Fiscal Sustainability Analysis
Nassau County

Prepared for Citizens for a Better Nassau County| Yulee, FL | April 12, 2016

What did we do?

- Analyze the current tax structure of the Nassau County budget and other counties.
- Examine recent development patterns in the county.
- Utilize the fiscal impact analysis model to determine the net fiscal benefit generated for the county by various land uses.

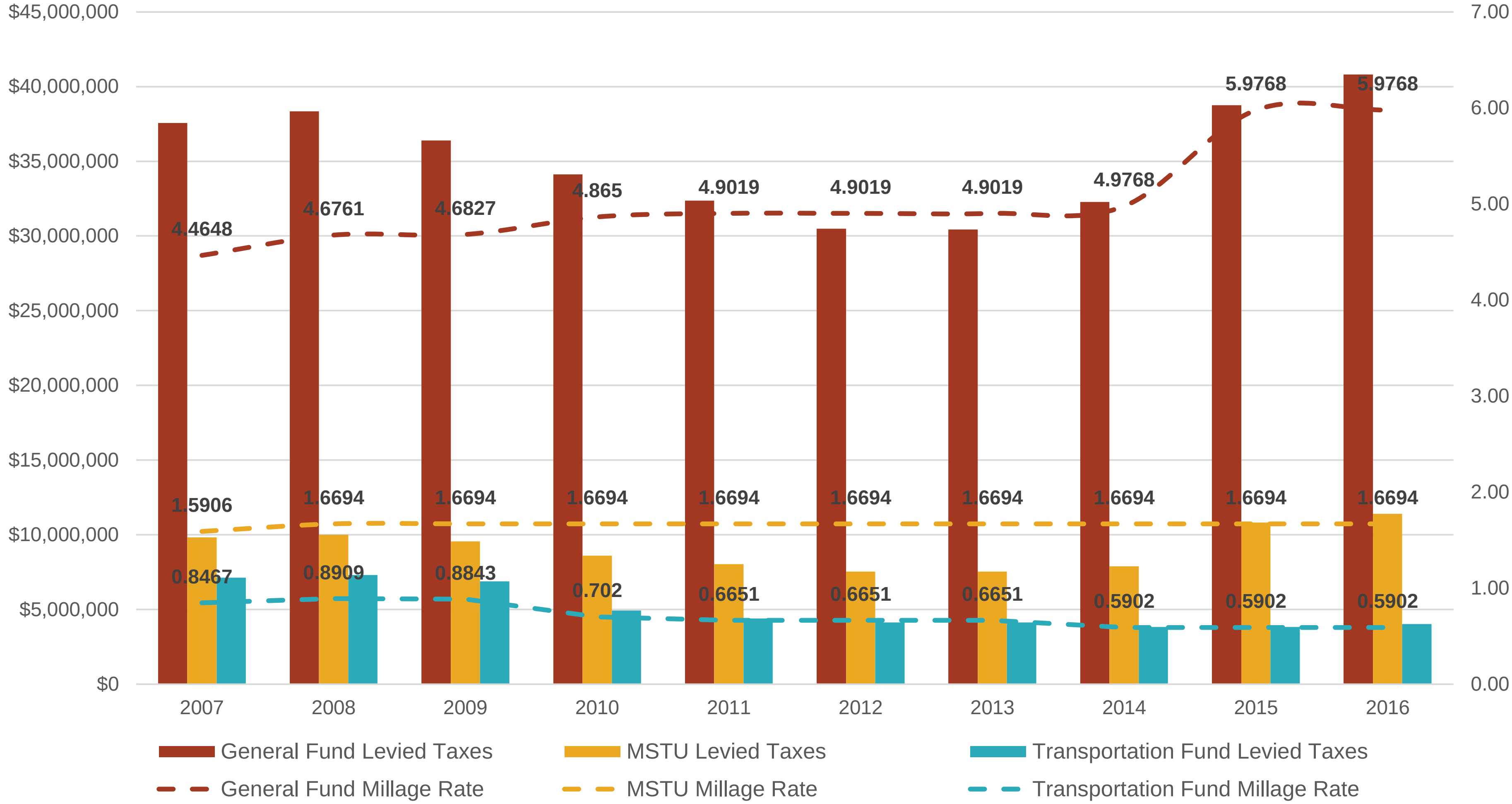
What did we learn?

- Nassau County's tax base is much more dependent on its residential tax base than surrounding counties, counties of a similar size, 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.
- Industrial development contributes a net fiscal benefit to the county 30X greater than the average single family house.

Nassau County Budget Data

Millage Rates and Levied Property Taxes

- Millage rates remained relatively constant until 2015 when a 1 mill increase was enacted which resulted in an increase of approximately $5 million to the general fund.
- A part of this can be attributed to the lack of growth in the commercial and industrial tax base as shown in later slides.



