

Leon County Board of County Commissioners

Budget Workshop Item #5

April 28, 2015

To: Honorable Chairman and Members of the Board

From: Vincent S. Long, County Administrator 

Title: Analysis of Fire Rescue Services Rate Study and Alternative Funding Option

County Administrator Review and Approval:	Vincent S. Long, County Administrator
Lead Staff/ Project Team:	Alan Rosenzweig, Deputy County Administrator Scott Ross, Director, Office of Financial Stewardship

Fiscal Impact:

This item has a fiscal impact. Currently, Leon County pays the City of Tallahassee \$6,723,586 annually for fire rescue services in the unincorporated area. This payment is derived from the current fire rescue service charge that have been in effect for the past six years. Using the rate structure in the new fire rescue services rate study, this annual payment would increase to \$7,948,045 for each of the next five years for an annual increase of \$1,224,495.

Staff Recommendation:

Board Direction

Report and Discussion

Background:

In July 2014, the Board approved the County and City engaging Government Services Group (GSG) to conduct an update to the existing fire rescue services rate study. At the March 10, 2015 meeting, staff presented the preliminary rates with a broad discussion on a possible alternative funding source. The Board approved this budget discussion item be prepared to further discuss the Emergency Fire Rescue Services and Facilities One-Cent Surtax and the consideration of the completed fire rescue services rate study (Attachment #1). The rates contained in the attached study are the same as the preliminary rates provided to the Board at the March 10 meeting. The City Commission is scheduled to accept the study and the associated rates at their April 22, 2015 meeting.

By way of background, Leon County has had a long history of contracting with the City of Tallahassee for the provision of fire rescue services to serve the unincorporated area of the County. A contract for these services was originally entered into in March 1988. That Agreement was amended a number of times through 2005.

In April 2009, a new Interlocal Agreement for five years was executed. The Interlocal Agreement provided that a jointly funded rate study would be developed to determine the necessary funding to support the services being provided by the City of Tallahassee's Fire Department. The approved rate study established an initial fire rescue charge for a period of five years (FY2009 through FY2013).

In addition to fire rescue services, the Interlocal Agreement between the County and the City provides that the City shall provide certain Advanced Life Support (ALS) services and the County shall provide overall medical direction. The Interlocal Agreement provides for a payment from the County to the City for these services.

In July 2013, the County and City negotiated a comprehensive amendment to the Interlocal Agreement which addressed a number of significant outstanding policy issues. The amendment extends the agreement for an additional 11 years. In addition to the fire rescue charge, the agreement brought to closure a number of these issues, including:

- Approval of the distribution of the new 5 cent gas tax between the County and the City using a 50/50 allocation;
- Authorized the extension of the existing 6 cent gas tax, with an allocation of 50/50 between the County and the City (this was previously 46% County and 54% City);
- Required the City to concur to an increase of up to a quarter of a mil in the EMS MSTU at a point in the future, if the County determines it is necessary. (Florida Law requires cities to approve of Countywide MSTU's to be levied within the City limits); and
- The County will provide \$150,000 in funding for Palmer Monroe for three fiscal years.

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With regard to the fire rescue charge, throughout the negotiations and as memorialized in the agreement, the County focused on providing future rate certainty and a level of fiscal constraint on the possible growth in the fire rescue charge. To accomplish this, the agreement provides, in pertinent part:

- For the current fiscal year (Oct. 1, 2014 through Sept. 30, 2015) the existing rate remained unchanged; this had the effect of having a constant rate for a total of six years;
- Beginning Oct. 1, 2015 (next fiscal year), a new rate study needs to be adopted for five years; the single family dwelling unit fire rescue charge rate cannot increase more than 15% in total over the five years; and,
- Beginning Oct. 1, 2019 and continuing for five years, the fire rescue charge rate structure would be developed utilizing an inflationary index.

The Board approved the terms of the Second Amendment to the Interlocal Agreement Regarding the Provision of Fire and Emergency Medical Services with its second term, to be effective from October 1, 2015 and continue for a period of ten years (Attachment #X).

Consistent with the terms of the Second Amendment, in July 2014, the Board approved the County and City engaging Government Services Group to conduct an update to the fire rescue services rate study which is included as Attachment #1.

