound from the pandemic, County revenues are increasing. This interrupted growth in revenues has been partially offset by CARES and ARPA funding. However, even with revenue neutral state and the use of ARPA funding, revenues are not keeping up with the high inflation the economy is experiencing. The annual CPI in March 2023 was 5.0%. While this is a decline from prior months, it is still three times the Federal Reserve target rate. In comparison, in February 2020, just months prior to the initial impacts of the COVID economy inflation was only 1.8%. Normal growth in expenses includes Gadsden County Government and Constitutional Officers personnel cost (e.g., retirement, health insurance), contractual increases, mandatory state payments, and materials and supplies. To offset these increases, the County relies on average revenue growth in property, state shared and local sales taxes, fees, and gas taxes. This revenue growth allows Gadsden County government to avoid increasing millage rates or fees to maintain adequate service levels. When revenue growth does not align with expense growth, this strategy is not attainable. Federal assistance provided through ARPA was used to offset the revenue loss associated with COVID in balancing the FY 2021, FY 2022, and FY 2023 budgets. This federal assistance helped mitigate the need to consider other options including the use of fund

balance, increasing millage rates or fees, or reducing/eliminating programs and services. In addition, anticipated expenditure increases related to mandatory state payments (e.g., Medicaid, the Department of Juvenile Justice), interlocal agreements and contracts are included in this analysis. Furthermore, given the highly volatile nature of the post-pandemic economic recovery and continued future economic uncertainty, the analysis presumes a conservative revenue forecast that contemplates a continuing economic recovery through FY 2024. This conservative forecast is in keeping with the Fed signaling additional interest rate increases through the end of FY 2024 while attempting to avoid a recession. As previously stated in the Executive Summary, this workshop is a “Welcome To Budget Season” workshop that is being held early in the budget process.

Gadsden County government departments submitted their operating and capital budget requests in March and April which are currently being reviewed by the Office of Management and Budget. Constitutional budget requests, including the Sheriff’s Office, were due until May 1. Also, the Property Appraiser does not provide preliminary property values until the statutorily required June 1 date. The importance of the development of the Florida Legislative FY 2024 budget is the impact of changes to the FRS. If these changes are enacted, as described in the next section, the fiscal impact to Gadsden County would be a blow.

Proposed FRS Changes

FRS is the fourth largest state retirement system in the country and is the primary retirement plan for employees of state and county government agencies, school boards, state colleges, and state universities. It also serves as the retirement plan for the employees of Gadsden County. Gadsden County Government provides the funding for its employees and the Constitutional Officer’s employees. Employees are also required to provide 3% of their salary to assist in funding the pension plan.

Historically, the FRS contribution rates are adjusted annually to ensure the retirement system is properly funded, and to account for the actuarial liability of the pension system. These rates were introduced as part of the Governor’s proposed budget and modified by the legislature during session. In this past legislative session, FRS was introduced and approved to increase the normal provisions of retirement by adding a retirement contribution factor that provides a 3% COLA to current retirees. That language did not pass the Legislature, therefore the impact far less than it could have been. The House and Senate did pass a bill that will substantially expand retirement benefits for FRS participants. These changes include:

- **Increasing employer-funded allocations to FRS Investment Plan accounts by 2%;**
- **Revised Special Risk Retirement Date (Return to 25 years of service or age 55)**
- **Restoring the pre-2011 normal retirement age and years of service for Special Risk Class Members;**
- **Revising DROP by removing age restrictive entry windows to enter the program;**
- **Increasing the amount of time all eligible members can participate in DROP from 60 to 96 months; and**
- **Increasing the amount of interest applied to a member’s accrued DROP benefit from 1.3% to 4%.**

These changes will require an increase in the required employer contributions to the FRS.

Notwithstanding the above FRS discussion, the following section presents the early estimates of the anticipated growth in general revenue related revenues and expenses. The budget, including funds that receive no general revenue support (e.g., Tourism and Building Inspection Services) will be provided at the June, 2023 Budget Workshop.

Estimated Revenue Expenditure Changes to the County Budget

While the FRS rates are in, several other policy issues are being presented for Board consideration. Separate Budget Workshops are included regarding implementing increases to the fire service budget and EMS to cover the increased cost of providing these essential public safety services. Based on Board direction at these specific workshops, a complete presentation of a preliminarily balanced budget will be presented for Board consideration at the June 2023 workshop.

