



County Administrator's Office

State of Florida

September 3, 2015

Honorable Members of the Okaloosa County Commission:

By this letter, your budget staff formally transmits the proposed revised 2015-2016 Okaloosa County Budget. The revisions included herein are the result of direction received from the Board during a series of budget workshops spanning the past several weeks.

As proposed by the Administrator and endorsed by the Board, the Fiscal Year 2015-2016 County Budget does not contemplate a tax increase. The trend of moderate growth locally and throughout the State has allowed staff to balance the budget through revenue increases from three sources: Ad Valorem Taxes, State Revenue Sharing, and State Sales Tax revenue. Based on the projected 4.52% increase in property values, we forecast ad valorem revenue to grow by approximately \$2,142,200. In addition, we anticipate State Revenue Sharing to increase by \$450,000 and State Sales Tax revenue to increase by \$700,000. Collectively, these three revenue sources are expected to contribute \$3,292,200 in additional revenue for Fiscal Year 2015-2016.

Budget development began in earnest several weeks ago during a series of budget reviews with the various County departments and Constitutional Officers. Initial requests for funding far exceeded the projected additional revenue by \$3,500,000. After several rounds of cuts necessary to balance against projected revenues, the total budget across all funds for FY 2015-2016 is \$331,339,247. The spending plan for next year represents an increase of \$21,328,477 or approximately 6.9% above the approved budget for FY 2014-2015.

Budget Drivers and Unanticipated Expenses

Legislative Impacts: Medicaid expansion will disproportionately affect Okaloosa County in the coming year. Repeated attempts were made through our lobbyist and the Florida Association of Counties to appeal to the Legislature to cap increases for Medicaid at 3% across all of Florida's 67 Counties. We were not successful in this regard and, as a result, our County's Medicaid costs are projected to jump by 16%, or \$252,000.

Inmate Health Care: Due to the rising inmate population at the County Jail, certain escalators are triggered in the inmate health care contract with Corizon. As a result, health care costs for our inmate population will increase by \$200,000.

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Life and Health Insurance: Over the past few years, the County has elected to offer a stipend to those individuals who chose not to take advantage of coverage through the County's health insurance plan. By not funding the full cost of health coverage for all employees, the County has saved approximately \$450,000 annually in the General Fund alone. Recently, staff learned that Federal regulations prohibit the current practice of offering a stipend to some employees in lieu of funding the full cost of insurance. As a result, the proposed FY 2015-2016 budget includes funding insurance costs for all employees. It bears mentioning, that a number of counties and cities throughout Florida continue to offer a stipend to those employees who elect insurance coverage elsewhere. As an alternative, the County will offer a Health Reimbursement Account (HRA) to those employees who elect health insurance coverage outside of the County's program. The results of this alternative will not be known prior to finalizing the FY 2015-2016 budget; therefore, the proposed budget still includes the full cost of health coverage for all employees.

Department of Juvenile Justice (DJJ) Claw Back: For the past two years, the County elected to fund only a portion of annual costs associated with juvenile incarceration. As was the case with many counties across the State that overpaid annual DJJ fees, Okaloosa County paid a lesser amount annually while waiting for the State to decide terms of payback and a recalculation of the funding split between the State and the counties. During Florida's Legislative Session this year, the Legislature implemented "Claw Back" terms whereby the State was granted authority to withhold State Sales Tax Revenue from those counties that continued to "short pay" their annual DJJ obligation. In anticipation of the Claw Back provisions, this year the proposed budget includes the full cost of funding DJJ which equates to \$489,350 over and above the amount paid last year.

Supervisor of Elections – Presidential Election Year: During years in which a Presidential Election occurs, the costs associated with the elections process rise sharply. This is due largely to the expected turnout of registered voters and the associated costs for accommodating larger crowds at the polls and increase in ballots. For the FY 2015-2016 proposed budget, the projected impact represents an increase of \$225,000. Not included in the proposed FY 2015-2016 budget is the cost of replacement voter equipment which is being proposed by the Supervisor of Elections. Since the cost of new equipment has not been determined as of the date of this summary, it is anticipated that staff will reflect the cost through a budget amendment after October 1, 2015.