Analysis:

Over the last several months the GSG consultant team, with cooperation from the City of Tallahassee (Fire Department, Management and Administrative Services, Utility Services) and Leon County staff, has developed the attached rate study to support the projected Tallahassee Fire Department budget for the period FY2016 through FY2020. The study provides a projected rate increase for years FY2021 through FY2025 of between 4% and 5% per year.

This projected five year budget includes the following:

- An accounting of all other sources of Fire Department revenue such as fire inspection fees to ensure that the assessment recovers fire protection only.
- All associated operating, personnel, equipment and maintenance costs for Station #16 at Weems Road.
- Additional set of bunker gear for all firefighting personnel as well as extrication equipment.
- The addition of a Fire Education Officer and 5 Inspectors to the Fire Prevention Division during the five year budget planning period to increase the Department's proactive educational, inspection, arson investigation and fire safety training efforts.
- Construction upgrade costs to increase the size of the garage bays at multiple stations so that they can house trucks and apparatus of varying sizes to allow for enhanced equipment staging and housing at all fire stations.

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- The personnel costs associated with the Collective Bargaining Agreement that will impact the Fire Department budget in Years FY16 through FY18.

To calculate the rates, the consultant first determines that portion of the City Fire Department budget that is “assessable.” The assessable budget excludes costs that are offset by other revenues including the City’s cost of providing Advanced Life Support (ALS), costs to support the fire protection of the airport and contemplates other revenues collected in support of the Fire Department (i.e. inspection fees). For ALS, the County pays the City approximately \$3.1 annually. The total projected FY15-16 Fire Department budget is \$44.4 million; the assessable portion of the budget is \$35.5 million. The average assessable budget projected over five years is \$38.9 million. The rate study contemplates establishing level rates for five years based on the average assessable budget of \$38.9 million.

The proposed rates were developed using the same methodology as approved in the previous study:

Service zones were created under the previous fire assessment study in Fiscal Year 2009-10 to reflect the level of service differentiation of a property located in a higher density area that receives fire protection coverage from multiple stations compared to a property located in an area generally described as rural and typically serviced by a single fire station.

Additionally, core stations are defined as stations that are within 5 road miles of two other stations. Given this definition of “core station”, the rate methodology is predicated on two zones, each with distinct rates:

- Zone 1: Properties located within five road miles of two core stations
- Zone 2: Properties located outside of five road miles of two core stations

To ensure fiscal constraint, included in the Second Amendment to the Interlocal Agreement is a provision that the **single family residential rate** (for both zones) cannot increase more than 15% in total over five years. The attached rate study provided by the consultant reflects the following:

- Single family residential rates for Zone 1 are recommended to increase by 12% and zone 2 by 15%;
- Based on call volume analysis, non-residential rates are recommended to increase 3% to 54% depending upon property use category and zone;
- Once increased, the rates for all property use categories will remain flat for five fiscal years;
- This approach is consistent with the previous rate study, and 2014 update, which established a base rate, and maintained the rate constant for six fiscal years; and
- For planning purposes, the consultant has indicated that for years 6 through 10, an increase of 4% to 5% should be anticipated based on historic budget trends.

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The rate study is developed to provide for a constant rate over the entire five year period; the rates are developed based on zones and do not take into consideration political jurisdictions. The previous rate study utilized a five year average assessable budget of \$29,058,003 to fund fire rescue services countywide; per the interlocal agreement, the rates extended for an additional sixth year. The new rate study concludes that the five year average for assessable costs to fund the fire rescue services countywide is \$38,893,934. Table 1, shows the amount and percentage of funding the County paid for fire services under the previous rate study, compared to the amount that would be paid utilizing the new rate study.

Table 1: Comparison of Fire Service Assessable Expenditures and the County's Share

Cost	Five Year Average FY10 – FY14	Five Year Average FY16 – FY120	\$ Increase	% Increase
Total Assessed	\$29,058,003	\$38,893,934	\$9,835,931	33.90%
County Assessed	\$6,723,586	\$7,948,045	\$1,224,459	18.21%
% County Share	23.14%	20.44%	12.45%	

As reflected in the table, while the County's cost for fire rescue services increases by \$1,224,459, the proportionate share the County provides in funding for the entire fire rescue services system drops by approximately 3.0% (from 23.14% to 20.44%). The total increase in unincorporated area funding is \$1.224 million or 18.2%; under the rate study this increase remains constant (except for growth in actual residential or commercial properties paying) for five years. In addition, of the overall \$9.8 million in total expenditure increases, the County's share of the increase is 12.45%

Impact to Residential Property

In reviewing the property use categories from the first rate study, there were two residential categories: single family residential and multi-family residential. In its new analysis of the two residential property use categories, the consultant has determined that the distinction between the cost of service to either single family or multi-family is not significant. Therefore, the new rate study recommends collapsing the two categories into one residential use property category. Tables #2 provide a comparison of the number of units and the associated rates for each zone.

