Collier County Productivity Committee
3301 East Tamiami Trail
Naples, FL 34112

June 19, 2009

Collier County Board of County Commissioners
3301 East Tamiami Trail
Naples, FL 34112

Subject: FY10 Budget Review

The Productivity Committee has reviewed the proposed FY10 county budget and our report is enclosed. We hope you find our recommendations helpful.

We identified $22.2 million in recommended adjustments to the General Fund (001) to offset the $30 million tax revenue shortfall and we suggested some additional areas for increased revenue and reduced cost.

In the Unincorporated General Fund (111), we recommended $5 million of adjustments to retain the current millage rate of .6912 (millage neutral).

If you would like an individual briefing on our review results, please contact Janet Vasey at 598-4378. Janet, Jim Gibson and Gina Downs will also be available at the Budget Workshop to discuss the Productivity Committee recommendations and answer your questions.

We thank the County Manager and his staff, as well as the Sheriff and his staff, for the hours they spent providing detailed answers to our questions and attending our many subcommittee meetings.

Sincerely,

Stephen Harrison (bh)

Stephen Harrison, Chairman
Productivity Committee

Enclosures:

FY10 Budget Review
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Productivity Committee Review of the FY10 County Budget

General.

In reviewing the FY10 County Budget, the Productivity Committee tried to:
- Reduce costs,
- Increase revenues,
- Avoid reducing services desired by the public and
- Minimize property tax increases.

With property tax revenues dropping 11.4% countywide and tax revenues plunging $30 million in the General Fund (001), it was quite a challenge. Additionally, in the Unincorporated General Fund (111), property values dropped 13.2% and tax revenues declined $5 million.

Property Tax Analysis.

The proposed FY10 county budget has a 14.4% increase in the General Fund tax rate (from 3.1479 mills to 3.6009 mills). It is important to understand how the increase in tax rate and decrease in property values affect individual taxpayers and whether homeowners will pay more in property taxes in FY10 than they did in FY09.

This discussion is limited to the effect of the change in the county's General Fund tax rate. Changes in the tax rates of other county funds (unincorporated general fund, various MSTUs, Caribbean Gardens purchase, etc.) and of other taxing entities (cities, schools, fire districts, mosquito control, etc.) taken together, will determine if a taxpayer actually pays more taxes in FY10 than in FY09.

One important factor is whether the homeowner has a homestead exemption and whether that property has any Save Our Homes benefit. In general, if a homeowner has Save Our Homes benefit and the tax rate is increased, then the homeowner will pay the full amount of the rate increase, it will not be offset by any percentage reduction in property value.

If a homeowner does not have the homestead exemption, then an increase in county property taxes will occur when the tax rate percentage increase exceeds the property value percentage decrease.

Tax Incidence for Homestead Properties with Save Our Homes (SOH) Benefit.

Attachment 1 shows what happens when the market value does not fall below the assessed value of a property. In these cases, property owners feel the full impact of any tax rate increase. A 14.4% increase in the tax rate results in a 14.4% increase in county property taxes.

According to the Property Appraiser, about 70% of single-family homes have a homestead exemption and 30% of condos have the homestead exemption. Of the homestead properties, about 60% still have SOH benefit.

The chart shows the case where homestead properties have a Save our Homes benefit. In general, homes purchased before 2005 probably still have the SOH benefit, but homes purchased later have probably had the benefit eroded as market values dropped below assessed values.

The chart shows that different areas of the county experienced different average reductions in property values. This chart also shows that the tax burden is shifting to the coastal areas from the eastern sections of the county. The coastal areas retained more of their value (had a lower drop in property value) and will pay a larger percentage of the total tax collection.

Tax Incidence for Properties without Homestead Exemption.

Attachment 2 shows the tax consequence for non-homestead properties due to the proposed increase in the General Fund. If the property value drops less than 14.4%, then the tax rate increase will exceed the drop in property value and the property will pay more in county taxes. On average, non-homestead properties in the most populated areas of the county will pay more in county taxes in FY10 if a 14.4% tax rate increase is approved.

General Fund (001) Reductions.

FY10 property tax revenues will drop from $250 million in FY09 to about $220 million in FY10 in the county's General Fund (001) if the current tax millage rate remains the same. The proposed FY10 budget would increase the tax rate by 14.4% from 3.1469 to 3.6009 to make up the $30 million difference in tax revenues and projected reductions in state sales tax and other revenue sources.

