

Improving Accountability and Transparency in Escambia County Government Phase II

Executive Summary

All Florida governments are experiencing the challenges of a tough economy and the fiscal belt tightening necessary to keep necessary core services. Escambia County is no exception. Under committed leadership – both public and private – Escambia County has ample opportunity to find significant cost efficiencies that will ensure sound fiscal stewardship of taxpayer dollars while fostering the health and economic vitality of the community. The following Florida TaxWatch Center for Local Government Studies report includes a review of Escambia County's progress based on recommendations made in a previous Florida TaxWatch report¹ and offers additional recommendations for the improvement of budgeting practices and taxpayer value and accountability in the County. An overview of the new recommendations is provided in this Executive Summary.

Current Observations and Recommendations

Spending Trends and Comparables for the Constitutional Officers: The Escambia County Sheriff's Office

- Florida TaxWatch finds that Escambia County taxpayers pay more per resident served than in comparable peer counties. More than half of all county employees and county General Fund expenditures are dedicated to public safety.
- Florida TaxWatch identifies potential cost reductions for the Escambia County Sheriff's Office between \$12.3 and \$27.3 million in comparison with the peer counties.

Local Option Sales Tax (LOST)

- Florida TaxWatch cautions Escambia County against the practice of using nonrecurring funds to fund recurring expenses. Florida TaxWatch finds that several million dollars per year were expended on vehicles, equipment, and certain operating expenses; though the

¹ Florida TaxWatch, *Improving Transparency and Accountability in Escambia County Government*, June 2008, accessed on July 22 at www.floridataxwatch.org/resources/pdf/06202008EscambiaCounty.pdf.

legality of such usage is not examined, the County's use of LOST funds for these and other uses raises concern from a public policy standpoint.

- The expenditure and loan of all LOST funds may not have been adequately described nor explicitly shared with Escambia taxpayers. Florida TaxWatch recommends that this information be offered in more detail in order to avoid misleading the public or further eroding public trust.
- The development of a Citizen Advisory Board is recommended to advise the Board of County Commissioners on issues related to the promotion of proper and effective use of LOST funds.

Salary and Benefits Expense

- The Escambia County Board of County Commissioners approved a 5 percent raise for all employee positions and implemented retroactive payments for past service, not recommended in a Board-commissioned and approved compensation study. Additionally, Florida TaxWatch examines and questions the County's practice of offering costly incentive payments through a program intended to encourage the early retirement of employees as a cost-saving measure.
- To achieve a quality workforce and the best value for Escambia taxpayers, Florida TaxWatch recommends that the Board develop a more strategic and publicly accountable approach to managing salary and benefits costs.

Leveraging Organizational Strengths and Purchasing Power and Eliminating Duplication of Effort

- There is potential for significant cost savings through increased collaboration between Escambia County and other local government entities and combining organizational strengths. Florida TaxWatch recommends that the County develop a strategic approach to achieve these savings.

Facilities Management

- The County could achieve a potential cost savings of \$1.8 million to \$5.35 million per year with the implementation and usage of a better benchmark for facility space usage and utilization.

Pensacola Civic Center

- The Pensacola Civic Center has lost money each year of operation since FY 2004 at a cost of nearly \$10 million to the taxpayers of Escambia County. The operating deficit (i.e., the amount of annual operating expenses exceeding revenues and therefore supplemented by the taxpayers) has been between 26 and 41 percent for each of the last five years.

- The formation of a Citizens Advisory Board for the Civic Center would provide proper oversight and encourage additional ways to reduce the level of public funding necessary to support ongoing operations. The lack of a meaningful financial incentive built into the facilities management contract should also be analyzed.

Ambulance Service

- Florida TaxWatch has identified potential cost savings through exploration of outsourcing the County ambulance operations or through the possible merger of ambulance and fire services.

Establishment of a Countywide Internal Performance Audit Function

- As in its first report, Florida TaxWatch recommends that the County create an independent audit function to assist County management in finding ways to reduce costs and foster greater public trust. Currently, the separate Constitutional Officers are not subject to audit by the Clerk.
- To further identify cost savings and inefficiency, the establishment of a “hotline” where reports of fraud, waste, and abuse can be shared is recommended.

Reducing the County’s Social Security Tax Costs

- Florida TaxWatch recommends that the County consider all potential cost saving opportunities to reduce county expenditures and the corresponding tax burden on the taxpayers, including offering a 401(a) FICA Alternative Plan.

Enhancing the County Employee Recognition and Reward Program

- While the County currently has a broad-based program to recognize exemplary government employees, Florida TaxWatch recommends the program enlist a more targeted focus that fosters a culture of cost savings.

Other Cost Saving Ideas for the County to Consider

- Florida TaxWatch also recommends that the County sell or lease unnecessary or underutilized County assets, renegotiate contracts, and reevaluate equipment and technology expenditures.

Introduction

The state of Florida is experiencing an unprecedented fiscal and economic crisis that requires creative solutions and bold leadership from elected officials and community leaders. All levels of Florida's government and businesses must do more with less to combat the effects of the recession. This is especially true for local governments in our home towns, where taxpayers most directly feel the impact of good fiscal stewardship and opportunity—or the threat of unsustainable spending and unresponsive government. At the same time, as the economy lags, citizens and the governments that serve them must embrace every opportunity to expand and diversify their economies, ensuring the fiscal health and vitality of their communities. Escambia County is no exception.

Good fiscal stewardship is the joint responsibility of the citizens and their local officials: Government must be held accountable by the people who have entrusted them with their hard-earned tax dollars. To ensure the implementation of significant initiatives, citizens must engage with local government, ultimately requiring responsiveness through proper planning, accountability, and continual momentum, guided by individuals willing to champion the effort. Again, Escambia County is no exception and is well positioned to leverage the talent and drive of both citizens and public servants while embracing the untapped economic development opportunity of a county unique in many ways, particularly geographically as a significant gateway to the State of Florida and the Gulf of Mexico.