Table #2: Residential Rate Comparison

Category	Zone #1				Zone #2			
	Units		Current Rate	Proposed Rate	Units		Current Rate	Proposed Rate
	City	Unincorp			City	Unincorp.		
Single Family	30,472	5,618	\$179	\$201	9,889	28,795	\$161	\$185
Multi Family*	38,786	1,045	\$125	\$201*	3,908	786	\$43	\$185*

*These rates and number of units are shown for comparison purposes only. As part of the actual rate study there is only one single family residential category. Unit numbers are preliminary.

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Under the new rate study, the single family residential rate will be \$201 for Zone #1 and \$185 for Zone #2; there will not be a distinction between single family dwelling and multi-family dwelling units. As reflected in Table #1, the previous rate for Zone #2 multi-family was \$43 per unit; under the new rate study the rate will be \$185. For Zone #1, the multi-family rate was \$125 and the new rate will be \$201. However, for the majority of the residential units the change for Zone #1 will be from \$179 to \$201 and for Zone #2 from \$161 to \$185. Through the new rate study, all residential units will be charged the same fire rescue charge rate depending upon the zone in which the property is located regardless of whether the property is located in the City or the unincorporated area.

Alternatively, the residential rate comparison can be calculated on a monthly basis. This is a comparison for individuals paying via the City utility bill:

- Single-family – Zone 1 would increase from \$14.92/month to \$16.75/month
- Single-family – Zone 2 would increase from \$13.42/month to \$15.42/month

- Multi-Family – Zone 1 would increase from \$10.42/month to \$16.75/month
- Multi-Family – Zone 2 would increase from \$3.58/month to \$15.42/month

One of the on-going complexities with the fire rescue charge is the method in which the funds are collected. For both the County and the City, the proposed rate schedule is uniform. However, the City of Tallahassee will collect all of their assessment and fees on their utility bill. For the unincorporated area residents the fire rescue charge is collected in one of three methods:

- 1) on the City utility bill, if they are a customer;
- 2) a direct bill quarterly; or
- 3) on the tax bill, if they have not paid the direct bill, or they choose to have it placed on their tax bill.

To eliminate the use of the tax bill and the quarterly billing, the County has previously requested Talquin Electric to collect the fire rescue charge on behalf of the County. The County has offered to pay Talquin Electric for this service; however, Talquin has repeatedly declined.

Impact to Non-Residential Property

For non-residential property use categories, the study establishes rates based on call volume distribution. As part of this approach, the consultant is recommending a consolidation of the commercial and institutional property use categories into one commercial category. Attachment #X includes the proposed rate schedule. Table #3 provides a summary of the % changes across all combined square footage tiers within each category.

Table #3: Summary of Preliminary Non-Residential Rate Changes

Category	Zone 1	Zone 2
Commercial*	26.6%	9.0%
Non-Gov. Institutional*	(22%)	37.6%
Industrial Warehouse	3.2%	55.1%

**In the study, these two categories have been collapsed into one commercial category.*

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As reflected in Table #3, the changes for the non-residential categories vary greatly by zone and category.

Governmental Charges

Consistent with the previous studies, the consultant continues to recommend levying a fire rescue fee on governmental property. The distinction is that for the residential and commercial properties a non-ad valorem assessment is being imposed, which is not required to be paid by governmental properties. The proposed fire rescue fee is to be levied at \$0.211 per square foot. All governmental property, including the state, the universities, etc. will generate approximately \$5.4 million for the unincorporated area, this amount is estimated at \$233,900.

