White Paper
Financial Sustainability of Nassau County

Introduction

Nassau County is a wonderful place, but it faces serious financial challenges that could threaten the prosperity of our county for generations to come. While this has been corroborated by other third-party credentialed sources in the past, recently a highly respected financial consulting firm, Burton & Associates, presented the findings of a comprehensive audit of the county's finances to the county commission. The audit painted an undeniable picture of a looming fiscal crisis that could lead to the insolvency of the county, downgrades of the county's bond rating and the inability of the county to meet its financial obligations.

If left unaddressed, this crisis will impact every county resident and property owner and will inhibit the county's ability to pursue economic development opportunities that are vital to restoring the economic sustainability of our community. County services will be severely restricted, our ability to adequately fund our A-rated schools will be challenged and our governing decisions could ultimately be dictated by the state.

Background

The current financial state of Nassau County was principally caused by the nationwide Great Recession between 2008 and 2013. County real estate values declined from roughly $8 billion to $6 billion, which resulted in an annual decrease in ad valorem tax receipts of approximately $13 million.

As a largely residential county, the effects of the downturn were made worse by the county's heavy dependence upon residential property taxes to fund government services and maintain roads, buildings, parks, vehicles, etc. It's important to keep in mind that, at most price points, residential development consumes more in government services than it returns in tax base. Residential growth – and we've experienced a lot of it in recent decades – is what clogs our roads and schools, and consumes government services. Other types of land uses – industrial, office and commercial – is just the opposite, providing far more in taxes than it consumes in government services.

As such, Nassau County's budget problems brought on by the Great Recession were compounded by the Save our Homes Amendment in the Florida Constitution, which was approved by Florida voters in 1992 and put into effect in 1995. This amendment essentially allows market forces to drive down real estate values, like what happened during the Great Recession, but places an annual cap on increasing those valuations at 3 percent or the consumer price index (CPI) – whichever is lower. Last year, homesteaded residential property increases were capped at 0.8 percent and this year, these properties are capped at 0.7 percent.

Since the economic downturn, the county has tried to get back on its feet financially, playing catch up until values and taxes reach the level that they were at before the downturn. The county commission's strategy, designed to soften the blow on existing taxpayers, has focused on reducing expenses, including the elimination of 67 positions and resisting millage increases or a gas tax, to make up the shortfall in tax receipts, while they've worked to better position the county to attract private capital investment in non-residential land uses and grow high-wage jobs. The commission has done everything in its power, but given the depth and length of the downturn, they also had to severely cut into reserves, which are set aside to meet any unexpected costs that may arise in the future as well as the future costs of upkeep, to balance its budgets and raise the millage rate by one mill in 2014, which the county had held off on doing for six years.

However, these strategies have only bought the county time, as real, strategic problems still lie ahead with the impending fiscal crisis the county is facing.

In fact, Fitch Ratings, Purvis Gray & Company, LLP and Burton and Associates – all third-party, credentialed sources – have warned about the route the county is now going down, advising against deferring funding for maintaining infrastructure and cautioning against using undesignated reserves to balance the budget.

Current Financial Status of Nassau County

The Nassau County Office of Management & Budget (OMB) is responsible for developing and implementing sound fiscal practices to effectively allocate and use scarce resources to meet the operating and capital needs of today while anticipating the implications on future fiscal periods. OMB provided the charts enclosed in this packet, which graphically show what happened to the county's tax base between 2008 and 2013 and then, correspondingly, what happened to the capital reserves over that same timeframe.

With just a brief glance at the charts, it is easy to see that the county was hit hard by the economic downturn, causing property values to drop along with ad valorem taxes, which are a major source of revenue for the county. To deal with this, the county raised the millage rate in Fiscal Year 2014-15; however, capital reserves are still being used to fill the shortfall.

In regard to Fiscal Year 2015-16 budget, the charts show the following:

- There was a shortfall of approximately $8 million, as more cash was expended than revenue coming in;
- To compensate for the shortfall, the county used approximately 70 percent of the one-cent sales tax fund, which is supposed to go toward road and infrastructure projects; and,
- The county also used some of the undesignated reserves to compensate for the shortfall, leaving a near-zero balance.

While the county commission has set aside reserves equal to two months of operating expenses for cash flow purposes as well as for emergencies, such as a hurricane, there are virtually no reserves for other contingencies including, but not limited to, the road-paving plan, landfill costs and unexpected state mandates.

Additionally, in regard to capital assets, the charts show the following:

- Non-land capital assets, such as buildings, machinery and equipment, and infrastructure, including roads, bridges, drainage and sidewalks, are depreciating over time; and,
- That budget shortfalls have caused the county to delay needed capital projects that would otherwise adequately maintain infrastructure and capital assets.

Nassau County has over 800 miles of roads, more than half of which are not paved. Maintaining dirt roads is very expensive. The county also has dozens of buildings and parks as well as many dozens of vehicles and other equipment that need to be maintained. Without continuous and smart investments in capital projects, the county's assets will deteriorate over time and costs will increase. If the county continues as is and doesn't reinvest in its capital assets, it will take a long time and a significant amount of funds for the county to address the imbalance.