SOURCE: State of Florida County Municipal Data

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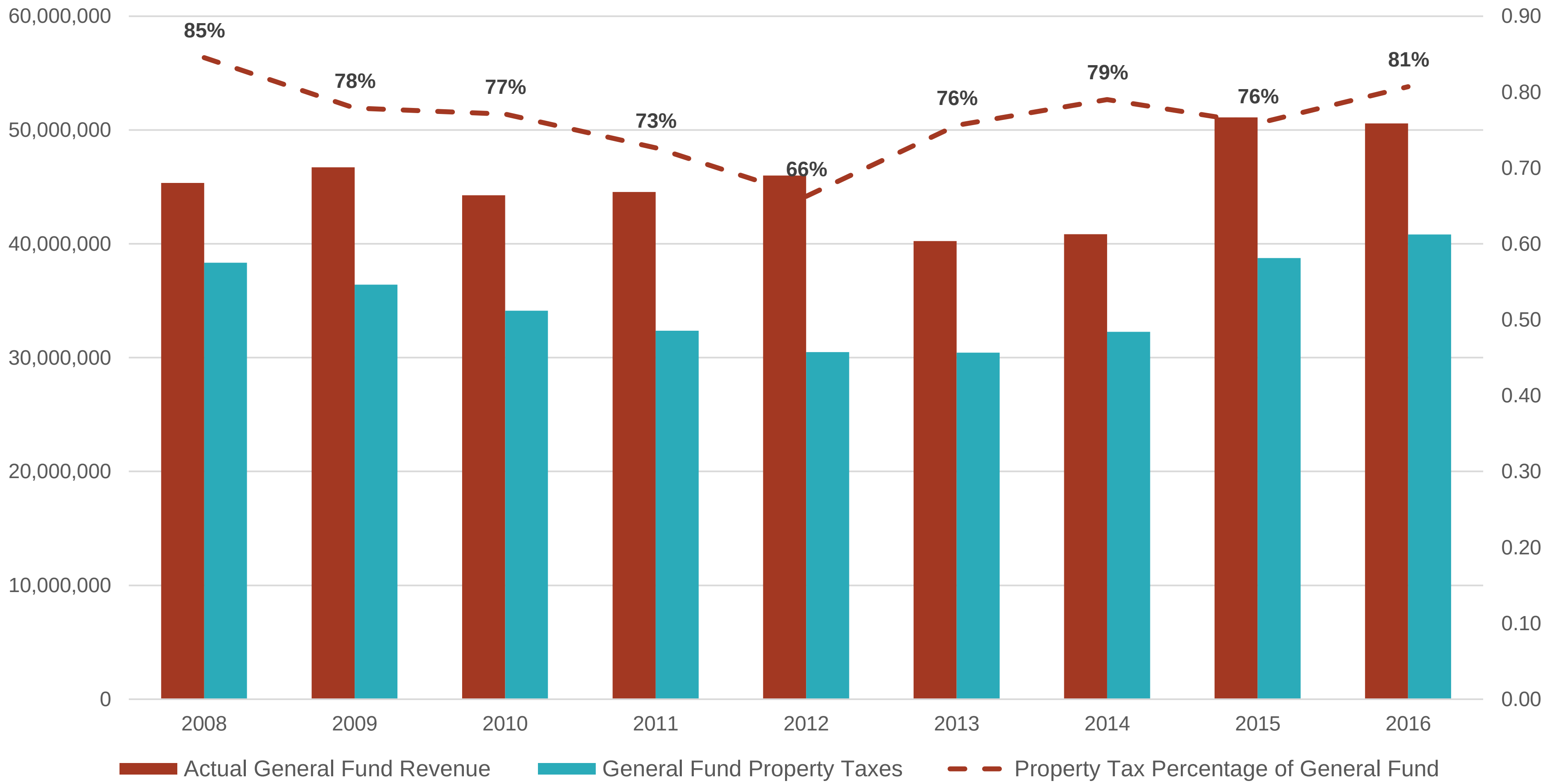
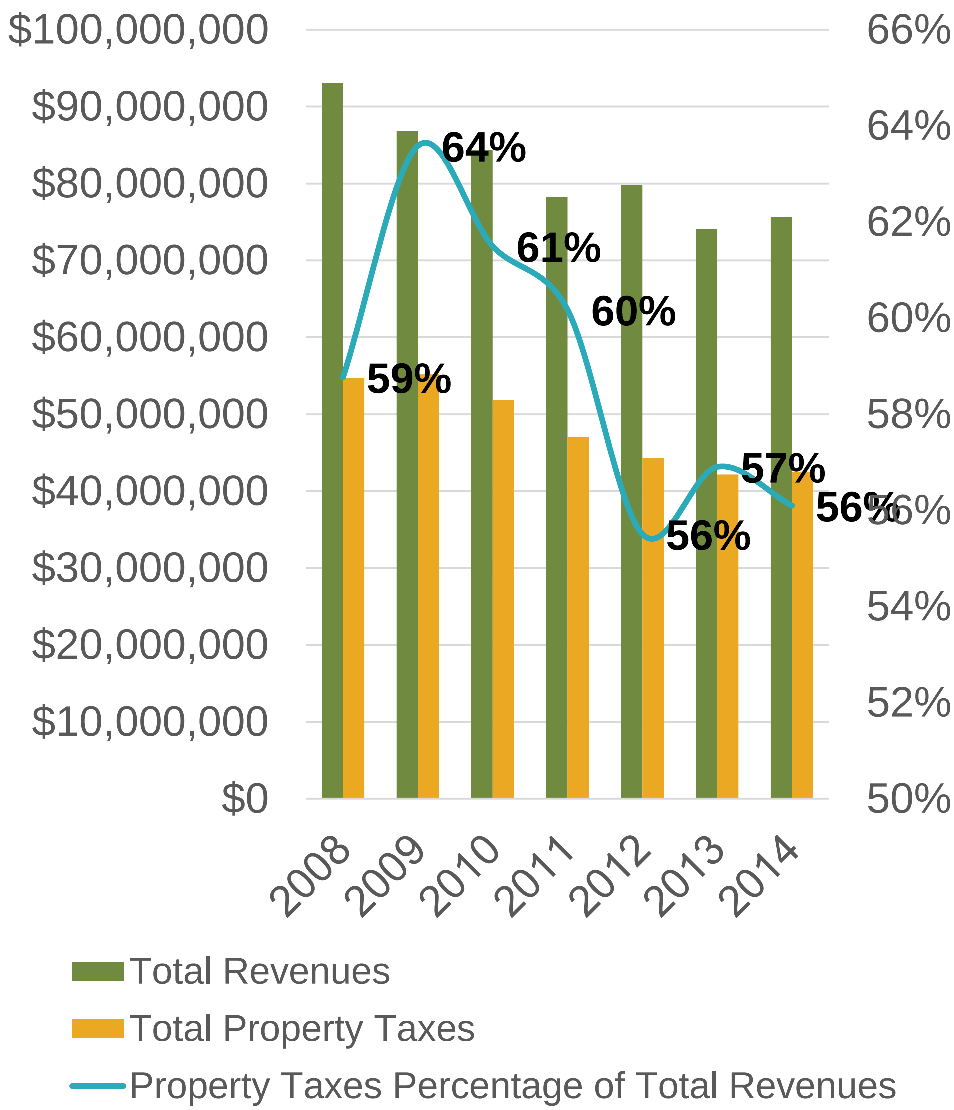
Actual General Fund Revenues and Millage Rates

- Property taxes currently make up 81% of total General Fund revenues. This increase was primarily due to the recent 1 mill rate increase.