Proposed New Positions and Salary Impacts

New Positions: This proposed FY 2015-2016 budget contemplates several new positions to rebuild capacity in the organization and correct deficiencies noted by the Auditor General and the County's External Auditor. During the economic decline, the County eliminated nearly 90 positions, many in professional, middle management and administrative support positions. While the position requests offered in this budget are modest, we will be addressing critical needs important to an organization of our size and complexity. Of note, the budget proposal before the Board includes a Budget and Compliance Manager in the Administrator's office, a Contracts and Leases Coordinator in the Purchasing Division, a Security Analyst in the IS Department, a Program Technician II and Supply Specialist in the Public Works Department, and a Master Painter and two Custodians in the Facility Maintenance Division. Subsequent to the positions proposed, the Board elected to add another position in the proposed budget for a Program Technician II for the Crestview Administration office. Collectively, these position requests add approximately \$376,000 to the proposed budget.

Salary Adjustments: Over a four year period from 2009-2012, County employees did not receive salary adjustments for either cost of living or merit other than a 3% adjustment to offset increased costs related to changes with the Florida Retirement in 2011. Furthermore, staff reductions were necessary to balance the budget and additional demands were placed on remaining staff. To put this in perspective, the CPI since 2009 has grown by nearly 15%, while County employees have realized cost of living growth of only 6% (most of which occurred from modest increases over the past two budget years). The proposed budget for FY 2015-2016 again contemplates a small increase for employees. Similar to last year, this budget proposes a cumulative 1% increase spread out evenly among employees. Across all funds, a 1% increase equates to approximately a \$390,000 impact, or roughly \$500 per employee. As was the case last year, this adjustment is being proposed utilizing ProShare dollars.

BP Settlement

BP Settlement and Budget Impact: After the proposed FY 2015-2016 budget was presented to the Board, the County received approximately \$3.6 million in previously unsettled claims as a result of the 2010 BP Deepwater Horizon oil spill. The proposed budget recognizes the receipt of these dollars; however, the Board has yet to discuss expenditure priorities related to these funds. The proposed budget reflects receipt of the settlement dollars in Capital Outlay, General Fund Reserves, and a capital equipment allocation to the Sheriff's Office. A discussion of the breakdown of this unanticipated revenue follows.

Capital Outlay, Equipment, and General Fund Reserves

Capital Projects: The proposed FY 2015-2016 budget addresses needed capital projects and vehicle/equipment needs. Approximately \$550,000 in new project requests are proposed in this budget and include: new or repaired roofs for the Jail, Brackin Street Sheriff's building, north and south Health Department buildings, and old Crestview Hospital building; remodeled space at the Old Bethel building; expanded Farmer's Market at the Fort Walton Beach location; building repairs for the Jail, EMS station, Public Defender's Office, and old Fort Walton Beach Hospital building; and safety improvements at the Courthouse Annex Extension building in Fort Walton Beach. The total proposed Capital Outlay budget for FY 2015-2016 is approximately \$13.8 million of which \$10,678,500 is related to the Crestview Courthouse project. In order to balance the Capital Outlay Fund, this budget proposal anticipates an allocation of \$600,000 from the BP Settlement for new capital requests.

General Fund Reserves: Based on recommendations from the Auditor General and the County's External Auditor, the Board has placed added emphasis on growing General Fund reserves. Through the conservative budgeting of General Fund revenues last year, the County increased General Fund reserves by \$426,436 for a total reserve for FY 2014-2015 of \$3,796,231. Again this year, it is our recommendation to utilize budgeted savings and BP Settlement revenues to grow reserves. The proposed budget contemplates a 73.1% increase in General Fund reserves made up mostly from the receipt of approximately \$2.5 million in BP Settlement dollars. In summary, General Fund Reserves are expected to increase by \$2,775,264, for a total projected reserve budget of \$6,571,495. It is understood that the Board may elect to utilize a portion of these dollars for more pressing capital project needs such as the Crestview Courthouse or other deferred capital improvements.

Vehicles and Equipment: In keeping with the trend established in the FY 2013-2014 budget year, the proposed FY 2015-2016 budget reflects some needed vehicle and equipment replacements. By re-implementing the vehicle and equipment replacement program, we have been able to gain ground on a growing repair and maintenance trend in our Fleet Operations Division. The majority of the recommended new vehicles and equipment can be found in the County's Enterprise Fund Departments. As it relates to the General Fund, the proposed budget includes: replacement vehicles for the Courier, Facility Maintenance, Corrections, Parks, and the Agriculture Extension Department. Additional equipment purchases are also recommended for Mosquito Control, IS, Facility Maintenance, and the County Warning Point.