Options for Board Consideration

The funding of public safety in a fiscally responsible manner is one of the paramount purposes of County government. The County's adopted strategic priorities states in part:

- Provide essential public safety infrastructure and services which ensure the safety of the entire community. (Q2)
- Exercise responsible stewardship of County resources, sound financial management, and ensure that the provision of services and community enhancements are done in a fair and equitable manner. (G5)

During the great recession, the County was able to maintain and continue to provide essential quality services in a fiscally responsible manner, including the on-going necessary support for fire protection in the unincorporated area. As the County has experienced the slow economic recovery, the County has continued to demonstrate fiscal constraint to ensure the long term economic viability of the County. This budget year, staff is preparing a preliminary budget for the Board to consider at the June workshops that again focuses on aligning the limited resources of the County with the highest priorities of the Board. In considering options for the funding of the critical public safety function of fire protection, the County should continue the practice of contemplating future budgetary impacts based on current year budget decisions.

In evaluating the options available for the County related to the new fire rescue services rate study, staff worked closely with the County Attorney's Office in determining the County's obligations under the existing interlocal agreement with the City. As previously noted, the interlocal agreement governing the County's support of the City Fire Department also contains a number of provisions related to the allocation of gas tax revenues which have all been duly adopted and implemented. The agreement also requires that when requested by the County, the City's required to support for an increase in the EMS MSTU. Under state law, the City has to concur for the levying of an MSTU within the city limits.

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Consistent with the Interlocal Agreement approved in 2009, the level of fire rescue services, including funding of and payment for such services, shall be determined in accord with the new fire services rate study. The new rate study is also to be utilized to determine the amount of the assessment and fee (fire rescue charge) to be imposed by the parties during the period of the second term. That study is to be developed utilizing an initial flat five (5) year fire rescue charge rate structure, based upon an assessment methodology utilizing 100% funding of total assessable costs included in the five (5) year budget for fire rescue services, with a cap of 15% for single family dwelling units; followed by variable second five (5) year fire rescue charge rate structure utilizing an annual inflationary or appropriate alternative index adjustment; or utilizing a variable ten (10) year fire rescue charge rate structure based upon an assessment methodology utilizing 100% funding of the total assessable costs and incorporating annual inflationary or appropriate alternative index adjustment. The City and County are required to impose the fire rescue charge on each parcel or subdivided lot within the jurisdictional boundaries of the respective party for the provision of fire rescue services consistent with the second term rate study. The new study, thereby supplants the initial rate study, effective October 1, 2015. However, there is no requirement that the fire rescue charge be equal to that set forth in the new rate study, provided that any reduction of the fire rescue charge be made pro rata across all categories of property, such that the assessment meets the requirements of Florida law, that an assessment be equitably apportioned among properties based upon the benefits received by those properties.

Under any of the alternatives in which the County continues to utilize the fire rescue charge, the non-ad valorem assessment collection method will be required. In order to levy the new fire rescue charges, for those customers that pay the fire rescue charge through the tax bill, the County is required to follow the provisions of section 197.3632, Florida Statutes, to notify the residents of the proposed rate increase. This process includes first class letters being sent and conducting a public hearing to approve the new fire rescue charge. Currently, there are 9,907 properties that pay their fire rescue charge through the tax bill. The public hearing is recommended to be conducted on June 23, 2015.

Option #1: Impose the New Fire Rescue Charge Effective October 1, 2015

The Board could proceed with implementing the new fire rescue services rate study as presented effective October 1, 2015. Through this approach, the necessary funding to support the City's fire department budget would be available for the next five fiscal years.

As noted previously in this item, the impact to residential, non-residential and governmental properties varies by property type and zone. For the majority of residential units, the Zone 1 fee would increase from \$179 to \$201 annually and for Zone 2 from \$161 to \$185 annually. However, with the consolidation of multi-family and single family into one residential use category, some residential units will experience a significant increase. As the rates are set based on zones, the City of Tallahassee actually has a larger number of multi-family units (3,908) in zone 2 than the unincorporated area (786) which will experience the most significant increase (from \$43 to \$185). For the City, all of these units will be paid through the monthly utility bill, while for the unincorporated area, the charges will be collected either through the utility bill, a quarterly bill or the annual tax bill.