Fiscal Year Ending 2016 is based on Estimate of Actual General Fund Revenues. Budgeted Revenue is $61,828,767, including $11,258,563 of cash forward.

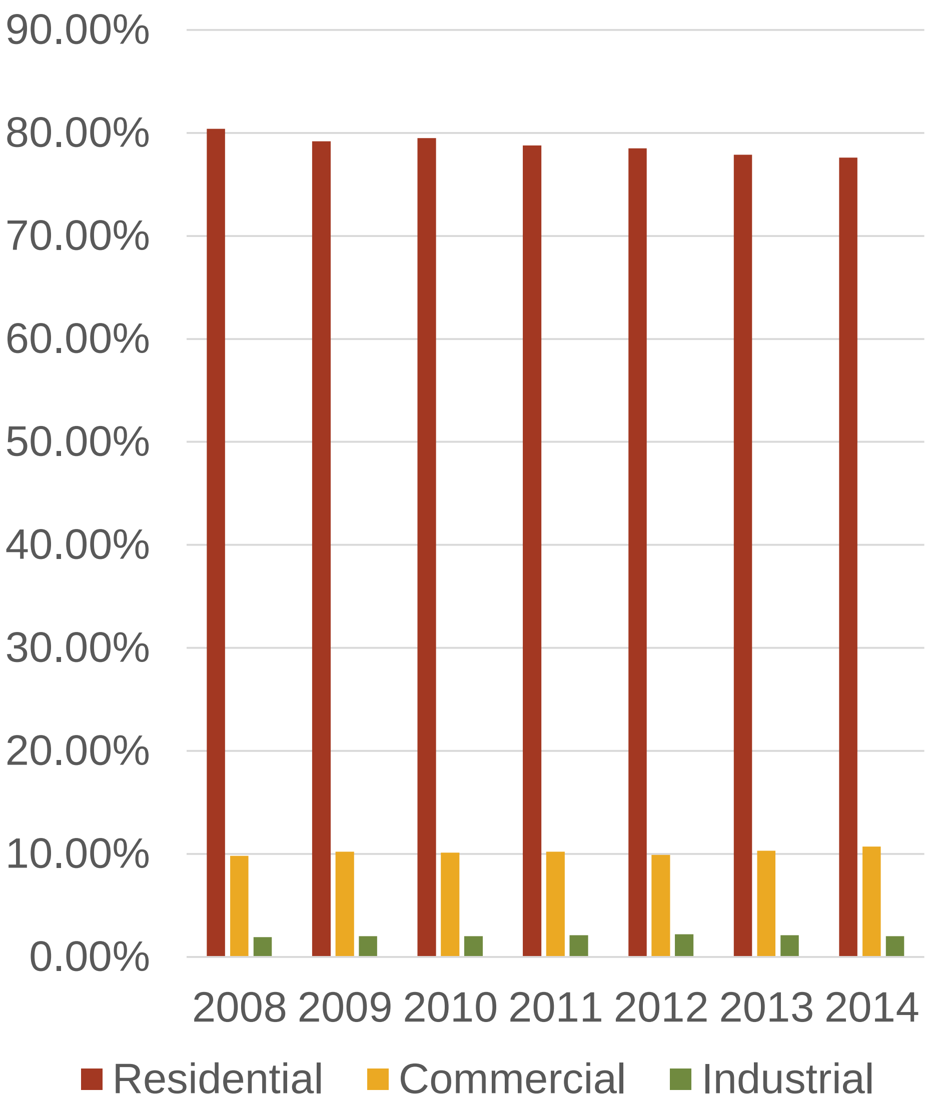
Property Tax Revenues as a Percentage of Governmental Fund Revenues



- Since its peak at 64% in 2009, property taxes as a percentage of total revenues for Nassau County has fallen to 56%.
- This reflects the downturn in the economy in addition to growing budget demands that must be fulfilled by other funding sources since property taxes alone cannot support as many of these functions as it did in the past.
- From 2008 to 2013, residential property tax collections fell by 26% while industrial property tax collections fell by only 12%.
- Even with the recent 1 mill rate increase property taxes remain an overall lower percentage of total budget revenues.

Major Governmental Funds are General Fund, Transportation Fund, MSTU, One Cent County Surtax Fund, and Capital Projects Funds