In 2007, Florida TaxWatch was invited by a group of concerned citizens, and welcomed by county government officials, to review the budgeting, taxing, and spending history of Escambia County. The County's taxpayers expressed concern with a notable increase in revenue collection without a corresponding reduction in millage rate (rate of property taxation);² therefore, the TaxWatch study was requested to provide recommendations for improving the efficiency, transparency, and accountability of their government. Florida TaxWatch published the results in a report issued in June 2008, entitled *Improving Transparency and Accountability in Escambia County Government*.³ The 2008 report provided recommendations to reduce the County's operating budget and, therefore, the millage rate. The report that follows tracks the progress of Escambia County in implementing the previous Florida TaxWatch recommendations and provides a number of new observations and recommendations.

Economic Development Context and Implications

In difficult economic times, business generally suffers more than government. In tough economic times, the "business" of government still remains relatively secure. We have seen revenues at the local, state, and national levels decrease. But while governments may struggle to 'tighten the belt,' government doors stay open and do not shut down. Even in deep recessions, government services continue, in fact, often growing to meet the needs of the unemployed. On the other hand, the private sector is featured daily in the national news reminding us of the

² One mill represents one dollar for each one thousand dollars of total taxable property value.

³ Florida TaxWatch Research Institute, Inc., 2008. Available at:
www.FloridaTaxWatch.org/resources/pdf/06202008EscambiaCounty.pdf.

vulnerability of conducting business in our country during less than ideal economic times. The reality is that as the economy declines, businesses close and are forced out of the market.

A County of Missed Opportunity?

“Another major economic development announcement took place this morning on the Gulf Coast, and, once again, the jobs were not in Escambia County.

A new call center in Mobile County near Saraland will employ about 1,200 people. Ryla Cooperation will begin hiring most of those people immediately and hopes to put them to work by June 1.

And the Mobile County Commission is not giving away the bank to lure the company. They are paying them just \$87,500 a year for the next two years to locate in Mobile County...

Wouldn't we like to see 1,200 new jobs in Escambia County by June?"

Source: NorthEscambia.com, 1,200 Area Jobs Announced Today — But Not In Escambia County, April 29, 2009, accessed on July 15, 2009, at www.northescambia.com/?p=7878.

In 2006, the State of Florida, Escambia County, and the Pensacola Bay Area Chamber of Commerce engaged a private business and economic development firm (TIP Strategies, Inc.) to conduct a strategic assessment of the area's economic development impediments and opportunities. The study produced several recommendations stemming from the overarching need to look for ways to diversify the County economy beyond its current focus on the armed services. At the time of the study, Escambia County was experiencing higher unemployment rates than both the state and surrounding region's average, though still slightly lower than the national average. Now, in the grips of a statewide and national recession, this issue again becomes paramount.

Lack of economic diversity in the area has a number of negative implications for Escambia County. First, the well-trained workforce connected with the armed services is not being fully utilized because adequate opportunities do not exist locally for recently discharged military personnel in the area. Also, a

lack of economic diversity exposes Escambia County to greater risk during economic downturns where diversification is often the best way to mitigate the negative fiscal and economic effects of a recession.

Many local communities, including Escambia's direct competitors, actively engage in economic development efforts. Charles Wood, senior vice president at the Pensacola chamber, put it more bluntly to the *Pensacola News Journal*: “Economic development in Alabama is a religion. Even with the incentives Florida does offer, we're just not competitive for large capital projects with Alabama.”⁴

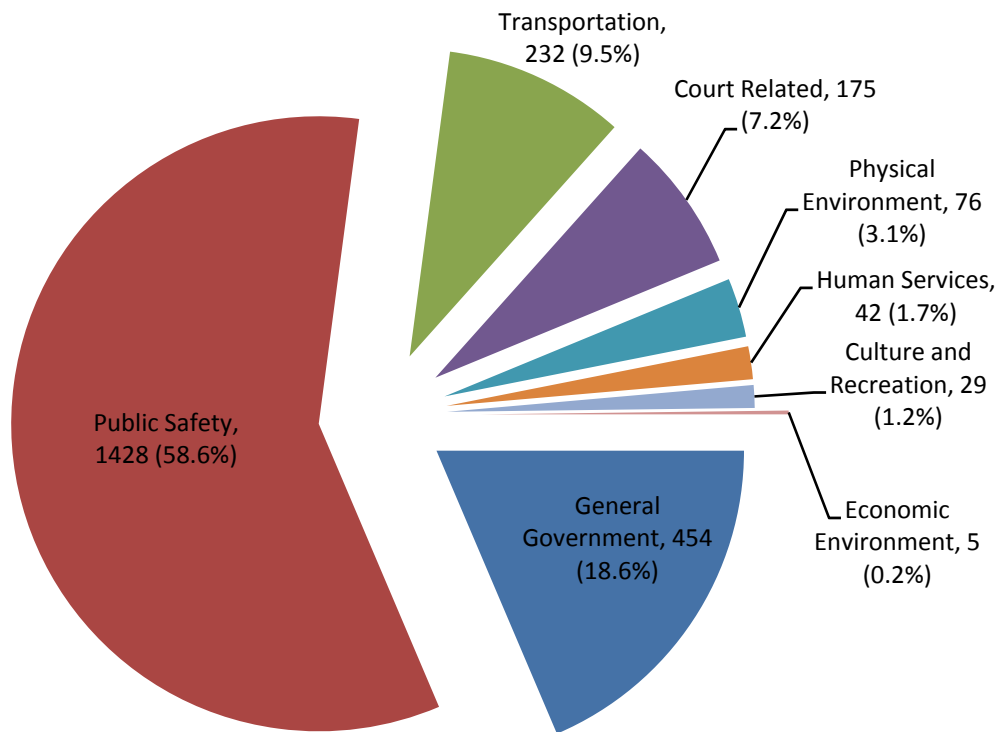
Escambia County has been victim to a lack of active nurturing of the economic environment. Analysis of the breakdown of county employees by function may suggest that economic development in terms of investment in personnel is not a major priority for the county. The inability of the area to attract new business, and therefore new jobs, hinders important economic growth.

“A lack of economic opportunity (real or perceived) drives graduates and/or military retirees to look elsewhere for challenging, high-wage employment.”