While the General Fund provides resources for countywide operations including the County Manager's office and the offices of all Constitutional Officers, the Productivity Committee reviewed only the County Manager's budget and the Sheriff's budget. These two organizations consume about 94% of General Fund.

County Manager Reductions.

The following adjustments are recommended to the County Manager's office. The reductions are taken from the Tax Neutral funding level.

$- .4 million	Eliminate employer matching for 457 retirement
- .2 million	Buy Library books from Trust Fund, not Fund 001
- .6 million	Increase revenue for special events and beach parking
- 1.0 million	Reduce Admin Services repair and maintenance
+ 1.2 million	Reverse Transportation transfer to Fund 111
- .4 million	Reduce Transportation (lighting and mowing)
- 1.1 million	Reduce Transportation capital to Millage Neutral
- 1.0 million	Reduce Transportation capital reserves
- .5 million	Reduce Revenue Reserve based on funding reductions
- .4 million	Reduce contingencies to FY09 level
- 1.7 million	Reduce excess Self Insurance reserves
$ 6.1 million	Total net reduction

• 457 Retirement Matching.

This county program provides employer-matched contributions, from $500 to $3,000, based on the amount the employee elects to contribute to his/her own Deferred Compensation Account. This program was designed primarily to compensate management personnel for merit pay. Since merit pay is not provided in FY10, $400 thousand is recommended for elimination.

• Libraries.

The Committee felt that, consistent with the objective to avoid cutting services clearly desired by the public, that the library branches should remain open. We suggest that $200 thousand of the requirement for additional materials be taken from the Library Trust Fund, instead of being paid by the General Fund.

We suggest balancing personnel throughout the library system and, with the use of part-time personnel and volunteers, try to move some staffing from the regional libraries to the branches to keep them open as many days as possible.

After intensive debate, the Committee recommended that an annual fee be charged for library cards to help support the cost of library operations. No specific fee structure was recommended (a discount for family cards was suggested), so no increase to library revenue has been included in our analysis.

• **Parks and Recreation.**
We recommend increasing revenue in the Parks and Recreation budget by at least $600 thousand for special events and beach parking.

We considered the option of charging revenue for special events and felt that the community would be willing to pay a modest charge for Park-sponsored events, which could increase revenue by about $100 thousand. Special events require significant, dedicated personnel and are expensive to run, so there should be a charge or the events, (which are a low priority on the project list) should be considered for cancellation. Fourth of July funding appears high and we recommend a 50% reduction.

We actively discussed the issue of charging for beach parking. At the $75 annual and $8 daily fees recommended by staff, the additional revenue would be $1 million. State parks have raised their fees to $60 per individual/$120 per family. The Committee did not identify a specific fee, but we did recommend that the BCC consider instituting annual and daily fees that are consistent for residents and non-residents. While no specific fee structure was recommended, discussed fees would produce, at a minimum, $500 thousand in additional revenue, so this amount is included as increased revenue in our analysis.

• **Administrative Services.**
The Committee recommends reduction of $1 million of the $2 million project cuts identified by Administrative Services to achieve the Millage Neutral funding level. In general, repair and maintenance projects can be delayed for a limited time without severe consequences. In addition, the $736 thousand cost differential, associated with hiring more qualified custodial services, above the lowest bidder, appears subjective.

• **Transportation.**
The proposed budget includes an increased transfer of costs from Fund 001 to Fund 111 in FY10. It is recommended that the increased costs stay in Fund 001. This $1.2 million increased transfer, above the Millage Neutral level, should be reversed.

It is recommended that transportation costs for mowing and roadway lighting be reduced by $400 thousand. A reduction of $150 thousand in mowing costs should be achievable through negotiation in this economic environment or a reduced mowing schedule could be considered. A reduction of $250 thousand in electricity for roadway lighting is recommended. Concerns of adversely affecting residents walking, jogging or biking in the winter, should be covered by retaining $90 thousand in the program to keep lighting on in the early evening hours.

A $1.1 million reduction was identified by Transportation to reduce the capital fund from Tax Neutral to Millage Neutral. We recommend that reduction since capital projects are generally a lower priority and can be delayed a year or two when funding is constrained.