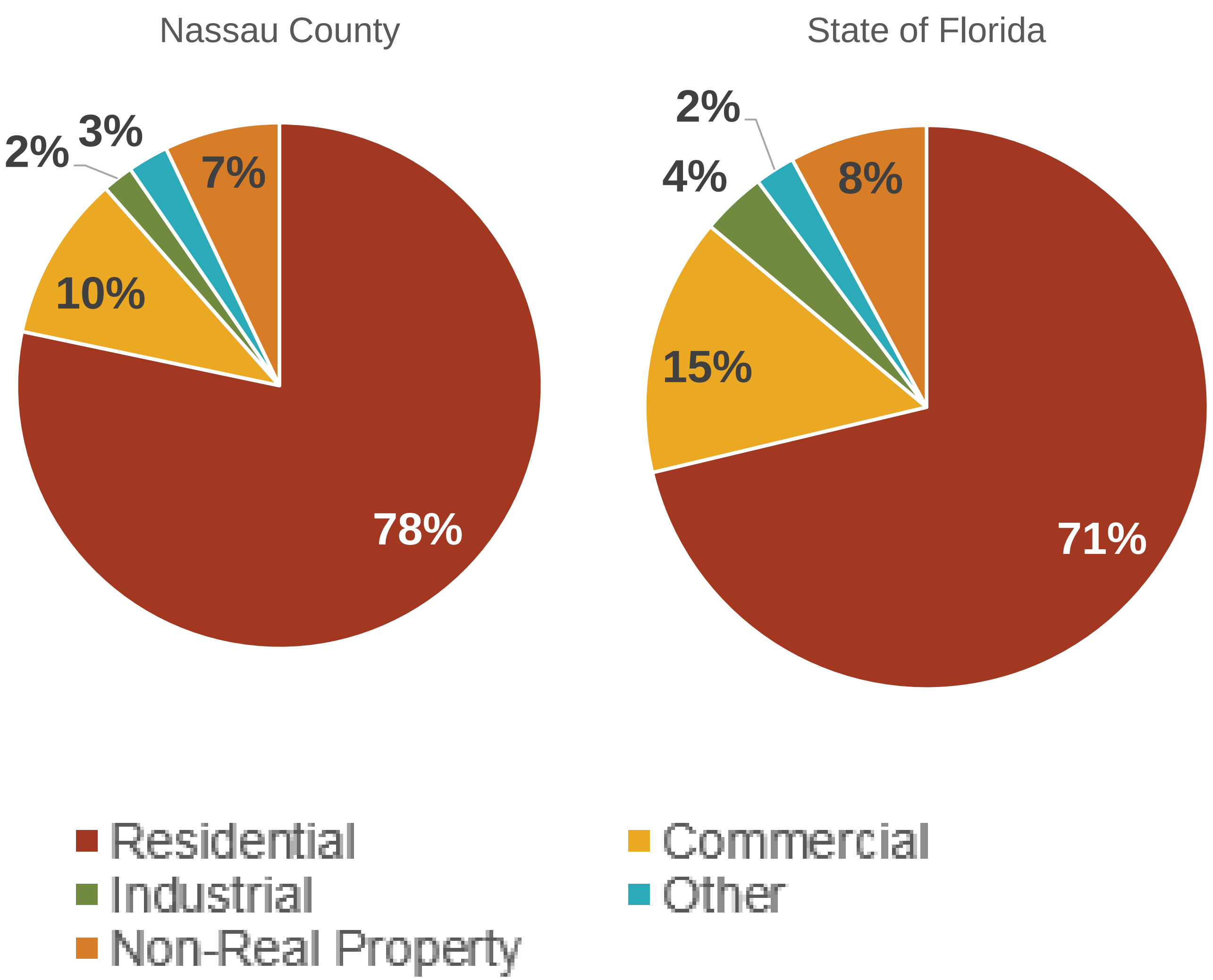
Nassau County Breakdown of Total Levied Property Taxes



SOURCE: State of Florida County Municipal Data

- The percentage of total taxes in Nassau County generated by residential uses has fallen slightly from 80% in 2008 to 78% in 2014.
- This has corresponded with a slight increase in the percentage of overall taxes coming from commercial and industrial land uses which comprise about 12% of total taxes.
- Residential property taxes make up a greater share of the total property taxes relative to surrounding counties, counties of a similar size, and Florida as a whole.
- Commercial and industrial property taxes make up a lower share of total property taxes than other counties surveyed and Florida as a whole.

Property Tax Breakdown Between Nassau County and State of Florida



- Nassau County has a higher percentage of property taxes generated from residential uses than the average county in Florida.
- 78% of all taxes are from residential uses in Nassau County vs. 71% across Florida.
- Nassau County also has a lower percentage of property taxes being generated from industrial and commercial land uses with only 12% coming from those uses compared to 19% statewide.