Source:
www.pensacolachamber.com/pdfs/2008/TIP_StrategiesPlan.pdf

⁴ *Pensacola News Journal*, “Exactly how does Alabama draw industry? Answer: Cash,” September 30, 2007, accessed on July 25, 2009 at <http://newsfortheGulfcoast.blogspot.com/2007/09/exactly-how-does-alabama-draw-industry.html>.

Figure 1: Breakdown of County Employees by Function



Source: Escambia Combined Annual Financial Report (CAFR) 2008.

Entrepreneurial and business expansion opportunities are going elsewhere, along with the capital investment and jobs they bring, partially because of the local business environment, a critical element of which is the level of taxation and government services.

In addition to active business development, economic growth depends on stable and fiscally responsible government spending. Businesses need to know that the local government in which they choose to set up operations is able to provide a steady, economically nurturing, and not over-taxed environment in order to build, grow and retain their investments. While these things alone do not create economic development, they are critical factors that foster economic growth and business development.

This discussion of economic development and diversification requires a close look at the County's finances which, as mentioned above, is an integral consideration in factoring the health of the business environment.

A perspective of the County's finances is provided below. Table 1 provides the total expenditure information for Escambia County for fiscal years (FY) 2002 – 2008. (Note: Each fiscal year begins on October 1 of the previous calendar year and ends on September 30 – i.e., FY 2002 was from October 1, 2001, through September 30, 2002; FY 2008 was from October 1, 2007, through

September 30, 2008.) Table 1 provides the Total Expenditures as well as two component parts: All Government Funds⁵ and Proprietary Funds.⁶

**Table 1: Total County Expenditures
(with breakdown of Governmental and Proprietary Funds)
FY 2002 – FY 2008**

	Total County Expenditures (Governmental and Proprietary Funds)	Governmental Funds	Proprietary Funds
FY 2002	240,753,480	216,731,011	24,022,469
FY 2003	287,918,044	261,711,095	26,206,949
FY 2004	283,182,013	253,816,138	29,365,875
FY 2005	497,951,787	461,471,631	36,480,156
FY 2006	372,022,242	340,025,828	31,996,414
FY 2007	390,885,644	356,680,320	34,205,324
FY 2008	335,191,671	300,289,627	34,902,044

Source: Escambia Combined Annual Financial Report (CAFR) 2002 – 2008.

The large reduction in “All Governmental Funds” shown between FY 2007 and FY 2008 is primarily the result of a significant reduction in: 1) capital expenditures from the Local Option Sales Taxes (LOST); 2) a decrease in bond principal payments; and, 3) reductions in expenditures of the “General Fund” (also shown separately) and “Transportation Fund.”

The largest and arguably most important fund of the “All Government Funds” category is the General Funds. The General Fund is “the main operating fund of a governmental unit. This fund is used to account for all assets and liabilities of the county except those particularly assigned for other purposes in another more specialized fund. Much of the usual activities of a County are supported by the general fund. Examples are the purchase of supplies and meeting operating expenditures. An example of a specialized fund, on the other hand, is the capital projects fund that accounts for financial resources used for the acquisition or construction of major capital facilities.”⁷

Table 2 provides an analysis of the General Fund from FY 2002 – FY 2008, with nominal and percentage change over time calculations provided.

⁵ All Government Funds includes all funds that have spendable resources except for the profit and loss funds (e.g. proprietary funds). Examples of government funds are the general fund, special assessment fund, and capital projects fund.

⁶ Proprietary Funds includes the net assets and liabilities of the county and records profits or losses for the county in government operations and business-type activities. The fund is divided into operating revenues and expenses (i.e. costs of sales and services) and non-operating revenues and expenses (i.e. capital assets such as roads). Statements report all income as it is earned and costs as they occur (as opposed to when they are paid or received). A statement of the changes in net assets and liabilities in this fund provides an indicator of the financial well-being of the County. See, e.g., Gauthier, Stephen J. (2005). Governmental Accounting, Auditing and Financial Reporting. Government Finance Officers Association; Ruppel, Warren. (2004). Governmental Accounting Made Easy. John Wiley and Sons; County of Escambia Florida. (2009). Comprehensive Annual Financial Report.

⁷ “General Fund.” Dictionary of Accounting Terms. Barron's Educational Series, Inc, 2005.

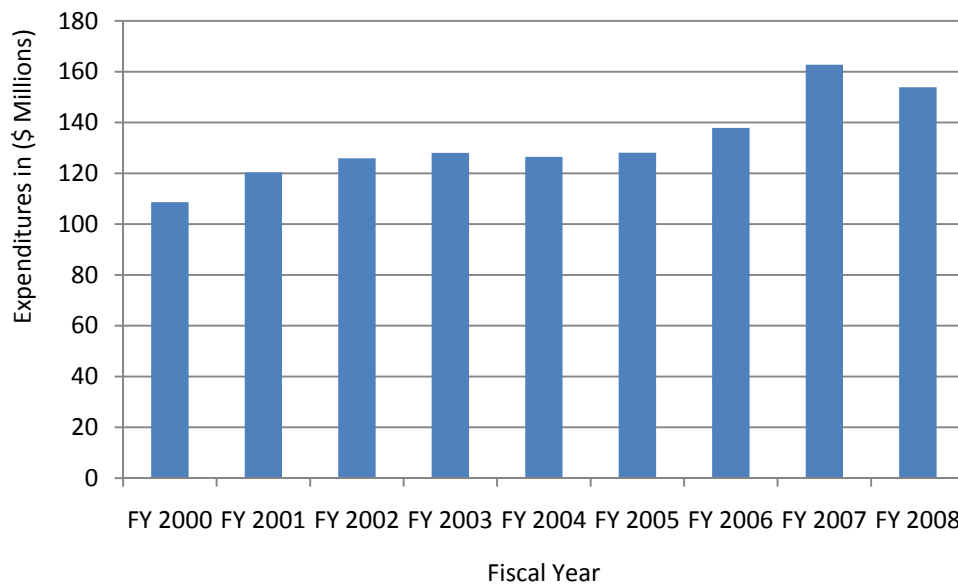
**Table 2: General Fund Expenditures
FY 2002 – FY 2008**

	General Fund Total (without Debt Services)	Nominal change from Previous Year	Percentage Change from Previous Year
2002	\$125,785,415	\$5,443,864	4.52%
2003	\$127,948,962	\$2,163,547	1.72%
2004	\$126,310,849	-\$1,638,113	-1.28%
2005	\$127,867,768	\$1,556,919	1.23%
2006	\$137,876,042	\$10,008,274	7.83%
2007	\$162,742,007	\$24,865,965	18.04%
2008	\$153,890,387	-\$8,851,620	-5.44%
Nominal change from 2002 - 2008		\$28,104,972	
Percentage change from 2002 - 2008		22.34%	

Source: Escambia Combined Annual Financial Report (CAFR) 2002 – 2008.