Contingency reserves have more than doubled in the Transportation capital program for FY10, and appear to be high given the overall significant reductions in size and scope of this program in comparison to prior years. While the higher reserve is apparently held pending the outcome of three legal challenges, it is unlikely that all three cases would go against the county. While contingency reserves were 4% of budget authority in FY09, it is recommended that the reserves be held at 7%, due to litigation, for a savings of $1 million. See Attachment 3 for a full analysis.

- **Miscellaneous.**

The $500 thousand reduction to Revenue Reserves recognizes that, as a result of the recommended reductions, property tax revenue would be reduced, which would then reduce the need for Revenue Reserves The $400 thousand reduction to Contingencies brings this funding to the FY09 level.

- **Self-Insurance Reserves.**

Joint Self-Insurance reserves for both the County Manager and Sheriff's offices are discussed below.

Sheriff's Reductions.

The following adjustments are recommended to the Sheriff's budget. The reductions are taken from the Tax Neutral funding level.

$- 5.0 million	Reduce 4% attrition per county policy
- 1.1 million	Reduce excess Self Insurance reserves
$ 6.1 million	Total Reduction

- **Attrition.**

Budget policy requires a 4% attrition rate in the development of the FY10 budget. The 4% attrition rate is supposed to reflect the hire lag when existing people leave and replacements are hired. It is calculated based on the number of filled positions during the year. The Sheriff's office calculated their attrition based on authorized spaces that would not be filled in FY10. Funding associated with 4% attrition based on filled positions is $5 million.

Analyzing the Sheriff's personal services funding, the $5 million reduction appears attainable. Thirty-three people accepted the early retirement program in late FY09, for an annualized savings in FY10 of $3 million. In addition, the FY10 budget includes funding for 15 people above current filled positions for a savings of $1.4 million. A relatively small attrition rate would produce the additional savings.

- **Self-Insurance Reserves.**

Joint Self-Insurance reserves for both the County Manager and Sheriff's offices are discussed below.

Self Insurance Funds Analysis.

Unrestricted fund equity in the Self-Insurance Internal Service funds of the County Manager and Sheriff's offices substantially exceeds amounts required to pay future self-insurance claims as well as statutory reserve requirements. The FY08 Comprehensive Annual Financial Report (CAFR) for Collier County identifies unrestricted fund equity in these two funds as $35 million, while current and future claims payable total is only $11.6 million.

The FY07 Auditor's recommendation on the Self-Insurance funds states: "We recommend that the County review its policy for determining the amounts allocated/charged to user departments for self insurance costs and develop a plan to reduce its self insurance unrestricted net asset surplus over a reasonable period of time." The unrestricted balance in FY08 increased another 46% over the FY07 level. See analysis at Attachment 4.

Using the FY08 total unrestricted balance of $35 million ($25 million for the County Manager's office and $9.9 million for the Sheriff's office), a very modest reduction in the reserves of less than 10% would produce a $2.2 million savings for the County Manager and $1.1 million for the Sheriff. All of the Sheriff's savings is in General Fund. While the specific General Fund share of the $2.2 million savings for the County Manager will have to be determined, an estimate of $1.7 million is used.

Options for additional reductions to General Fund (001).

So far, the Committee has recommended a total of $12.2 million in specific adjustments to the County Manager and Sheriff budgets. Additional options are offered for BCC consideration.

Option 1. Consider reducing personnel costs through a reduction in wages, furloughs or elimination of DROP employees.

So far, personnel have not been affected by pay cuts, furloughs or reductions based on Productivity Committee recommendations, with the exception of the BCC 4% attrition policy, which is applied equally to all agencies.

We examined a variety of personnel options to determine their potential to reduce funding. When CDES permits and inspection fee revenue declined drastically, people were furloughed and fired. To be consistent, when property tax funding is severely reduced, personnel impacts should also be considered.

No pay raises are budgeted in FY10. We looked at a 2% across the board reduction in salary. Last year, the County Manager provided a 4% increase and the Sheriff provided an increase of 2.7%, while other government entities (State, Lee County) did not provide any salary increases.

Administrative Services did a Benchmark Survey this year to assess the county's compensation position relative to the market. While year-to-year comparisons were difficult, because participation in the survey was low, they were able to make some observations based on the January 2009 survey results.

The county's philosophy is to position pay ranges at 10% above the market. Overall, actual average pay exceeds the median market data by 5.77%. There was concern that, since pay increases are not provided in FY10, there will be a severe catch-up when economic times improve. An alternative view is that personnel are currently paid above the median market, making a reduction in pay worth considering.