SOURCE: State of Florida County Municipal Data

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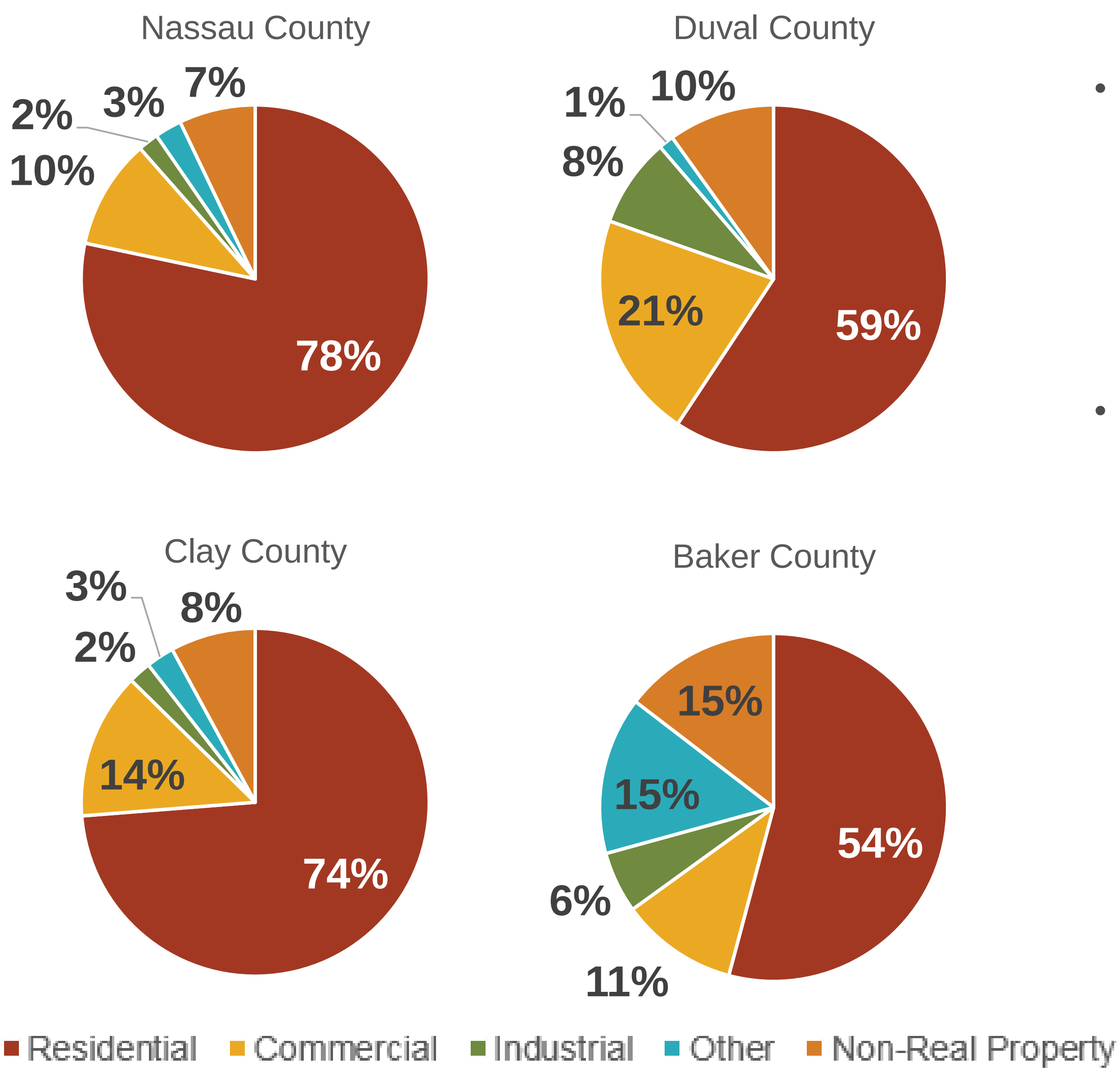
Property Tax Breakdown of Nassau County and Surrounding Counties



- Of the surrounding counties, Nassau has the highest percentage of property taxes accruing from residential lands at 78%.
- Nassau County also has the lowest percentage of taxes generated from industrial or commercial lands with a total of just 12% from those land uses. Duval, Clay and Baker counties have totals of 29%, 16% and 17%, respectively, for those categories.

SOURCE: State of Florida County Municipal Data

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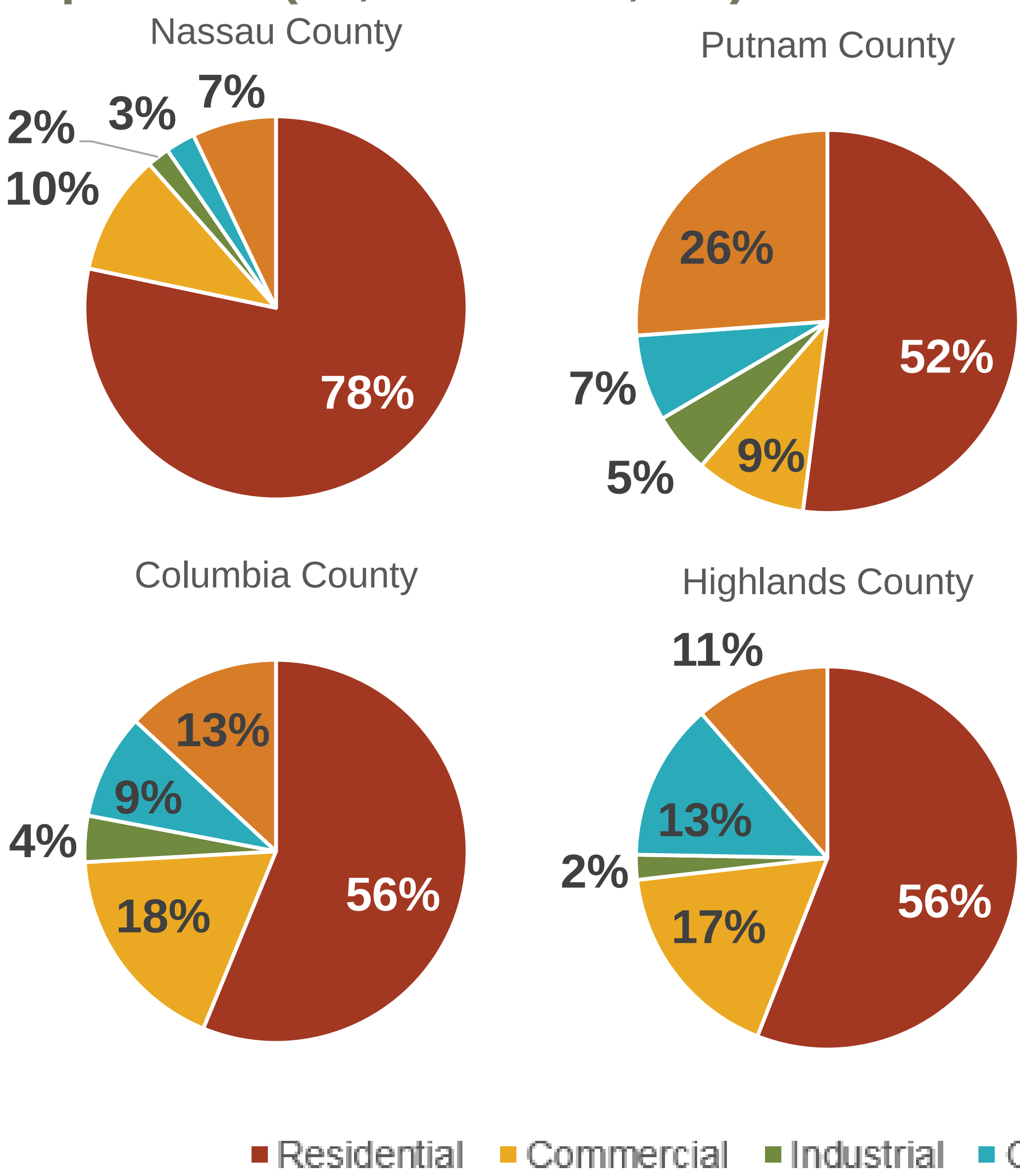
Property Tax Breakdown of Nassau County and Counties Similar by Population (65,000 to 100,000)



- Amongst counties of a similar population, Nassau County has a much higher percentage of their property taxes being generated by residential development at 78% compared with 52% to 56% in Putnam, Columbia and Highlands counties.