(Preliminary FY 2024 Estimated Change in Revenues and Expenditures Over FY 2023)

As presented, associated personnel costs for Gadsden County Government, the Sheriff and the other Constitutional Officers do not include the possible fiscal impact related to changes in the FRS system nor the compensation survey.

Preliminary Estimated Changes in Revenues

Change from Fiscal Year 2023 in Thousands (T) and Millions (M)

Property Taxes with current millage rate (9.000) \$
1/2 Cent Sales, State Revenue Sharing, CST, PST \$
Gas Taxes \$
Other General Revenue \$
Building Insp Fund Balance (\$320T)
Transportation Fund Balance (\$3.4 M)
General Revenue Fund Balance (\$5.8M)

Total Change in Revenue \$

Preliminary Estimated Changes in Expenditures*

Sheriff Personnel and Operating Expenses \$
County Government Personnel Costs \$
Supervisor of Elections 2024 Presidential Preference Election Cycle \$
Contractual Obligations, Repairs and Maintenance, Utilities \$
Other Constitutional Offices \$
Capital Transfer \$
Medicaid \$
Interlocal Agreements (Animal Control, Planning, etc.) \$
Fuel and Vehicle \$

Total Change in Expenses \$

Budget Shortfall \$0

The following is an analysis of the revenues and expenditures outlined in Table #1.

Preliminary Estimated Changes in Revenues

The following section provides a summary of the projected changes to revenues between the current fiscal year (FY 2023) and next fiscal year (FY 2024).

Property Taxes: Property tax collections are calculated based on the countywide millage rate times the taxable value of all property in Gadsden County. Taxable values are established by the Property Appraiser and the millage rate is established by the Board. Last year property values increased over 9%. For budget planning purposes, values are anticipated to increase by an estimated 7.5%. Using this projected percentage increase, maintaining the current 9.000 millage rate would result in an additional \$ thousand/million in property tax revenues. In FY 2024, homesteaded property values can increase no more than 3% based on this year's Save-Our-Homes cap. The Save-Our-Homes cap limits the increase of homestead residential property values to the change in CPI or 3%, whichever is lower. In January 2023, the CPI change resulted in homesteaded property reaching the 3% cap for valuations used for the FY 2024 budget.

As statutorily required, the Property Appraiser's Office provides preliminary property values on June 1. These values will be used for the June Budget Workshop. As required by Florida Statutes, final property values will be provided on July 1. During the recession, with declining property values, the Board maintained the millage rate resulting in less property tax collections and correspondingly passed on property tax savings to the community. As part of the County's deliberate and reasoned year fiscal planning, the budget continued to maintain a constant millage rate through FY 2021. To mitigate inflationary pressures and to support necessary and critical cost increases in FY 22 and FY 23, the board made a very modest increase from 8.9064% to 9.000%. Since FY 2022 property values have gradually increased. These increased values provided funds that generally covered the inflationary costs of basic government service levels and allowed for increasing recurring revenue. This increase assisted the County in funding the inflationary costs related to personnel costs and operating expenses to maintain service levels and use more CARES and ARPA monies to fund Board initiatives.

State Shared Revenue, ½ cent Sales Tax, Communications Services Tax (CST) and Public Service Tax (PST): County governments receive certain revenues from the State of Florida, which are largely based on sales tax collections. Sales tax related revenues have rebounded over the past three years from the precipitous decline in FY 2020. Nominal growth is projected for the CST and PST.

Gas Taxes: Gasoline taxes are estimated to increase. Last year as the economy rebounded from the effects of COVID, and travel dramatically increased. Prior to COVID, gas taxes, which are consumption based (taxes are per gallon, not a percentage of cost), were only slightly increasing year-over-year due to better vehicle fuel efficiencies and an increase in the use of hybrid and electric vehicles. While gas taxes are still slightly below pre-COVID collections they are only expected to increase moderately in FY 2024 and in out years. This is largely due to the continued fluctuations in the market for crude oil and the shift in consumers driving more fuel-efficient or electric cars and trucks. While owners of electric vehicles use the road network, they do not pay gas taxes which support the maintenance of the local transportation system.

Building Inspection and Growth Management: As part of the post-COVID economic recovery, and due to revamped leadership, building inspection and growth management fees increased as development permitting increased. The pace of the permitting activity has returned to more sustained levels, resulting in the collection of fewer development and permitting fees.