Law Enforcement

Sheriff's Office: Okaloosa County continues to place a premium on public safety and a strong law enforcement presence. Community surveys routinely place law enforcement as a top priority among the myriad services government provides. Over the past two budget cycles, significant attention has been given to the Sheriff's office resulting in budget increases each year. The budget recommendation this year mirrors actions taken by the Board in recent years. The Sheriff's initial request for the FY 2015-2016 budget included a spending plan increase of 11%, or approximately \$3.4 million to address pressing law enforcement needs throughout the County. Unfortunately, sufficient dollars are not available to address all of the competing priorities the County is faced with next year. In an effort to fairly appropriate the limited increases in projected revenue available next year, the Board approved an increase of 4.5% to the Sheriff's budget which is consistent with anticipated increases in property taxes for next year. The recommended 4.5% increase in the Sheriff's budget over last year's allocation will generate an additional \$1,430,000 for the Sheriff to use as he chooses. In addition to the proposed \$1.43M increase recommended by the County Administrator, the Board also approved a one-time allocation of \$500,000 from BP Settlement dollars for capital purchases. Collectively, the two sources represent an increase of \$1.93M for the Sheriff's budget for FY 2015-2016. (The Board also discussed allocating an additional \$100,000 for the Sheriff for use during Spring Break 2016; however, the source of this funding is undecided at this time and will likely be made through a budget amendment after October 1, 2015).

Special Revenue and Enterprise Funds

Tourist Development Department: Overall, the Tourist Development Fund continues to be healthy after another year of significant growth. For the FY 2015-2016 proposed budget, we anticipate continued growth as revenues are projected to total \$45,459,814 or an increase of \$10,542,314 from last year. The proposed spending plan for next year again includes marketing and promotional activities geared toward promoting the Emerald Coast as well as remodeling/new construction projects along the tourism corridor.

Department of Airports: The County owns and maintains three airports: Destin-Fort Walton Beach Airport, Destin Executive Airport, and Bob Sikes Airport. The main hub of commercial activity of the County's three airport system continues to be Destin-Fort Walton Beach Airport. Revenues across the County's system of airports have remained relatively flat in recent years as competition for air carrier service intensifies and the number of carriers shrinks. While we again anticipate modest to no growth in our main sources of revenue (passenger facility charges and customer facility charges), the proposed budget does reflect a \$5,449,141 increase in revenue for next year due mostly to major capital projects previously planned with State and Federal assistance.

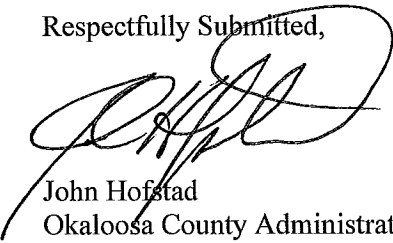
Water and Sewer Department: The Water and Sewer Department provides potable water and sanitary sewer service to a number of franchise areas throughout the County exclusive of those served by municipal utilities. The proposed FY 2015-2016 budget reflects a 7% increase in revenue for next year, or an estimated increase of \$4,336,447. Due to a recent Water and Sewer Revenue Bond issuance, the County realized significant savings which will allow the advancement of needed capital improvements. In addition, we are able to defer planned rate increases for next year and possibly the following year.

Solid Waste and Recycling Division: The Solid Waste/Recycling Division of Public Works manages contracted services for the collection and disposal of solid waste within the County's north and south franchise areas. In addition, the Division is responsible for the management of four closed landfills, three of which remain in active remediation. The proposed FY 2015-2016 budget reflects a 4.7% increase in revenue for next year, or an estimated increase of \$400,000. Of note for next year, the County will be soliciting for solid waste services through a Request for Proposals. Depending on the outcome of this solicitation and subsequent award, we anticipate additional savings may be offered to our solid waste customers.

Summary

Having now completed department level reviews and a series of five public workshops, the proposed FY 2015-2016 budget reflects a detailed analysis of the County's budgetary needs and priorities for the coming fiscal year. With guidance from the Board throughout this process, staff has addressed pressing organizational needs including: public safety, vehicles/equipment, capital improvements, finance/administration, Federal/State Mandates, and manpower shortages. The proposed budget accomplishes many of these objections while still maintaining Okaloosa County's status as the lowest aggregate millage in the State. This overall comprehensive effort will culminate in two public hearings to formally adopt the final budget; September 3, 2015 in Crestview and the final hearing on September 15, 2015 in Shalimar.

Respectfully Submitted,



John Hofstad
Okaloosa County Administrator