- Nassau County also has the lowest percentage of property taxes in this peer group being generated from industrial or commercial land uses with only 12% coming from these land uses.

- The other counties range from 14% to 22% of property taxes being generated from industrial and commercial land uses.

SOURCE: State of Florida County Municipal Data

Largest Taxpayers in Nassau County 2015

- Rocktenn's total assessed value of $148 million would equal approximately 805 average houses in Nassau County.

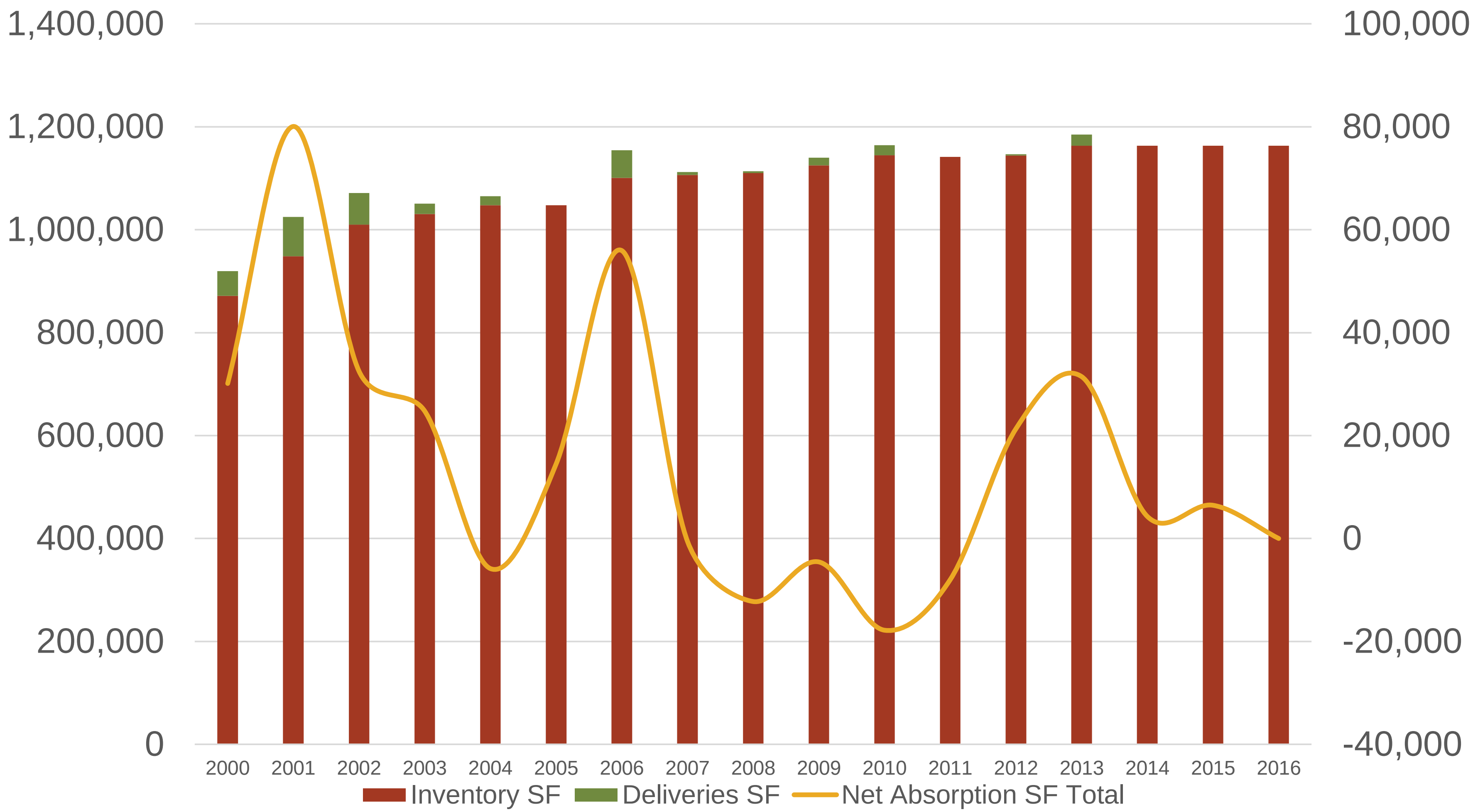
Rank	Taxpayer	Taxable Assessed Value
1	Rocktenn CP LLC	$147,702,879
2	Ameliatel	$105,690,921
3	Omni Amelia Island LLC	$91,034,357
4	Rayonier Performance Fibers	$66,403,627
5	Florida Power and Light Company	$42,774,216
6	Florida Public Utilities Company	$30,070,568
7	Rayonier Atlantic Timber Co	$28,560,706
8	AGI Acquisitions LLC	$27,761,109
9	Okefenokee Rural Electric	$20,565,395
10	Omni Hotels Management Corp	$17,998,693
	TOTAL:	**$578,562,471**