According to a staff analysis, a 2% reduction in pay for the County Manager's organization would save $444 thousand in the General Fund 001 and $114 thousand in the Unincorporated Fund 111. The Sheriff estimated a 2% cut in pay and benefits would equate to $2 million, all in Fund 001.

There are no furloughs budgeted in Committee recommendations. However, a County Manager 1 day/month furlough would save a little over $1 million in Fund 001 and a little over $500 thousand in Fund 111, but with an adverse impact on the level of service to the community in many departments. The Sheriff estimated a 1 day/month furlough would save $3.6 million, but added that furloughs would adversely affect mandated posts in corrections and the communications center and they would probably have to use overtime to cover these mandated posts.

We also looked at the DROP program since DROP employees have retired and then returned to their jobs. Elimination of these positions would save $1.8 million (19 people) in the County Manager's organization and $1.9

million (17 people) in the Sheriff's office, all in Fund 001. However, after reviewing the program, the County Attorney indicated that he did not see a mechanism for the county to implement a policy of terminating DROP participants.

Personnel cost data are provided for information. No specific reductions are recommended.

Option 2. Consider whether to retain, in FY10, the Caribbean Gardens purchase millage rate of .15 mills.

In FY09, all taxpayers paid 3.1469 mills for General Fund operations and .15 mills for the purchase of the Caribbean Gardens property. The Caribbean Gardens purchase will be concluded at the end of FY09 or very early in FY10. The .15 mills could be added to the General Fund in FY10, increasing the millage rate to 3.2969, and providing an additional $10 million to fund high priority county services that are important to the public. Retaining the .15 mills in FY10 would not increase the total county tax rate paid by taxpayers over the rate paid in FY09.

This option could be considered to avoid significant reductions in Sheriff's operations, service for EMS ground units (eliminating 3 units) and helicopter operations, public health support and social services prescriptions for the needy, disadvantaged transportation services and Collier Area Transit (CAT) routes. This money could also support retaining library branches, a variety of parks and recreation services and the domestic animal services adoption program. The Productivity Committee considered all of these services a high priority.

General Fund (001) Summary.

The specific General Fund recommendations that have been identified, and the additional Options listed above, provide a minimum of $22.2 million in adjustments to meet the $30 million shortfall.

Unincorporated General Fund (111) Reductions.

FY10 property tax revenues in the Unincorporated General Fund dropped $5 million from the FY09 level. Fund 111 provides resources for operations in the unincorporated area of Collier County, which excludes municipalities. Cities have their own millage rates and non-city residents have the Unincorporated General Fund.

A Tax Neutral budget would increase the millage rate 16.8%, from .6912 mills to .8070 mills.

The following adjustments to the Fund 111 Tax Neutral funding level are recommended.

$53.0 million	Tax Neutral total appropriations
+ .4 million	Increase Code Enforcement to FY09 level
-1.2 million	Reduce Transportation (101) to Millage Neutral
- .1 million	Reduce Parks (operations or capital)
- .6 million	Reduce Contingencies to $.7 million, FY09 level
-1.9 million	Reduce Cash Flow to $1.4 million, FY09 level
- .2 million	Reduce Revenue Reserves to Millage Neutral level
-1.4 million	Reduction to carry forward due to loan reversal
$48.0 million	Millage Neutral total appropriations

- **Code Enforcement.**

Tax Neutral funding falls short of the FY09 level of service. In FY09, Code Enforcement assumed additional duties, without additional personnel or financial resources, to address foreclosure problems facing the county. These responsibilities provide substantial benefit to the community even though there is no financial reimbursement to the Code Enforcement department. The Committee felt these programs should be continued in FY10 at the FY09 level of service, which would require an increase in funding of $400 thousand.

- **Transportation.**

$1.2 million in additional costs were assigned to Fund 111 in FY10. It is recommended that these costs return to Fund 001.

- **Parks and Recreation.**

A $100 thousand reduction is recommended to either Park operations or capital.

- **Miscellaneous.**

Contingencies (-$600 thousand) and Cash Flow (-$1.9 million) are reduced to the FY09 level of funding. Revenue Reserves are reduced (-$200 thousand) to the Millage Neutral level.