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To proceed with implementing the fire rescue charge effective October 1, 2015, the Board would need to adopt the new rate study and proceed with the requirements to collect the fee on the tax bill. Staff recommends the new rate study be adopted at the Board's May 26, 2015 meeting (this is not a public hearing) and proceed with the fire rescue charge first class letters and public hearing for June 23, 2015 at 6:00 p.m. For purposes of collection, the non-ad valorem assessment roll needs to be certified to the Tax Collector no later than September 15, 2015. There is one meeting scheduled in July; by conducting the hearing at the June 23 meeting this allows for the ability to continue the hearing if there is some unforeseen need. The next available meeting would be September 15, 2015 which is the actual day the transmittal is required.

If the Board wishes to consider the utilization of the sales tax as a long term funding source (discussed in detail later in this item), Option 1 allows the County to provide funding certainty if the ballot initiative did not pass. The sales tax referendum would need to be conducted either in March 2016 or November 2016. If the initiative was placed on the November 2016 ballot and passed, the County would eliminate all of the fire assessments for Fiscal Year 2018. If the ballot initiative did not pass, the charge would already be in place for FY2018 through FY2020.

At the conclusion of the five year period, the utilization of fire rescue charge would have been in effect for eleven years. As reflected in the interlocal agreement, the following five year charge (FY2021 thru FY2025) would be based on an inflationary or appropriate alternative index. The consultant's report indicates that based on current budget projections, this rate would need to increase between 4% and 5% per year. The County would again need to consider the necessary rate increases to the fire rescue charge and proceed with the actions necessary to implement.

Option 2: For FY2016 and FY2017 Implement the Proposed Fire Rescue Charges at a 15% Reduction Utilizing Existing Fund Balances to Offset the Reduced Rates and Approve Implementing the Proposed Fire Rescue Charges at the Full Rates Beginning in FY2018

For fiscal years 2016 and 2017, all rates on the adopted fee schedule would uniformly be set at a rate 15% less than the consultant's report. For FY2018 through FY2020, the rates would be set per the consultant's recommendations. The County Attorney's Office concurs that this approach is legally acceptable.

Staff is providing Option 2 in recognition of the Board's long history of taxpayer sensitivity balanced with the County's recognized need to maintain long term fiscal responsibility. By contracting with the City for fire rescue services, the County does not have budgetary authority of the Fire Department. However, the County does have the option of reducing the fiscal impact to individual property owners over the next two fiscal years, while exploring less onerous funding options (such as the sales tax.)

For the next two fiscal years, the residential rate for Zone 1 would decrease from the current rate of \$179 to \$175. For Zone 2, the rate would remain unchanged at \$161. However, this does not significantly affect the increase in multi-family Zone 2. The collapsing of the multi-family and single family is contemplated in the new rate study and is therefore required to remain as one category. The impacts to non-residential vary by category and type.

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If the Board wishes to consider the utilization of the sales tax as a long term funding source (discussed in detail later in this item), Option 2 allows the County to provide funding certainty if the ballot initiative did not pass. The sales tax referendum would need to be conducted either in March 2016 or November 2016. If the initiative was placed on the November 2016 ballot and passed, the County would eliminate all of the fire rescue charge for Fiscal Year 2018. If the ballot initiative did not pass, the charge would already be in place for FY2018 through FY2020.

Though the option of imposing the fire rescue charge at a lower rate is a legally acceptable alternative, there are significant financial impacts in utilizing this approach. The estimated annual additional revenue needed to offset the lower rate is \$1.22 million. There are legal and financial constraints that govern what revenue sources can be utilized to fund unincorporated only services. The County cannot utilize Countywide property taxes to support an unincorporated only function; doing so constitutes a dual taxation issue for residents that reside within the city limits. The dual tax issue arises from the fact the City residents would have already paid for the provision of fire rescue services through the charge collected on their utility bill. Additionally, the County cannot utilize any dedicated revenues for fire protection, such as tourist development taxes, gas taxes, stormwater fees, solid waste fees or the infrastructure sales surtax.

The County could use existing fund balances from non-county wide general revenue sources to support the \$1.22 million in the short term. This would include drawing fund balances from state shared revenues, the communication services tax (CST), the ½ cent sales tax, and the public services tax. Currently, state shared revenues and the CST are used to fund a large portion of the County's debt service, the annual budget shortfalls in the transportation program, stormwater, solid waste, and development/environmental services funds. The Public Service Taxes fund the County's non-countywide municipal services (animal control and parks and recreation).