Analysis of the General Fund expenditures shows that there has been a significant increase in spending since FY 2002. Despite a 5.4% decrease from FY 2007 to FY 2008, General Fund expenditures have increased more than 22% since FY 2002. Spending also remains considerably higher than in FY 2008 than in FY 2006. Figure 2 plots the growth in General Fund expenditures over time.

Figure 2: General Fund Expenditures FY 2000 – FY 2008



Source: Escambia Combined Annual Financial Report (CAFR) 2008.

General Fund expenditures can be broken down by the functions for which the money was spent. Table 3 provides the breakdown of General Fund expenditures since FY 2000.

Table 3: Breakdown of General Fund Expenditures FY 2000 – FY 2008

	General Government	Public Safety	Physical Environment	Transportation	Economic Environment	Human Services	Culture and Recreation
2000	48,012,523	55,953,500	192,043	168,961	0	2,822,909	1,440,714
2001	53,104,098	62,048,198	419,611	168,129	0	2,781,333	1,820,182
2002	54,141,797	65,711,152	677,168	198,669	127,502	2,813,821	2,115,306
2003	54,933,527	67,592,677	561,777	14,905	180,645	2,737,956	1,927,475
2004	48,933,362	71,138,119	508,058	253,000	331,917	3,034,304	2,112,089
2005	49,445,148	71,963,873	563,294	274,062	401,496	3,216,547	2,003,348
2006	56,730,875	74,056,783	620,147	220,147	450,431	3,315,607	2,482,052
2007	71,077,277	83,672,231	715,758	247,899	470,492	3,727,136	2,831,214
2008	63,173,944	83,762,019	671,658	304,697	491,979	3,395,418	2,090,672

Source: Escambia County Combined Annual Financial Reports (CAFR) 2000 – 2008.

As the table shows, a number of categories of general government have increased significantly since FY 2002, even if there has been a decrease from FY 2007 to FY 2008. In many cases, the decrease from FY 2007 to FY 2008 is not as large as the increase from FY 2006 to FY 2007, meaning that the program area still receives more funding today than in FY 2006. It is especially important to note that General Government and Public Safety have increased significantly, and that Economic Environment is not a significant portion of the General Fund expenditures, even though it has increased significantly since FY 2002.

In addition to protecting and maintaining a high quality of life for its citizens, Escambia County can make the necessary changes to operate more efficiently, therefore ensuring a more fertile and stable business environment. Smart cost savings and thorough budget review is a win-win exercise that prioritizes government spending and encourages economic vitality. We will first begin by examining the results of the first Florida TaxWatch study.

Methodology

This study was conducted through interviews and correspondence with County officials, department heads, and key staff; analysis of financial data; examination of selected documentation; and a review of relevant policies and procedures and appropriate literature.

Follow-up on Prior Study

In June 2008, Florida TaxWatch released a report titled “*Improving Transparency and Accountability in Escambia County Government*.” In addition to providing a number of analytical charts and tables for the County’s use, the study included the following five key observations and recommendations.

1. Property Tax Growth was Five Times Greater than County Population and Inflation Rates

Florida TaxWatch reported that the County’s operating millage rate remained consistent at 8.756 mills from FY 2000 through FY 2007, while the increase in taxable property values doubled during that same time period. As a result, property tax collections during the period increased 92%, nearly five times greater than the combined growth in the population and consumer price index. A large portion of this increase (27%) resulted from the change in taxable property values from just one year - fiscal years 2006 to 2007. This one-year increase in property tax revenues generated over \$27 million in new property tax revenues above that generated in the prior year.

As a result of efforts by the Florida Legislature to require roll-backs in local property taxes, legislation and statewide referendums were passed that forced reductions in local millage rates and imposed caps on ad valorem tax (i.e., property tax) growth.⁸ As a result of these efforts, Escambia County’s millage rate was lowered from 8.756 to 8.017 mills. According to the County’s published budget document for FY 2008-09, the Board of County Commissioners (Board) reduced the millage rate further to 6.976 mills for a total overall budget reduction of \$25,462,201. However, this budget decrease was less than the single-year increase in property taxes for FY 2006-07. Rather than make budget reductions for the full amount of the reduced tax revenues that would have been generated from the reduced millage, a significant amount of nonrecurring revenue sources were used to fill the hole leaving most of the significant budget cuts to be made in FY 2009-10.

Since the total budget reduction necessary for the County to achieve its millage reduction goal was less than the one-year increase in FY 2006-07, an examination was implemented to determine how those funds were used. While most of the increased expenditures were used for nonrecurring items, a significant portion of the increase was used for recurring purposes, most of which was used to fund across-the-board salary increases for County employees – above an historical annual 3 percent cost-of-living increase previously provided. (This issue is discussed further under the heading “Salaries and Benefit Costs.”)

After additional study, Florida TaxWatch concludes that significant opportunities to further reduce the County’s cost of operations remain. However, in order to take full advantage of these opportunities, the Escambia County government must have an unprecedented level of

⁸ The 2007 Florida Legislature mandated a statutory tax roll back and also provided voters a constitutional amendment, referred to as “Amendment 1,” which was also intended to provide property tax relief. Amendment 1 was passed by voters in January 2008. The 2007 Legislature-mandated property tax reduction required cities, counties and special districts to reduce their property tax rates by 3, 5, 7, or 9% from the rolled back rate, which is the rate that would produce the same amount of revenue as the previous year, excluding new construction. A government’s mandated cut was based on the entity’s property tax revenue growth for the period from 2001 through 2006. Amendment 1 increased the current exemption for homesteaded property, allowed property owners to transfer a portion of their “Save Our Homes” benefits to their next homestead (known as “portability”), limited the annual increase in assessed value for non-homestead property to 10%, and provided an exemption for a portion of tangible personal property taxes (Florida TaxWatch Report: *Enhancing Efficiencies in the City of Jacksonville*, pg. 9).

cooperation, the willingness to accept change, and a strong commitment to reducing the cost of operations through partnerships between the Board and the other Constitutional Officers. This study contains a number of recommendations for significant cost reductions that can be achieved if true commitment is devoted and proper action implemented; and although we address the duplication of services between the County and the Constitutional Officers, we do not address duplication of services with the City of Pensacola and other County municipalities.