- **Loan from Fund 111.**

$1.4 million was loaned from Fund 111 to Fund 131 in FY09. If another funding source replaced the Fund 111 loan, an additional $1.4 million would be available in Fund 111 carry forward in FY10, which could be used to achieve the Millage Neutral level and avoid a tax rate increase.

Unincorporated General Fund 111 Summary.

These changes would allow the Unincorporated General Fund (111) to retain the current (.6912) millage rate rather than increase to the Tax Neutral (.8070) millage rate.

Public Utilities.

Even though Public Utilities doesn't receive General Fund resources, we examined their FY10 budget because they had a 12% increase in utility rates in FY08, a 3.5% increase in FY09 and an approved increase of 3.5% for FY10. It should be noted that a 3.5% increase in user fees translates to $3 million. Continued cost containment practices and reductions in costs (though fewer new hires, reduced operating costs and reduced capital expenditures) could obviate the need for an increase in user fees in FY11 or FY12.

Public Utilities is the only county organization planning to hire personnel above their current level of operations. Public Utilities has 26 funded ($1.8 million), but currently unfilled, positions in addition to 21 unfunded positions that will not be filled. The current plan is to fill up to 19 of the 26 positions, representing a potential cost of $1.3 million. While some of these positions may be needed due to operational demand, it is hoped that the Division's cost containment procedures will keep personnel increases to a minimum resulting in substantial cost savings.

Considerable discussion was undertaken between Productivity Committee members and Public Utilities personnel regarding the characterization and adequacy of reserves within the various components of the Division. An analysis of the specifics is included at Attachment 5.

We found that initial concern over the high level of reserves in the water and wastewater funds could be explained by the need to retain sufficient reserves to qualify for the Fitch's AAA bond rating. We agreed that this is prudent. However, the budget narrative explains the increasing reserves as an effort to achieve a 20% reserve level to prepare for a potential catastrophe. Budget narrative should be revised to explain the actual reason for the high reserve level.

The Division is in a strong financial position, with substantial capacity to repay outstanding debt and well positioned to deal effectively with any near term operational uncertainties. It appears that, in the years between rate studies, Public Utilities can obtain rate adjustments (of 100% of change in

CPI or 2.7%, whichever is greater) with BCC approval, but without a formal rate study. The Committee recommends that no rate adjustment be approved without a rate study. In addition, given the very comfortable level of reserves, we would not expect additional requests for rate adjustments for the next several years.

Debt Service.

Given the prevailing interest rates in the current municipal bond credit markets, the County should evaluate several of its prior outstanding bond issues for potential refunding opportunities. Any realized savings would be credited to the appropriate transfer fund providing savings to the FY10 Budget. See the analysis of the Transportation and Public Utilities debt service at Attachment 6.

Tax Incidence for Homestead Properties with Save Our Homes Benefit

	FY09	FY10 Naples (-6%)	FY10 N Naples (-9%)	FY10 Marco (-12%)	FY10 E Naples (-13%)	FY10 G Gate (-20%)
Market Value	$400,000	$376,000	$364,000	$352,000	$348,000	$320,000
ıssessed Value w/SOH	$300,000	$300,000	$300,000	$300,000	$300,000	$300,000
Homestead Exemption	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000
Taxable Value	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000
Millage Rate	$3.1469	$3.6009	$3.6009	$3.6009	$3.6009	$3.6009
Tax	$787	$900	$900	$900	$900	$900
Increase over FY09		$113	$113	$113	$113	$113
If Taxable Value Is	$300,000	$300,000	$300,000	$300,000	$300,000	$300,000
Millage Rate	$3.1469	$3.6009	$3.6009	$3.6009	$3.6009	$3.6009
Increase Tax Is		$136	$136	$136	$136	$136
If Taxable Value Is	$400,000	$400,000	$400,000	$400,000	$400,000	$400,000
Millage Rate	$3.1469	$3.6009	$3.6009	$3.6009	$3.6009	$3.6009
Increase Tax Is		$182	$182	$182	$182	$182
If Taxable Value Is	$500,000	$500,000	$500,000	$500,000	$500,000	$500,000
Millage Rate	$3.1469	$3.6009	$3.6009	$3.6009	$3.6009	$3.6009
Increase Tax Is		$227	$227	$227	$227	$227
If Taxable Value Is	$600,000	$600,000	$600,000	$600,000	$600,000	$600,000
Millage Rate	$3.1469	$3.6009	$3.6009	$3.6009	$3.6009	$3.6009
Increase Tax Is		$272	$272	$272	$272	$272