SOURCE: State of Florida County Municipal Data

Market Statistics

Nassau County Office Development Trends

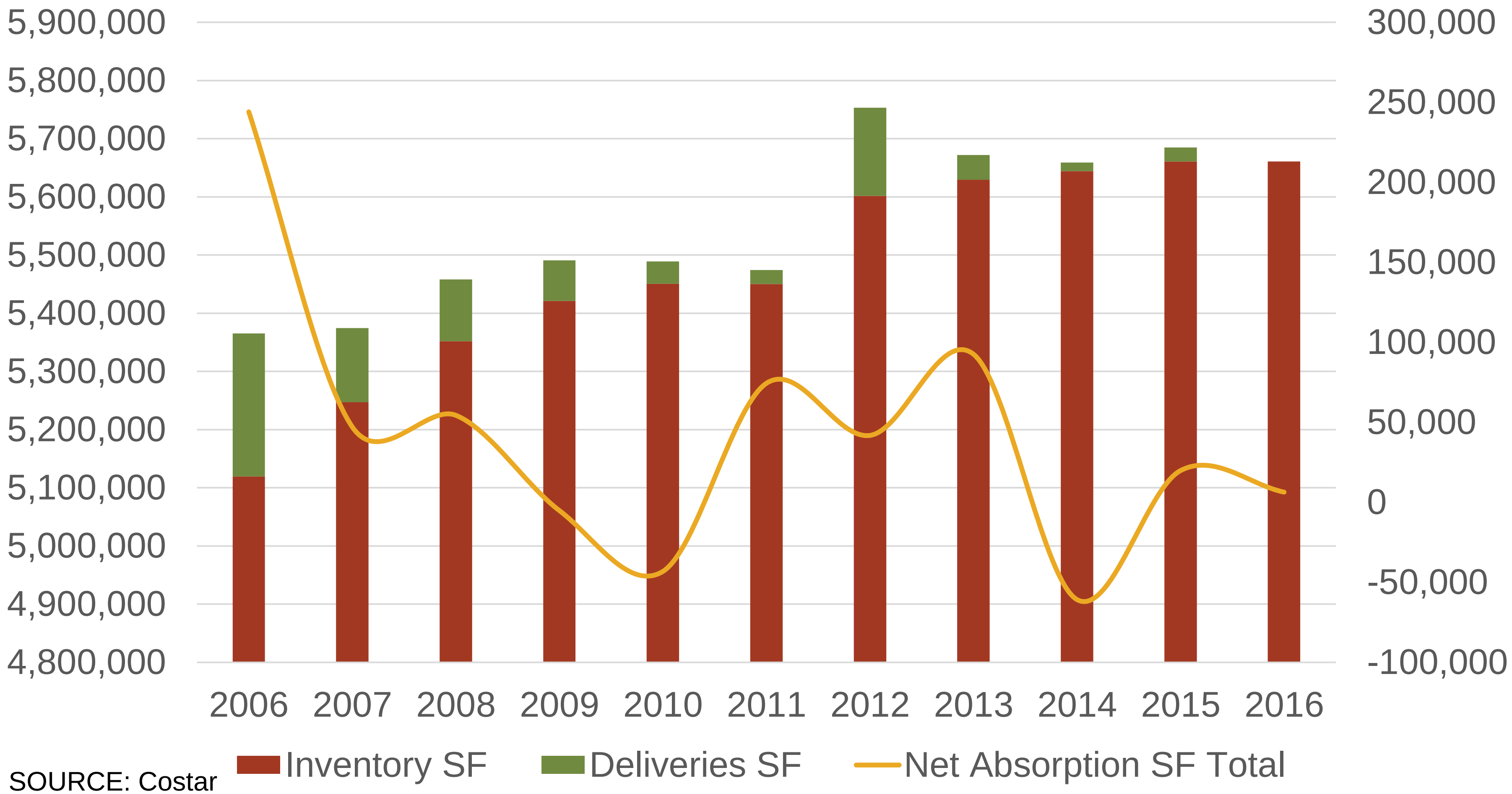
- Since 2013, there have been no new office building deliveries in Nassau County.