2. Enhanced Citizen Understanding and Trust are Needed

In the prior study, Florida TaxWatch noted that Escambia County had placed significant public information on the County's web page - www.co.escambia.fl.us. This information includes notices of meetings, complete budget documentation, and the establishment of a citizen satisfaction survey. Florida TaxWatch recognized these postings as positive steps and further recommended that the County improve these efforts by including citizen-friendly budget summaries and financial information, County goals and accomplishments, and related benchmarks accessible to the average citizen. We noted, however, that advertised "Leadership Workshops" included substantive budget discussions. Whenever budget discussions are planned, there should be no ambiguity in the public notices of the intent to discuss the budget.

3. "One Stop" Citizen Response and Maximum Return on Resources: A Countywide Goal

The prior TaxWatch study recommended that the Board and Constitutional Officers establish a strategic and operational work plan for the County to reduce duplication of effort and enhance the overall performance and effectiveness of County governance. Since the recommendation, no evidence of effort has been put forth in this regard and we have addressed this issue more fully in this report under the heading "Leveraging Organizational Strengths and Purchasing Power and Eliminating Duplication of Effort."

4. More Comprehensive Information is Necessary to Support Decision Making

The prior TaxWatch study recommended the formal preparation and use of trend, comparison data, and performance measures to improve management decision making and demonstrate fiscal responsibility to citizens. While we found that the County did an excellent job in preparing comprehensive annual reports and budget documents, we also discovered that there remain numerous opportunities to reduce costs and/or enhance operations by improving management decision making through the use of trend, comparison data, and performance measures. Several examples of areas where such analytic tools and exercises would be beneficial to the County are provided in the Current Observations and Recommendations section of this report.

5. Evaluation of Overall County Performance is Needed

Florida TaxWatch recommended in the prior study that Escambia County enact an independent audit function, established with cooperation of the Board and Constitutional Officers, to assist in ensuring Countywide cost effectiveness and foster greater trust and confidence from County citizens. No action was taken by the County and this is discussed in more detail in the Current Observations and Recommendations section of this report.

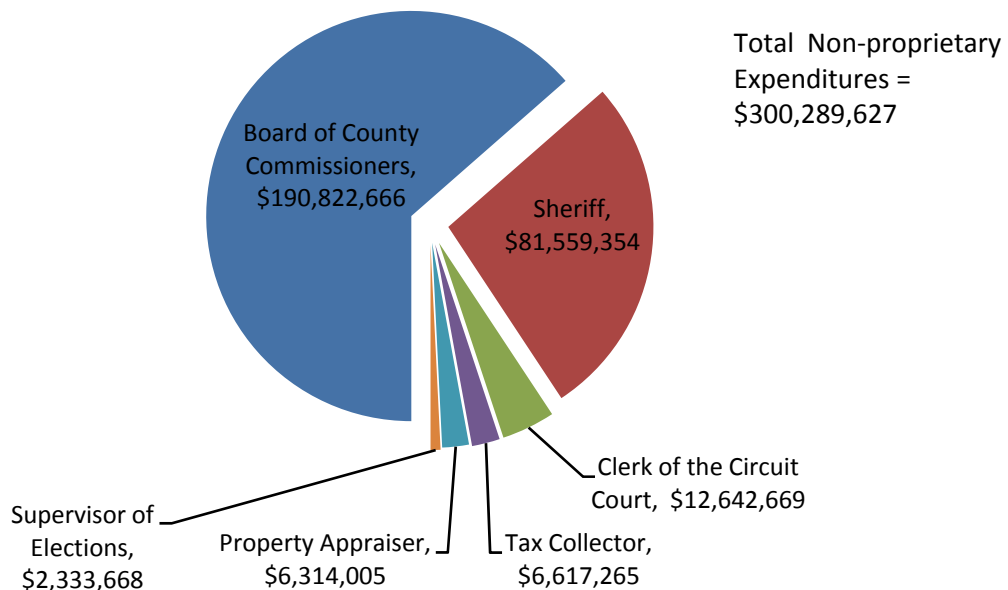
Current Observations and Recommendations

Spending Trends and Comparables for the Constitutional Officers: The Escambia County Sheriff's Office

Florida TaxWatch analyzed expenditures for each of the constitutional offices over the 20-year period from fiscal year 1987 to fiscal year 2007. The rate of increase in expenditures for each office was compared with the combined increase in the consumer price index (CPI) and rate of increase in County population for that period of time. The expenditures of each office were also analyzed against the expenditures of their counterpart in comparable counties identified according to relevant criteria. Additionally, analysis conducted by other entities, including the Florida Department of Revenue and the Florida Auditor General, was considered.

While the rate of growth in expenditures of each of the constitutional offices exceeded the consumer price index and rate of growth in population for this period of time, the expenditures for four of the five constitutional officers are at, or below, their counterparts in comparable counties. **Generally, Florida TaxWatch concludes that the expenditures of the Clerk of the Circuit Court, the Tax Collector, the Property Appraiser, and the Supervisor of Elections are not out of line.**

Figure 3: Breakdown of Non-proprietary Fund County Expenditures by Constitutional Entity, FY 2008



Due to, among other things, the size of the comparative size of each constitutional officers' budget, additional analysis on the budget of the Escambia County Sheriff's Office is provided in this report.