Current year end estimated fund balances for non-county wide general revenue are estimated to be approximately \$5.8 million and are reflected in Table 4 below; of which \$1.850 million is in excess of adopted policy minimums.

Table 4: Non Countywide General Revenue Fund Balances ⁽¹⁾

Fund	Estimated Year End Fund Balance	Policy Minimum for Cash Flow	Estimated Available
Non County Wide General Revenue	\$3,300,000	3,000,000	\$300,000
Municipal Services	\$2,500,000	950,000	\$1,550,000
	\$5,800,000	\$3,950,000	\$1,850,000

(1) Year End Fund Balances and Policy Minimums are estimated and may change during the development of the FY 2016 budget. New policy minimums are based on FY 2015 budgeted expenditures and will be updated when the FY 2016 tentative budget is prepared.

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Historically, the Board has used fund balances in excess of policy minimums to fund capital projects. Last year, staff recommended a fund balance sweep to support the capital program for several years; this approach has allowed for the County to support a minimal maintenance level of effort capital improvement program. By using these available fund balances to pay for a portion of the required fire rescue services payment to the City, it would make them unavailable for future capital projects. Based on current projections, there is approximately \$1.850 million in excess of policy minimums. Staff will update the analysis as part of the June budget workshops. If the Board were to use fund balances which allowed the levels to fall below the minimum required by policy, funding could be used to support fire rescue services for at least two years.

If after utilizing available fund balances (or as an alternative), the Board still did not wish to fund the additional \$1.2 million needed for fire rescue services from the rates contained in the new study, the Board may wish to use recurring non-county wide general revenue to fund fire rescue services. In evaluating possible reductions, the County would need to consider the significant staffing reductions already made during the recession and the on-going need to maintain citizen expectation related to service delivery. To support the \$1.2 million shortfall, budget reductions in a like amount from non-county wide expenditures such as parks and recreation and animal control, would need to occur. Other program areas that could be considered for reductions include transportation and solid waste, as these areas are currently not self-supporting and receive general revenue support. Reductions could not be made to countywide services, such as libraries or constitutional officer funding, to fund the additional required expense for fire service.

If the Board chooses staff could prepare a list of possible budget reductions from the program areas that receive general revenue support for consideration at the June 2015 FY2016 Budget Workshop. Programmatic reductions may include impacts to the rural waste collection centers, transportation maintenance, Animal Control and/or the County's Parks and Recreation offerings.

Option 3: Alternative Funding Source for Fire Services through a Local Option Sales Tax

For the past six years, fire rescue services have been funded through the fire rescue charges. However, there are a number of factors that influence why the Board may wish to consider an alternative funding source:

- Properly funding the Fire Department budget will continue to necessitate raising the existing fire rescue charge and to implement future studies. As discussed in detail, the preliminary analysis provided by the consultant indicates fire rescue charge rate increases are needed to support the fire department's budget.
- To collect the funds, the County must continue to bill individual property owners and tenants through a variety of mechanisms: property tax bill, direct quarterly bill or monthly utility bill.
- The alternative funding source was not an option when the original interlocal agreement was executed. The local option sales tax was approved by the legislature in 2009.

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The Board may wish to place a referendum on either the March or November 2016 ballots for the consideration to fund fire rescue services through the imposition of the Emergency Fire Rescue Services and Facilities Surtax local option sales tax. Given the timing of the ballot, the County is still obligated to provide increased funding to the City effective October 1, 2015. If the Board wishes to consider the utilization of the sales surtax as a long term funding source (discussed in detail later in this item), the implementation of either options 1 or 2 prior to the referendum occurring allows the County to provide funding certainty if the ballot initiative did not pass. If the initiative was placed on the November 2016 ballot and passed, the County would eliminate all of the fire rescue charges for Fiscal Year 2018. If the ballot initiative did not pass, the approved increased charge would already be in place for FY2018 through FY2020.

As an alternative to the fire rescue charge, Florida law was amended in 2009 to authorize an Emergency Fire Rescue Services and Facilities Surtax. This funding option was not available when the previous rate study was developed and implemented. A surtax of up to 1 percent is intended to constitute an alternative funding source to non-ad valorem assessments and/or ad valorem taxes. As reported to the Board in the weekly Capital Update, there currently is an amendment being considered by the legislature to amend the existing sales tax law. Staff and the County's lobbyist are tracking the amendment closely.