Comparison of Nassau County to Other Counties & State
Robert Charles Lesser & Co. (RCLCO), who presented the update on the fiscal sustainability of Nassau County at the 'Citizens for a Better Nassau County' public meeting, provided the enclosed slides that demonstrate the fiscal sustainability of the county, comparing the county to others throughout the state and to the state as a whole.

To highlight, the analysis shows the following:

- Nassau County's tax base is much more dependent on its residential tax base than surrounding counties, counties of a similar size throughout the state and to Florida as a whole;
- Anemic growth in industrial and commercial land use development has created a much greater reliance on residential property taxes to fund the county government;
- A lack of higher value industrial and commercial development contributed to the recent 1-mill property tax increase; and,
- Industrial development contributes a net fiscal benefit to the county thirty times greater than the average single-family house.

In regard to the anemic growth in industrial and commercial development in the county, there has not been any office development since 2013, little development occurring in 2014 and 2015, and no new industrial development since 2009 – six years without any new industrial development in the county.

As a result of RCLCO's fiscal impact analysis of land uses in Nassau County, the following is important to note:

- The average home generates only $2,500 in net fiscal benefit to the county over 20 years; whereas,
- Retail generates 21 times the average home's benefit and industrial generates 30 times the average home's benefit.

Likewise, taking the same net fiscal impacts on a larger basis – 1,000,000 square feet of industrial, 200,000 square feet of retail and 500 homes at the county average price of $205,000 – shows the following:

- Industrial development leading the way with a $37 million benefit over 20 years;
- A retail development generates a benefit of $5.2 million; while
- Residential developments will only generate a benefit of $175,000 over the next 20 years.

Therefore, RCLCO concluded that the <u>**diversification in the county's tax base is key to long-term sustainability. Industrial and other commercial land uses can provide a large benefit for Nassau County in terms of return on dollars spent.**</u>

Solution

We all want Nassau County to be the best version of itself, so that our children, our children's children and even the future generations that choose to call Nassau County home can come to love it just as much as we do.

This is exactly why 'Citizens for a Better Nassau County' truly believes that instituting change that is in the best interest of the county starts with an open and honest dialogue on its fiscal climate, considering not just where it is now, but where the county will be two to three years from now.

Just looking at the facts and figures available to us – whether they are from the county, or a well-respected, third-party rating or audit agency – we can see that the county cannot continue as is. If it does, it will impact every county resident and property owner and will inhibit the county's ability to pursue economic development opportunities that are vital to restoring the economic sustainability of our community. County services will be severely restricted, our ability to adequately fund our A-rated schools will be challenged and our governing decisions could ultimately be dictated by the state.

Having a transparent and well-intentioned conversation is important to this, as we believe that being educated on these critical local issues is paramount to achieving a better and more prosperous county for all. However, it is vital that we engage in a dialogue that is genuine and contributes to the greater good, rather than resorting to baseless personal attacks in an attempt to alter public perception.

This effort is not for us. It is for everyone in the community. It is for those who don't want to see the quality of our A-rated schools decline. It is for those who want to stop being just a bedroom-community for Jacksonville by bringing high-quality, high-wage jobs to the area. It is for those who don't want to see their residential property taxes increase and their property values decrease. And, it is for those who ultimately do not want to see our governing decisions being dictated by the state.

If we don't start to set a new course – even if it's just something as simple as discussing the merits of the issue, rather than personal attacks – our county will not be fiscally able to sustain the high quality of life that brought many of us here and that we've all come to enjoy.

Therefore, 'Citizens for a Better Nassau County' supports the following guiding principles to restore economic sustainability to Nassau County:

- **Smart, economic growth, private capital investment and high-wage, high-quality job creation that benefits the county as a whole;**
- **A broader and more diverse tax base to decrease the county's dependence on residential property taxes to fund all government services;**
- **Accountable, sound decision making by our county's leaders; and**
- **Key investments in the county's infrastructure and school system to maintain and enhance the overall quality of life in Nassau County.**

How we change the course of this and move away from the status quo depends on our elected leaders, as it is them that we look to for solutions to problems like these. That's why this upcoming election is more important than ever.

While we will not be endorsing any candidates, one thing we cannot stress enough is how important it is to vote, no matter who you choose to cast your ballot for. Leadership matters. We will not create a more prosperous future for Nassau County until we truly understand the county's fiscal vulnerabilities and true financial condition. We will not be able to reduce the burden on existing residential taxpayers until we broaden and diversify the tax base and grow the number of non-residential taxpayers. This is not our opinion. It is simple math.

It is in this vein that we encourage you to stay tuned into what's going on locally and start making plans now so your voice will be heard in these local races that, based on the demographics of our county's registered voters, will largely be decided on Primary Election Day.