**Table 4: Comparison of Escambia County Sheriff's Office Expenditures
on a Per Resident Basis with Peer Counties**

Sheriff	County Population (2007)	City Population (2006)	Population Served by Sheriff*	FY 2008 Expenditures	Per Resident Cost
Escambia	311,775	53,248 (Pensacola)	258,527	\$81,559,354	\$315.48
Marion	325,023	52,488 (Ocala)	272,535	\$73,513,858	\$269.74
Leon	272,896	159,012 (Tallahassee)	272,896	\$60,693,894	\$222.41

Sources: County population estimates provided by Florida Department of Law Enforcement; City population estimates provided by the U.S. Census Bureau; FY 2006-07 Expenditures from Escambia County Annual Audit Report (pg. 203), Marion County CAFR (pg. 30), Leon County CAFR (pg. 83) respectively.

*Note: "Population Served by Sheriff" was estimated by subtracting the given city populations by the given county populations (except for Leon); per resident cost were found by dividing the total FY2006-07 expenditures by the population served by the sheriff figures. Leon County Sheriff Larry Campbell serves the whole county, including residents of the City of Tallahassee – he is the only Sheriff in the state who regularly patrols both incorporated and unincorporated areas of the county (in non-consolidated counties).

In the comparison shown in Table 4, Escambia County's per resident cost of operating the Sheriff's Office is considerably higher than the per resident cost of operating the Sheriffs' Offices in the comparable counties – \$47.57, or 18% higher than Marion, and \$105.74, or 51% higher than Leon. Extrapolating the per resident cost of operating the Sheriffs' Offices in Marion and Leon Counties to Escambia County would show the potential for cost reductions of the Escambia County Sheriff's Office at between \$12.3 to \$27.3 million.

A direct comparison of per resident costs across counties is difficult due to budgeting and service disparities. For example, in Escambia County a portion of the corrections' function is under the Board of County Commissioners, which does not appear to be the case in Marion County. However, several million dollars per year of equipment and vehicles are funded from LOST funds in Escambia County and not included in their Sheriff's budget (and therefore are not reflected in the Escambia numbers used in this comparison, whereas such expenses may be included in the peer counties). Considering these and other possible factors could alter potential savings by several million dollars. Despite the complexities in arriving at an equitable and exact comparison, the general comparison still shows that Escambia County pays more per resident served than the peer counties, and the difference is a significant amount of taxpayer money.

It is also worth noting that the per resident cost only considers those residents served by the Sheriff, but all county residents pay for the services, even the city residents who do not receive the services. So, in Escambia County, for instance, Pensacola residents pay for Sheriff services, but do not necessarily enjoy direct services within Pensacola city limits.⁹

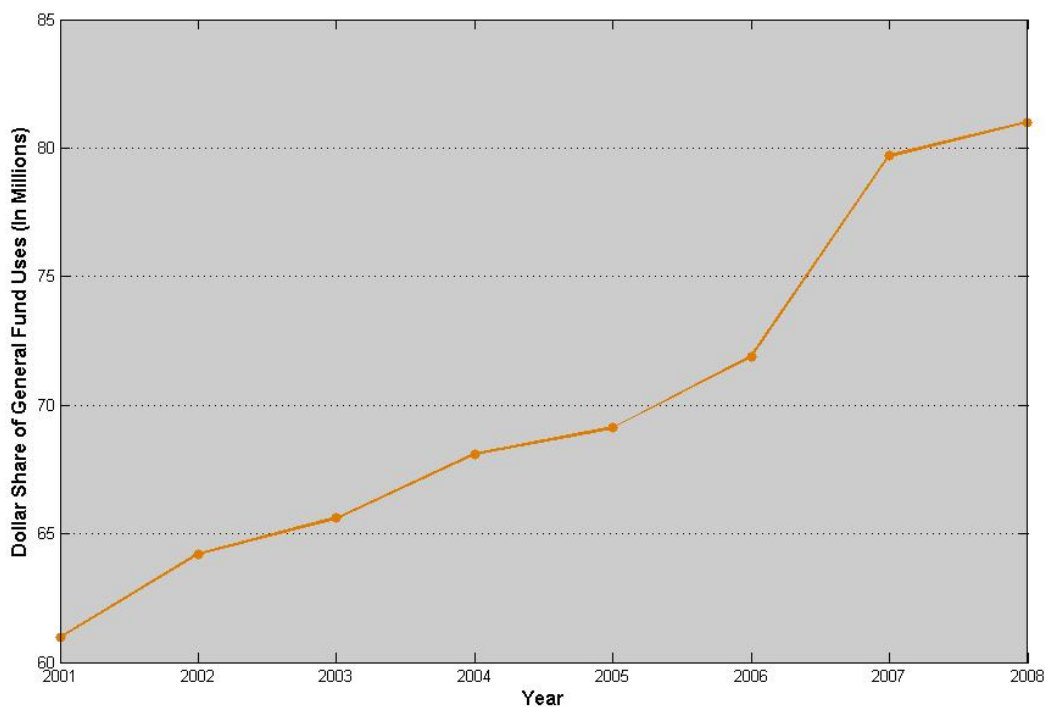
Additionally, this comparison does not attempt to address the underlying effectiveness of the services provided. Although the counties compared are similar in relevant ways, no attempt was made in this comparison to account for higher or lower, or increasing or decreasing, crime rates among the counties. Nor does this analysis consider other variables such as the economic value

⁹ City residents (i.e., Pensacola) pay the same level of county ad valorem tax as the county residents, but the city residents do not benefit (directly) from the Sheriff's services because the Sheriff doesn't patrol, investigate, or operate at all inside the city limits. Given the proportion of the total budget that goes to the Sheriff, this indicates a significant and identifiable case of "taxation without benefit" for city taxpayers. Of course, we should remember that there is some indirect benefit to the city residents – i.e., if the county were not patrolled and protected by the Sheriff, the spillover effects in measurable crime, etc., would obviously be bad for city residents.

of low crime or high spending on crime prevention and investigation, education and intervention programs, etc. The value of deterrence is similarly not considered. Most of all, the analysis does not consider the underlying value of the services provided. One poignant example involves a recent unfortunate incident involving a local Escambia family whose parents were brutally murdered in their home. The incident and the Escambia County Sheriff's Office investigation received significant national attention, particularly noting their quick and significant efforts to capture the suspected murders. In this case, certainly, those involved in the investigation, pursuit, and apprehension of the individuals allegedly responsible for this crime deserve commendation and respect and the cost associated seems trivial in comparison to the magnitude of the tragedy. This analysis does not consider such successes or the value to the residents and the community of such swift and laudable work; it is up to the residents of Escambia County, those who directly pay and are directly served by the Sheriff's Office, as well as those who directly pay and are only indirectly served by the Sheriff's Office, to consider the costs and benefits of these expenses for themselves.