SOURCE: Costar

Nassau County Retail Development Trends

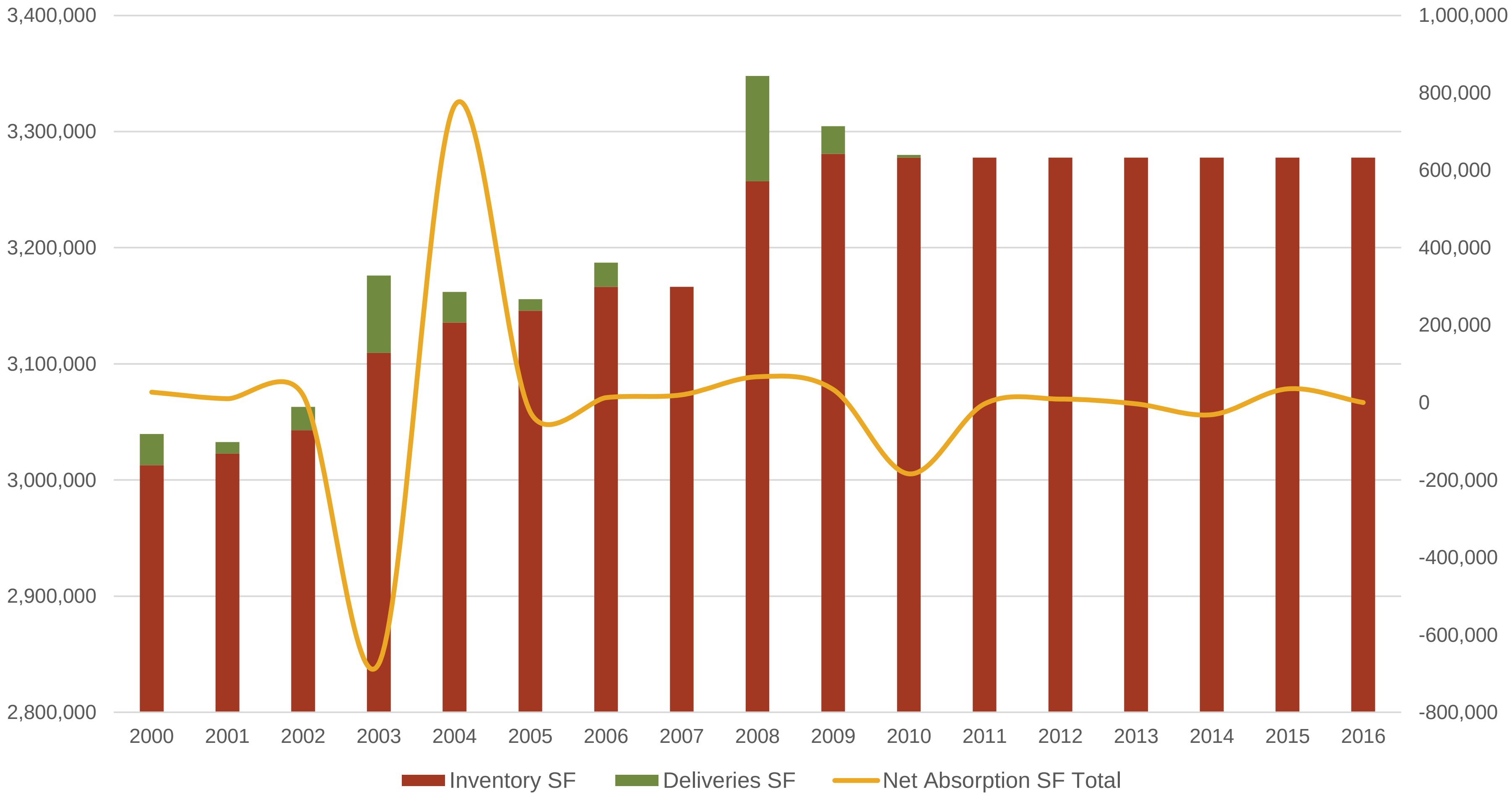
- Retail deliveries have slowed in recent years with very little development occurring in 2014 and 2015.
- Absorption was actually -50,000 in 2014 meaning 50,000 sq. ft. of retail space was lost in the market.



SOURCE: Costar

Nassau County Industrial Development Trends

- No new industrial development has occurred in Nassau County since 2009 – 6 years without any new industrial in the county.
- In 2010, 200,000 sq. ft. of industrial uses left the county; since then absorption has been around zero meaning no new deliveries and no exits from the marketplace.



SOURCE: Costar

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Fiscal Impact Analysis

What is Fiscal Impact Analysis?

- Fiscal impact analysis determines a land use's net benefit contribution to a local government.
- For instance, every land use (residential, retail, office, industrial, etc.) creates revenue for a local government in the form of property taxes, sales taxes, charges for service, etc.
- In addition, every land use creates expenses for local governments in the form of charges for police, fire, roads, general government, parks, etc.
- **Net fiscal Benefit = Revenues – Expenses**
- RCLCO has developed a fiscal impact analysis model for Nassau County.
- The model is configured with local tax data, current budget, local demographics, etc. in order to customize the model just for Nassau County since every county/city is different.
- The model is a useful tool for examining the potential impact of future land use decisions on the county's budget and is often used during comprehensive plan amendment hearings and other development approval actions being considered around the state by locally elected bodies of government such as a County/City Commission.
- The following slides show the impact of various land use scenarios on Nassau County's budget.

Net Fiscal Impact of Land Uses in Nassau County

- County average home generates only $2,500 in net fiscal benefit to the county over 20 years.
- Retail generates 21X the average home's benefit and industrial generates 30X the average home's benefit.
- Sizes have been based off an equivalent sized home of 2,000 sq. ft.

Land Use	Qty (ERU)	Unit	Value/Unit	20 Year Benefit	X Greater than Ave. SF
SF - County Ave.	1	du	$205,000	$2,500	-
Retail	2,000	sf	$150	$52,000	21
Office	2,000	sf	$130	$30,000	12
Industrial	**2,000**	**sf**	**$175**	**$75,000**	**30**

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Fiscal Sustainability Analysis

- Examing the net fiscal impact on a larger basis shows industrial development leading the way with a $37 million benefit over 20 years.
- Residential developments consisting of 500 houses at the county average price of $205,000 will generate a benefit of $175,000 over the next 20 years.
- A retail development of 200,000 sq. ft. generates a benefit of $5.2 million.
- **Conclusion: Diversification in the tax base is key to long-term sustainability for the county. Industrial and other Commercial land uses can provide a large benefit for the county in terms of return on dollars spent.**

Land Use	Qty (ERU)	Unit	Value/Unit	20 Year Impact
Single Family House	500	du	$205,000	$175,000

Land Use	Qty	Unit	Value/Unit	20 Year Impact
Industrial	1,000,000	sf	$175	$37,000,000

Land Use	Qty	Unit	Value/Unit	20 Year Impact
Retail	200,000	sf	$150	$5,200,000

Critical Assumptions

Critical Assumptions

Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

We assume that the economy and real estate markets will grow at a stable and moderate rate to 2020 and beyond. However, stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when an economic and real estate upturn will end.

With the above in mind, we assume that the long term average absorption rates and price changes will be as projected, realizing that most of the time performance will be either above or below said average rates.

Our analysis does not consider the potential impact of future economic shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, the project and investment economics should be "stress tested" to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause failure.

In addition, we assume that the following will occur in accordance with current expectations:

- Economic, employment, and household growth.
- Other forecasts of trends and demographic and economic patterns, including consumer confidence levels.
- The cost of development and construction.
- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth).
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers.
- Competitive projects will be developed as planned (active and future) and that a reasonable stream of supply offerings will satisfy real estate demand.
- Major public works projects occur and are completed as planned.

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

General Limiting Conditions

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

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