

How To Avoid An 18% Millage Increase
By Curt Binney

History

On July 22, the Lake County Board of County Commissioners voted 4-1 (Campione against) to set a tentative millage (tax rate) that is 18% higher than the prior year.

Components of the 18% Millage Rate increase

| Fund | 2014 | 2015 | Change |
|-------------------------|-------------|-------------|---------------|
| General | 4.7309 | 5.6124 | .8815 |
| Lake County Fire | .3222 | .4730 | .1510 |
| Lake EMS | .3853 | .4853 | .1000 |
| Public Land Acquisition | .1900 | .1610 | (.0290) |
| Storm water | .4984 | .4957 | (.0027) |
| Total | 6.1266 | 7.2274 | 1.1008 |

The Doomsday Scenario- Many individuals have been told that a failure to pass an 18 percent millage rate increase will result in library closures, massive layoffs, police and fire trucks being parked and essential services would be halted. Based on county provided information, in order to fund county services at 2014 levels, the county would need an additional \$4.8 million dollars. This could easily be accomplished by using Infrastructure Sales Tax revenues to pay for the debt service on the new judicial center bonds, instead of new property taxes. So it would be possible to maintain the current level of service without any increase in the millage rate. Funding pay raises is a separate issue and will be addressed in the subsequent section.

Additionally, the replacement of five ambulances is already budgeted by EMS at \$480,000 and \$600,000 has been set aside from sales tax for EMS capital improvements.

Impact on Residents - The average increase in residential property tax in South Lake, assuming 1.188% appreciation and the 18% millage increase is \$123 on a \$100,000 home. The increase in average wages in Lake County is about 2%, yielding an after tax increase of \$516. That means that of your \$516 dollar net pay raise, \$123 (24%) will go to fund government growth.

Impact on Lake County Business

| | Increase in | | | |
|---------------------------|----------------------------------|--------------------------------------|---------------|---------------|
| | Real Property Tax | Tangible Property Tax | 1 year | 5 year |
| Office Complex | 1,985 | 0 | 1,985 | 9,925 |
| Century Link | 0 | 93,569 | 93,569 | 467,845 |
| Citrus Company | 4,290 | 20,615 | 24,905 | 124,525 |
| Duke Energy | 2,170 | 178,033 | 180,203 | 901,015 |
| Industrial Park | 2,587 | 0 | 2,587 | 12,935 |
| Water Bottling Co. | 8,000 | 57,003 | 65,003 | 325,015 |

| | | | | |
|-----------------------------------|---------|-------|---------|-----------|
| Manufacturing Company | 5,175 | 9,653 | 14,828 | 74,140 |
| South Lake Resort | 236,512 | 1,734 | 238,246 | 1,191,230 |
| Clermont Apartment Complex | 15,528 | 0 | 15,528 | 77,640 |

As with all business, these costs will eventually be paid by the consumer. If the cost cannot be recovered through increased prices, layoffs are a possibility. Either way, increased prices or layoffs that are due to increased taxation that can be covered by other means, will have a negative impact on the Lake County Economy.

Financial Problems in the Solid Waste Reserve – The 2015 budget reflects a \$2,958,578 loss in the Solid Waste Enterprise. It is my conclusion that the Solid Waste Enterprise cannot function as a viable entity without significant taxpayer support, even considering the impact of countywide programs. I therefore believe that in order to mitigate at least some of the financial concerns a \$24 per year increase in solid waste assessment must be considered as well as a \$500,000 reduction in operating costs. I understand that raising the assessment on top of cutting service by 50% is not the best situation, but, we cannot continue to bury this issue in property tax transfers forever.

Potential Impact on Discretionary Sales Tax Renewal - Next November the one cent discretionary sales tax will be on the ballot for renewal. This renewal represents at least \$450 million in revenue over the next 15 years. An 18% increase in property taxes combined with a 50% reduction in trash service for over 67 thousand homes may make approval of the sales tax difficult. As 1/3 of this tax goes to the cities and another 1/3 goes to the School District, the failure to renew the sales tax could have a significant impact on these entities. The one-cent sales tax accounted for \$34.8 million dollars in revenue in FY2013. It seems a bit of a gamble to risk \$35 million in sales tax revenue that benefits the county, cities and school district, in order to gain \$15 million in revenue specifically for the county. Should the sales tax not be renewed, the net gain to the county by raising millage would in reality be \$3 million as the \$15 million in property tax revenue would be offset by the loss of \$12 million in sales tax revenue. Where will the additional \$12 million come from to replace the sales tax revenue? The options are limited mostly to further increases in property taxes at the county and city level. But for the school district, they don't even have that option. They will have over \$180 million in revenue over the next 15 years evaporate over night.

Impact on Economic Activity- In most economic models the more capital available for the free exchange of goods and services, the stronger the economy. The Lake County economy is anemic. Unemployment is the highest in over sixteen years, and homelessness is at an unacceptable level. Wages are well below the state average and we are facing serious funding challenges in our public schools. Now is not the time to pull \$15 million out of the economy to pay for public sector goods and services, that can be paid for by other means.