Contractual Obligations, Repairs and Maintenance, Utilities: All projected increases are associated with contractual and inflationary adjustments and include:

- County software maintenance licensing agreements including: Microsoft Office 365 licensing, and network security applications
- Annual contractual and operating supplies increase in Facilities Management for security, custodial, HVAC, and building and grounds maintenance services.
- Utilities costs are projected to increase due to CPI
- Contractual costs for Public Works and road maintenance
- Workers' compensation and insurance premiums
- Parks and Recreation mowing, playground, and park maintenance
- Other miscellaneous increases

Other Constitutional Officers: Constitutional budget requests were due until May 1st.

Currently neither Clerk of Court's budget nor Property Appraiser are requesting substantial increases.

Funding for the Tax Collector is paid through commissions. These commissions are a percentage of property tax collected on behalf of the County and the statutory requirements that the County pay commissions for the Gadsden County Schools Board's property tax collections.

Medicaid: The County is required by Florida Statute 409.915 to contribute to the State's share of matching funds for the Medicaid Program. Initial estimates released by the Social Services Revenue Estimating Conference indicate that the overall state share of Medicaid will increase Gadsden County's cost. The state is required to provide counties final cost share amounts by June 1, 2023.

Interlocal Agreements: Funding includes annual budgetary increases related to County interlocal agreements with its Cities for services from Planning to Animal Control.

Fuel and Vehicle Costs: This cost increase is associated with the inflationary growth in the cost of parts to maintain the County fleet and a modest increase in the overall projected cost of fuel.

Preliminary Staffing Discussion

Gadsden County government continues to approach the annual budget process by identifying opportunities to ensure the limited resources of the County continue to be aligned with the Board's highest priorities. This includes whether other positions, especially vacant positions are still needed. Except for EMS public safety positions, currently the only new general revenue supported position to be requested is in Human Resources. Twelve grant-funded new firemen positions will be requested to fill the realignment of EMS and Fire and to ensure ambulance schedules are maintained and along with the ability to staff special events. Historically, EMS has relied on part time paramedics (PRNs) to cover open ambulance shifts. However, due to the competitive job

market for paramedics and their availability, these part-time positions are difficult to fill. Funding for these twelve new positions will largely be offset by a Shafer grant for three years. Thanks again due to Gadsden County's proximity to Tallahassee and the local, highly competitive job market.

Fund Balances

Consistent with best governmental financial practices, Gadsden County "Reserves" establishes fund balance policy levels sufficient for cash flow and emergency purposes. As property tax revenues are received two months after the start of the fiscal year, fund balances allow the County adequate cash flow to eliminate the need for short-term borrowing in October and November to cover payroll and required budget transfers to the Constitutional Officers. Sufficient fund balances are considered a sign of fiscal stability and influence bond ratings. In addition, the use of fund balance more than the policy minimums should support one-time capital project funding and/or other one-time expenditures to address unforeseen revenue shortfalls. Moving toward the elimination of using recurring fund balance will align with industry best practices, and provide greater long-term financial stability for the County.

General Fund

Barring unforeseen circumstance, and not contemplating the impacts of pending FRS legislation, and constraining expenditures to the greatest extent possible, the planned budget anticipates using no general revenue fund balance for balancing the budget. State budget statute requires that counties budget 95% of expected revenues, and the nominal under expenditure of Board and Constitutional Officer's budgets. However, when this level of fund balance is used to offset the operating budget, fund balances do not grow year over year, but rather stay at the same level. When fund balance use is reduced, fund balances can start to grow. When the fund balances grow, they accumulate, and can be used as part of a "fund balance sweep" to fund one-time capital projects (i.e., Parks, Community Centers, etc). Alternatively, without general fund balance accumulation, the County would need to consider issuing debt to support future capital project needs. Increasing the use of the general fund balance annually is an unsustainable practice. It would only take four or five years to deplete the entire fund balance. This occurs because the use rate would be much higher than the replenishment rate. This practice would further diminish the County's ability to provide fund balances for future capital projects or to maintain the catastrophe reserves, which were used in past years related to cost of Hurricanes or other disasters.

Capital Program

Like the operating budget, capital project funding requests are currently being reviewed by the County Administrator and the Office of Management and Budget to determine final recommended funding levels. A recommended capital program will be presented as part of the June budget workshop. As a financial best practice and to avoid the cost associated with borrowing, Gadsden County annually evaluates fund balance levels to determine the availability of funds to support the capital program. Using available fund balance for one-time expenditures for capital projects is considered a best practice. As previously noted, it is not considered a best practice to use reserves for recurring expenses. Funding requests for capital projects are currently under review. Final recommendation for project funding will be presented at the June, 2023 Budget Workshop. A final analysis of available fund balances to support the capital program will also be provided at this time.