Under the current law, to levy the tax, the County and City must enter into an interlocal agreement. Voters would then have to approve by referendum the imposition of the sales surtax at a regularly scheduled election. The next regularly scheduled election cycles are the Presidential Primary (March 2016) or the Presidential Election (November 2016).

Upon approval, the existing fire rescue charge would need to be reduced and/or eliminated based on the projected revenue that the sales surtax would generate. A 1 percent sales surtax is projected to generate \$37.5 million annually, which is sufficient to replace the revenue.

At a countywide level, the elimination of the fire rescue charge being replaced with the sales surtax is basically a revenue neutral position. However, given that a portion of the sales surtax is paid by non-County residents (i.e. tourists, out of county workers buying local goods) the overall tax burden for Leon County residents would be reduced. A review of the most current available data indicates this amount is at least 25% (\$9.4 million) of total local sales tax collections.

Based on the current state law, preliminary analysis also indicates there would be sufficient sales tax revenue to possibly mitigate future increases in the EMS MSTU. However, the current amendment, which is still being finalized, is not clear on how the new language may or may not impact the EMS MSTU and the corresponding allocation of the sales tax. Staff will continue to monitor the legislation, and provide the Board updates through the Capital Update and session ending report.

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Sales Tax Impact to Property Owners

The community currently pays for fire rescue services through the fire rescue charge which is allocated to individual properties. Through a sales tax, the consumer pays for the service based on taxable transactions. As sales taxes in Florida are tax deductible, the IRS sales tax calculator for Leon County shows that the average household in Leon County is eligible for a \$116 standard deduction for sales tax, which is considerably less than the either \$186 or \$201 that the residential rate could be set at. This sales tax amount does not include sales tax from durable and large purchase goods. The IRS concludes that sales taxes associated with durable or large purchase goods are infrequent and would be considered a double count in ordinary sales tax estimates. For tax purposes, individuals would save actual receipts and deduct these totals on the tax form and not use the IRS calculator estimates.

An alternative approach in determining the house hold impact of a sales tax was calculated by reviewing total actual collections to the total number of households. An analysis of actual taxable sales in Leon County after the removal of large durable items indicated that average Leon County family pays approximately \$130 in sales tax annually. This amount is \$70 less than the proposed Zone 1 fire rescue charge and \$54 less than the proposed Zone 2 fire rescue charge. The \$130 amount is consistent with the \$116 amount estimated utilizing the IRS calculation.

Similarly, owners of commercial and industrial properties will benefit. Property owners will no longer pay a fire rescue charge. These owners would pay additional sales tax on items purchased to run their business, but not on items purchased for resale. Business that lease property would pay sales tax on the commercial lease, but in most cases would pay less per square foot in sales tax for fire rescue services than the proposed fire rescue charge.

Impact to Shopping Patterns and Sales Tax Collections

A literature review of research regarding the impact of local sales tax levies on shopping patterns of citizens for taxable goods was also performed. The literature indicates that consumers are likely to shop in their own area the further they have to travel to another market (Cornia, Grimshaw, Nelson and Waters, 2010). This corresponds with the general geographical principle of proximity to center. The closer to the center of economic commerce the more likely an individual is to shop in that center. Conversely, the further away from an economic center, the less likely an individual will travel to shop. Leon County and Tallahassee would easily be considered the center of economic commerce for the region.

In addition, the State of Florida exempts the purchase of many commodities, such as food, and medicine, making it unlikely that a resident would travel to another jurisdiction to purchase the same exempt good. Regarding the purchase of motor vehicles in Florida, regardless of where the purchase is made, the local sales tax is paid where the car is to be registered. This applies even if the vehicle is purchased out of state and ultimately registered in Florida.