Attachment 1

Tax Incidence for Properties without Homestead Exemption

	FY09	FY10 Naples (-6%)	FY10 N Naples (-9%)	FY10 Marco (-12%)	FY10 E Naples (-13%)	FY10 G Gate (-20%)
Market Value	$350,000	$329,000	$319,000	$308,000	$305,000	$280,000
Assessed Value	$350,000	$329,000	$319,000	$308,000	$305,000	$280,000
Taxable Value	$350,000	$329,000	$319,000	$308,000	$305,000	$280,000
Millage Rate	3.1469	3.6009	3.6009	3.6009	3.6009	3.6009
Tax	$1,101	$1,185	$1,149	$1,109	$1,098	$1,008
Incr/Decr over FY09		+ $84	+ $48	+ $8	- $3	- $93
If Taxable Value Is	$400,000	$376,000	$364,000	$352,000	$348,000	$320,000
Millage Rate	3.1469	3.6009	3.6009	3.6009	3.6009	3.6009
Tax	$1,259	$1,354	$1,311	$1,268	$1,253	$1,152
Incr/Decr over FY09		+ $95	+ $52	+ $9	- $6	- $107
If Taxable Value Is	$500,000	$470,000	$455,000	$440,000	$435,000	$400,000
Millage Rate	3.1469	3.6009	3.6009	3.6009	3.6009	3.6009
Tax	$1,573	$1,692	$1,638	$1,584	$1,566	$1,440
Incr/Decr over FY09		+ $119	+ $65	+ $11	- $7	- $133
If Taxable Value Is	$600,000	$564,000	$546,000	$528,000	$522,000	$480,000
Millage Rate	3.1469	3.6009	3.6009	3.6009	3.6009	3.6009
Tax	$1,888	$2,031	$1,966	$1,901	$1,880	$1,728
Incr/Decr over FY09		+ $143	+ $78	+ $13	- $8	- $160

Contingency Reserves Transportation Capital Program

Observation: Budgetary reserves in this program for FY2010 appear to be relatively high given the overall significant reductions in size and scope of this program in comparison to prior years.

Analysis: Expressed as a percentage of requested budget authority, contingency reserves have more than doubled from that which was allocated in the FY2009 adopted program as demonstrated by the following table:

	FY2009	FY2010
net operating budget	259,921,000	77,672,000
debt service & transfers	20,200,000	22,900,000
total budget authority	280,121,000	100,572,000
contingency reserves	11,843,000	9,021,000
as % of budget authority	4.2%	8.9%

Agency personnel identify the need to maintain this relatively high reserve level as attributable to several potential legal challenges and/or liquidated damage filings. In discussions with committee members, the County's defenses appear sound and the possibility of adverse findings remote. In any event, it would be most unlikely that all cases would be resolved during FY2010 with findings against the County.

Another separate, but consequent, result of the significant downsizing of the capital program is the percentage of general fund support going to the capital program. While absolute dollar support has been reduced by approximately 12%--from $36.6 million to $32.3 million, the percentage of general fund funding support for the program has risen from 12.5% in FY2009 to 29.4% in FY2010. Any reduction in contingency reserves would have a positive impact on the elevated reliance on general fund revenue currently proposed for FY2010.

Recommendation: Contingency Reserve requirements proposed for the FY2010 Transportation Capital Program should be re-examined in light of the significantly reduced size and scope of the program. A reduction to the 4% to 5% of budgetary authority utilized in FY2009 would seem reasonable and prudent and would lessen the program's heightened reliance on general fund revenue transfers.

Self-Insurance Internal Service Funds (County Government & Sheriff's Office)

Observation:

Unrestricted fund equity in these funds substantially exceeds amounts required to pay future self-insurance claims payable as well as statutory reserve requirements.