However, this analysis shows that the Escambia County Sheriff's Office spends more money than the Sheriffs' Offices in peer counties. Additionally, longitudinal analysis of the expenditures over the past eight fiscal years shows that the Escambia County Sheriff's budget has grown significantly since FY 2001.

Figure 4: Escambia County Sheriff Expenditures by Year



Sources: Escambia County Annual Audit Report, 2008.

Currently, the Sheriff's Office spends more money now than at any previous point in the history of Escambia County – in fact more than twice as much as in 2001.

Other factors may exist that should be considered in refining this benchmarking exercise. Current year cuts to the Sheriff's Office budget are approximately \$1 million. Additionally, the new Sheriff, in his first three months of office, has proposed additional cuts of over \$4 million without sacrificing jobs. **Florida TaxWatch commends the Sheriff for his first attempts at identifying ways to reduce the Sheriff's Office budget and recommends that he continue to explore cost reduction opportunities to further lighten the tax burden on the citizens of Escambia County.**

Local Option Sales Tax (LOST)

Section 212.055(2), *Florida Statutes*, permits the governing authority in each county to levy a discretionary sales surtax of 0.5 percent or 1 percent, known as the Local Option Sales Tax (LOST). The statute authorizes a time limited tax that must be approved by the voters through a referendum. The LOST is limited to the period specified in the referendum not to exceed 15 years thereafter, unless voted on again. A one percent (1%) LOST tax upon all taxable transactions occurring within Escambia County was implemented in 1992. The surtax has since been extended twice and is now set to expire on December 31, 2017, unless extended again.

Currently, Escambia County collects approximately \$35 million per year from their local option sales tax. The proceeds from this tax are to be expended on the financing, planning, and construction of infrastructure and the acquisition of land for public recreation, conservation, and natural resources protection – mainly purchases of a nonrecurring nature. The law permits some exceptions for expenditures on certain vehicles, equipment, and operating costs that would be of recurring nature. While expenditures examined were found to be in accordance with the law (section 212.055(2)(d)(3), *Florida Statutes*), we did notice that several million dollars per year were expended for vehicles, equipment, and certain operating expenses. This includes over \$3 million per year to replace Sheriff's Office vehicles, approximately \$1 million per year to replace Fire Department vehicles, and over \$1 million to replace Ambulance Department vehicles. Additionally, LOST funds were used to pay for maintenance of certain Parks and Recreation Department facilities such as the Equestrian Center. **Although these expenditures were appropriate under the law, Florida TaxWatch would caution the Board in using such time limited funds for recurring purposes. Should the voters not extend this tax, other revenue sources would be needed to fund the recurring expenditures previously funded by LOST funds.**

The County, notably through publications shared through the Office of Public Information on the County's website, has done a good job of explaining the history, purpose, and expenditures of the LOST funds since their initial approval in 1992, and through each subsequent extension. The information provided is well detailed and citizen friendly. One publication posted and entitled "L.O.S.T. flyer"¹⁰ offers the following explanation for the funds' specific expenditures:

Question: What assurances are there that the revenue derived from the one-cent sales tax will be used for the purposes stated?

¹⁰ Office of Public Information, Escambia County, "L.O.S.T. Flyer," accessed on July 15, 2009 at www.myescambia.com/documents/PublicInformation/2005CampaignHandout.pdf.

Answer: Florida law requires that the county adopt a plan for use of the revenue at the same time the tax is approved. All sales tax revenue is kept separate from other county funds and can only be used for the types of projects authorized by the referendum, ordinance, and Florida law.

The flyer clearly indicates that the revenues collected be used for the purposes stated on the referendum. If that is clearly understood by the voters, so much the better, but if there are exceptions to this, then any public information shared should also explicitly address potential exceptions. This report will not address the legality of using LOST funds for purposes other than those clearly delineated in the referendum approved by Escambia voters, but caution is advised that public information shared on the issue should be more complete, otherwise the County risks misleading its citizenry and however unintentionally, in turn, further eroding the public trust.

The erosion of public confidence can occur when information is not easily shared nor understood by the public. An example of such is illustrated in the following situation.

Beginning in 2005, the County borrowed over \$46 million from LOST funds to fund disaster recovery efforts after the hurricanes that hit the Escambia County area. Over \$17 million of this loan remains unpaid. Granted, under extreme circumstances such as occur post-hurricane, unusual actions are often required. And, to underscore a previous point, whether or not the use of LOST Funds is appropriate in this case is not the focus of this study. But questions do emerge as to the County's action in doing so when communication to the public may not have been clear nor understood by its citizens unless specific information was shared that outlined the County's rationale for the loan. A clear description of the rationale, legal authority to do so, and plans for replacing the funds quickly would certainly have helped. The rationality of using LOST funds to make long-term interest free loans to other County funds is not clear. However, in interview, County staff indicated that the General Fund would reimburse the LOST funds for whatever amount FEMA does not eventually reimburse the County.

Regardless of the fate of the remaining debt to the LOST fund, the larger issue from a taxpayer perspective is in any real or perceived lack of oversight of, accountability for, and proper use of the LOST funds. Because of the significance of the fund and the importance of infrastructure projects to the economic growth and long-term viability of Escambia County, **Florida TaxWatch recommends the development of a Citizen Advisory Board to advise the Board of County Commission on issues related to the expenditure of the LOST funds.** The mission of the Citizens Advisory Board would be to serve as the proactive eyes and ears of the Escambia County community in the promotion of proper and effective use of the significant LOST funds.

The Citizens Advisory Board, composed of volunteer, concerned Escambia citizens would be able to monitor the use of the funds, watch carefully the implementation of planned projects, and ensure a thorough line of communication is maintained between the public at large and the Board of County Commissioners in matters relating to the fund.