Possible Alternatives to a 18.6% Millage Increase – General Fund

| | |
|--|--------------------|
| .2015 Estimated Revenues | \$121,600,000 |
| Less: Purchase Order Reserve | (1,417,346) |
| Less 7% Economic Stabilization Reserve | <u>(8,701,000)</u> |
| | 111,481,654 |

| | |
|---|--------------------|
| 2014 Expenditures | 116,800,000 |
| Impact of staff raises and FRS Changes | 500,000 |
| Astatula Fuel Remediation | 500,000 |
| Judicial Support Changes | 300,000 |
| Transfer to Parks and Trails | 1,100,000 |
| Motorola Contract Change | 200,000 |
| Tax Collector Changes | 200,000 |
| Increase in Constitutional Budgets | 3,900,000 |
| Miscellaneous Charges | 200,000 |
| Transfer to Fire and Rescue for Fire Assessments | <u>600,000</u> |
| | <u>124,300,000</u> |
| Initial Funding shortfall | (12,818,346) |
| <i>Adjustments to resolve initial shortfall</i> | |
| <i>Additional Revenue</i> | |
| Increase the Solid Waste Task assessment by \$2/month to cover unfunded administration costs | 1,608,960 |
| <i>Use of Existing Revenues</i> | |
| Deferral of Capital Projects to pay debt service on judicial Center with sales tax revenue | 5,740,000 |
| Defer Facility Improvements until 2016 Sales Tax is available | 500,000 |
| <i>Expenditure Adjustments</i> | |
| Savings by delaying opening of inmate tunnel for 1 more year | 250,000 |
| Pay for Astatula Fuel Mitigation with Solid Waste reserves or Grants | 500,000 |
| Reduce Constitutional Office Increase by 5% | 195,000 |
| Reduce administrative expenditures in Solid Waste Enterprise | 500,000 |
| Non-Departmental Expenditures increased 22%, reduce by 6% | 289,872 |
| Public Works increased 22% , reduce increase by 25%, if not funded by gas tax | 97,992 |
| Legislative/Lobbying increased 10%, eliminate increase | 78,152 |
| Reduce EMS transfer from General Fund by reducing IT expenditures and supplies by 50% | 136,767 |
| Reduce EMS transfer from General Fund by reducing the operating expenditures increase by 50% | 18,000 |
| Reduce EMS transfer from General Fund by deferring certain capital expenditures until 2016 Sales tax is available | 300,000 |

Reduce Parks and Trails General Fund Transfer to
reduce 23% increase in operating Expenses 220,000

Budgetary Adjustments

Reduce Purchase Order Reserve to 2014 Levels, this
is an estimate and would free up reserves 731,071

Adjust millage increase by 2% of revenues due to
historically only needing 3% not 5%, should not raise
millage on cash that will be collected 2,401,367

Reduce Stabilization amount by 7% of reduced
expenditures 272,659

Total adjustments to resolve shortfall 13,839,840

Shortfall before Millage Increase 1,021,494

Millage Increase required 0

Surplus under these alternatives \$1,021,494

Other areas of consideration:

- Why does the Fire Department need a financial coordinator?
- EMS retirement increased 15.1%?
- What would be the savings of merging Lake Fire with Lake EMS?
- EMS salaries increased \$2.5 million (39%). Is this considering calls are down?
- Look for savings on construction of new Tax Collector building
- Why are we transferring \$1.1 million to Parks on one hand and reducing the Parks MSTU millage on the other?

Use of Sales Tax Funds - 2015

| | <i>Current Budget</i> | <i>Current Need</i> | <i>Defer to 2016</i> |
|---|----------------------------------|--------------------------------|---------------------------------|
| Beginning Fund Balance | \$2,980,000 | \$2,980,000 | \$ - |
| 2015 Projected Revenues | <u>6,040,000</u> | <u>6,040,000</u> | - |
| | 9,020,000 | 9,020,000 | - |
| Radio Debt | 1,210,000 | 1,210,000 | - |
| Tax Collector Building In Clermont | 2,500,000 | 1,250,000 | 1,250,000 |
| Sherriff's Vehicles | 700,000 | 350,000 | 350,000 |
| EMS Capital Funding | 600,000 | 600,000 | - |
| Parks & Trails | 350,000 | | 350,000 |
| South Lake Regional Park Acquisition | 1,290,000 | | 1,290,000 |
| South Lake Park Fencing and Master Plan | 500,000 | | 500,000 |
| Umatilla Health Clinic | 150,000 | | 150,000 |
| Additional Funding For Sheriff | 200,000 | | 200,000 |
| East Lake Park Additional Property | 800,000 | | 800,000 |
| Lake Idamere Miracle Field | 200,000 | | 200,000 |
| Lights for Woodlea Park | 200,000 | | 200,000 |

| | | | | |
|------------------------------|---|-------------------|--------------------|----------------------|
| Judicial Center Debt | □ | - | 5,740,000 | - |
| Total Expenditures | | <u>8,700,000</u> | <u>9,150,000</u> | <u>5,290,000</u> |
| Total Remaining Fund Balance | | <u>\$ 320,000</u> | <u>\$(130,000)</u> | <u>\$(5,290,000)</u> |

\$130,000 budget shortfall could be made up by savings in other areas or modest millage increase.

Budgetary Review Process - For the 2014 budget, Chairman Campione held seven budget workshops through July 2014. For the 2015 budget, Chairman Conner has had three workshops to date (57% less). Perhaps there is more work to be done?

Conclusion: Based on my analysis, an 18% millage increase would not be beneficial to our workforce, businesses or the overall economy of Lake County and would unnecessarily place the Discretionary Sales Tax at risk. Additionally, based on my analysis, there are alternatives such as a series of budgetary adjustments and reduced increases in expenditures combined with a possible modest millage increase of 2 to 3% that will fund all of the necessary services of 2015 and possibly a surplus.