Analysis:

The Fiscal 2008 Comprehensive Annual Financial Report (CAFR) for Collier County identifies unrestricted fund equity in these two funds as $35,024,000; while current and future claims payable total $11,646,000. Projected claims payable or incurred but not reported claims (IBNRs) are a Government Accounting Standards Board required disclosure of outstanding future liabilities. The condition of high unrestricted fund equity relative to current and future claims payable has existed for some time, and the imbalance has increased in recent years. For the three most recent fiscal years, the results are as follows:

Fiscal Year	IBNRs & NPO	Unrestricted Equity	Multiple(x)
FY 2008	11,646,000	35,024,000	3.0x
FY 2007	12,290,000	23,663,000	1.9x
FY 2006	11,909,000	19,354,000	1.6x

Recommendation:

Retained earnings in this fund have consistently exceeded the payable projections for claims using the IBNR method. Unrestricted fund equity in excess of amounts required to meet actuarially determined claims payable as well as the surplus reserve requirements set out in Florida Statute 112.08 should credited and transferred to the County's general fund and other applicable funds.

Attachment 4

Adequacy of Reserve Levels
Public Utilities Division

Observation: Considerable discussion was undertaken between the Committee and the agency regarding the characterization and adequacy of reserves within the various components of the Public Utilities Division.

Analysis: The enterprise fund basis for operations and financial reporting and control make comparisons with more normative County functions difficult. Analysis of reserves discreet components, reserves for:

a. Debt service,
b. Water & sewer operations,
c. Solid waste management operations, and
d. Landfill closure.

The most recent round of water and sewer rate increases effective for FY2009 and FY2010 have had a very positive impact on the reserve positions for both debt service and w & s operations. Debt Service appropriations for FY2010 total $22 mil. Beyond the appropriation, the Capital & Debt Service account records a total of $46.6 million in combined reserves or a debt service coverage multiple of 3.1x.

This represents a positive and substantial coverage position, far above the 1.25x coverage required in the County's bond covenants, but one looked for by the credit rating agencies in a highly rated credit such as the County's Water & Sewer Revenue Bonds. With regard to w & s operating reserves, the Division's stated policy is to maintain a 20% operational reserve, or essentially a 75 day operating reserve. With a projected net operating budget for FY2010 of $58.3 million and operational and contingency reserves totaling $14.5 million, the agency has a total reserve position of 25% of net operating budget or essentially a 90 day operating reserve. This represents a sound and substantial reserve capacity.

The net operating budget for solid waste management for FY2010 totals $26.9 million. With combined operational and contingency reserves of $7.4 million, the agency has a total reserve position of 27.5% of net operating budget, essentially a 100 day operating reserve. This again is a substantial reserve position, 2.5% higher than called for by agency policy. With regard to landfill closure reserves, the division has been both innovative and proactive in its efforts to mitigate future closure costs. These efforts have afforded the County the opportunity to utilize previously reserved funds (on a loan/interest cost basis) for the purchase of additional office space thus reducing leased space rental costs.

Recommendation: The most recent round of water and sewer rate increases has placed the enterprise operations of the Division in a strong financial position. With substantial capacity to repay outstanding debt and well positioned to deal effectively with any near term operational uncertainties, the Committee would not expect additional requests for rate adjustments for the next several years.

Debt Service
(Transportation & Public Utilities)

Observation: Given prevailing interest rates in the current municipal bond credit markets, the County may wish to evaluate several of its prior outstanding bond issues for potential refunding opportunities.

Analysis: A review of the County's FY2008 Comprehensive Annual Financial Report (CAFR) Note 6--Long-Term Obligations identifies several prior debt issues that may be candidates for a refunding opportunity.

Transportation issues for consideration include the 2003 and 2005 Gas Tax Revenue Bond issues of $102 million and $96 million, respectively. Public Utilities issues to be considered include the 1999 and 2003 Water and Sewer Refunding Revenue Bond issues of $22.8 million and $33.6 million, respectively.

Historically, the County has undertaken debt issue refunding when a net present value (NPV) savings of 5% was deemed obtainable. Giving consideration to the current severely constrained fiscal environment, the County may wish to consider a lower savings threshold, perhaps a NPV savings of 3%.

To the extent debt service savings may be affected, from any of the above issues or others not herein enumerated, the respective revenue generating transfer funds should be credited with realized savings.

Recommendation: The County's Finance Committee in conjunction with its Financial Advisor should undertake an analysis of the several outstanding bond issues discussed above to determine if material present value savings may be realized. To the extent feasible, any savings realized should be credited to the appropriate revenue generating transfer fund and utilized in the final formulation of the FY2010 budget.

Update Reference: The Finance Committee held a meeting on June 12, 2009 to evaluate possibly refunding the 1999 Water and Sewer Refunding Revenue Bond Issue.

Attachment 6