The following provides a brief summary of some of the advantages and disadvantages associated with implementing a sales surtax versus the current fire rescue charge approach:

Advantages:

- Conversion from fire rescue charge to sales surtax is revenue neutral; however, the overall tax burden for the community is reduced given that at least 25% of sales tax collections comes from non-residents;
- Provides for future revenue and budget stability;
- Eliminates the need for rate studies to be prepared to justify fire rescue charge increases;
- The development of rate studies provides unique challenges in trying to equitably attribute the cost of the services to specific property uses; the use of sales surtax as the funding mechanism acknowledges the service provides a countywide community benefit;
- The current methods of collection for the fire rescue charge are challenging and reflect an inconsistent approach in who actually receives the bill (owners vs. tenants);
- Eliminating the fire rescue charge will immediately provide either a reduced utility bill or property tax bill or the elimination of the quarterly bill;
- Eliminates the possibility of future law suits related to the fire rescue charge and/or the billing methodology for collection;
- Eliminating the fire rescue charge provides relief to commercial and institutional establishments;
- For individuals, fire rescue charges are not tax deductible expenses; however, sales taxes are currently deductible.
- Possibly mitigate the need to increase the EMS MSTU in the future

Disadvantages:

- The perception of high taxes in Leon County if it is the only county in the state that levies an 8.5% sales tax rate.

A this point in the legislative session, it is unclear what the final amendment of the sales tax law may be. If the Board wishes to continue to evaluate the sales tax as a funding alternative, staff will provide an updated analysis on the utilization of the sales tax at the end of session.

Conclusion

The provision of public safety is a paramount purpose of county government. The County has previously determined that fire rescue services for the unincorporated area shall be provided by the City of Tallahassee Fire Department. Pursuant to the County's existing Interlocal Agreement with the City of Tallahassee, the County is obligated to pay for its share of the City of Tallahassee's Fire Department's budget for the provision of fire rescue services in the unincorporated area. The Interlocal Agreement provided for the resolution of a number significant policy issues including the allocation of gas tax revenues and the ability to properly fund EMS into the future through the EMS MSTU. The Interlocal Agreement also provides that the City and County will jointly develop a new rate study.

With the new rate study completed, the previous rate study and associated charges are no longer eligible to be legally imposed. The County and the City both need to adopt the new rate study if the new fire rescue charges are going to be utilized to support the funding of fire rescue services. However, the new rates can be levied at a lower rate, provided the reduction in the rate is proportionately uniform across all categories of property and zones.

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Based on the new rate study, effective October 1, 2015 the increased cost for fire rescue services is \$1.22 million annually. The Board may wish to proceed with imposing the new rate study effective October 1, 2015. Alternatively, the Board may wish to utilize existing unincorporated area fund balances to impose a 15% lower rate effective October 1, 2015; imposing the full rate effective October 1, 2017. If the Board decides to further explore the imposition of the sales tax to support fire rescue services, the sales tax could not be collected until January 1, 2017.

Options:

In establishing the fire rescue charge, the Board may wish to consider the following, or any other direction:

1. Approve proceeding with implementing the fire rescue charge as established in the new rate study.

OR

2. Approve for FY2016 and FY2017 implementing the proposed fire rescue charges at a 15% reduction utilizing existing fund balances to support the required payment to the City and approve implementing the proposed fire rescue charges at the full rates for FY 2018.

OR

3. Approve with implementing the rates at a 15% reduced level for the next two fiscal years, establishing the full rate effective October 1, 2017 and authorize staff to prepare non-countywide general revenue expenditure reduction options for the Board to consider at the June 23, 3015, FY 2016 Budget Workshop to fund the additional estimated \$1.2 million in required payment to the City of Tallahassee for fire rescue services.

The following two options would utilize the rates established based on the direction received by the Board at the workshop:

4. Direct staff to prepare for the adoption of the Fire Rescue Services Rates at the May 26, 2015 meeting.
5. Authorize staff to send first class notices to property owners who have the assessment on their tax bill notifying them of the maximum rate increase and authorize staff to schedule a Public Hearing on June 23, 2015, to impose the new rates, and authorize the assessment to be placed on the tax bill if applicable.

If the Board wishes to further explore the sales tax option, staff recommends waiting until the current legislative session is finished and approve the following option:

6. Instruct staff to bring back additional information regarding the possibility of funding fire services through a 1 cent surtax at the June 23, 2015 Budget Workshop.
7. Board direction.

Recommendation:

Board direction.

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Attachments:

1. Second Amendment to Interlocal Agreement Regarding the Provision of Fire and Emergency Medical Services
2. GSG Fire Rescue Charge Study
3. Non Residential Property Fire Service Charge Increases