It is further recommended that the County budget a repayment plan to the LOST Fund for amounts estimated to not be reimbursable from FEMA, rather than waiting until the exact amount of the County's share is known. Additionally, the County should seek legal clarification as to the appropriateness of using LOST funds to make interest free loans to other funds.

Figure 5: Sample Ballot for March 7, 2006, Special Referendum in Escambia County

**EXTENDED LEVY OF
COUNTY-WIDE ONE-CENT
SALES TAX
FOR INFRASTRUCTURE /
PUBLIC FACILITIES**

Shall the one-cent sales tax,
approved by the voters of Escambia
County by referendum held May 13,
1997 for eight years, be extended
for an additional eleven years
through December 31, 2017 to
provide for law enforcement / fire
and public safety facilities and
equipment, transportation and
drainage improvements,
infrastructure projects / public
facilities, recreation / natural
resources, jail / court facilities,
capital equipment, community
services, and economic
development projects per section
212.055(2)(d)(3), Florida Statutes?

**FOR THE ONE-CENT
(1¢) SALES TAX**

**AGAINST THE ONE-CENT
(1¢) SALES TAX**

Salary and Benefits Expense

Payroll costs for the Board and Constitutional Officers for the fiscal year ended September 30, 2008, totaled \$152,785,238, comprising nearly half of the County's \$335,191,771 in total government spending for the same period. Since salary and benefits make up such a large portion of the County budget, reducing payroll costs will be essential in achieving meaningful reductions in the County's operations cost.

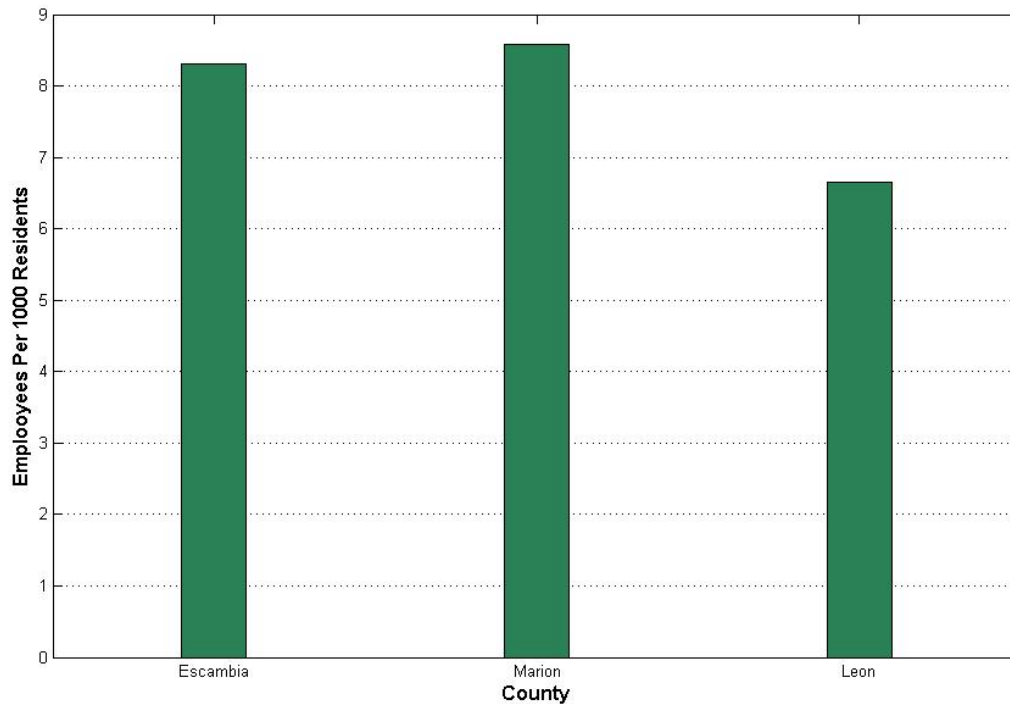
Businesses and governments of all levels across the country are reducing payroll costs through layoffs, reduced employee hours, salary cuts, decreases in benefits, mandatory leave, hiring freezes and other necessary measures. It is an unfortunate reality that all employers must address in weathering the harsh impact of a stifled economy. Escambia County government is no exception. For purposes of examining Escambia County's staffing levels, a comparison was made between the number of county employees (measured in Full Time Equivalents or FTE) per 1,000 residents in Escambia County with two peer counties (Marion and Leon Counties) during FY 2007-08. This comparison is shown in Table 5:

Table 5: County Employees Per 1,000 Residents, FY 2007

County	Population	FTE Employees	Employees Per 1,000 Residents
Escambia	311,775	2,591	8.31
Marion	325,023	2,788	8.58
Leon	272,896	1,815	6.65

Sources: County population estimates provided by Florida Department of Law Enforcement. FTE Employees from Escambia County CAFR, Marion County CAFR, Leon County CAFR respectively.

Figure 6: County Employees Per 1000 Residents, FY 2007



Sources: County population estimates provided by Florida Department of Law Enforcement. FTE Employees from Escambia County CAFR, Marion County CAFR, Leon County CAFR respectively.

Florida TaxWatch noted in its prior report¹¹ that the study of trends and comparative data can provide useful insights and recommended that the County continue to refine and incorporate such analysis to improve management decision making. The number of Escambia County employees per 1,000 residences is slightly lower in comparison to Marion County, but more than 20% higher than Leon County. Initiating even a moderate 10% reduction in payroll costs in Escambia County would save the County's taxpayers \$15 million. While this is only an example using a conservative estimate, a thorough and precise exercise by the County to reduce payroll will identify real cost savings. Escambia County should develop a fair and appropriate plan to significantly reduce payroll costs in areas that have the least impact on critical services to its citizens.

¹¹*Improving Transparency and Accountability in Escambia County Government*, Florida TaxWatch, 2008, FloridaTaxWatch.org/resources/pdf/06202008EscambiaCounty.pdf.

For historical perspective, from fiscal year 2002-03 through fiscal year 2006-2007 Board employees received a 3% cost of living increase. In fiscal year 2007-08 employees were given a 2% cost of living increase and an additional 1% merit increase. The County has not budgeted salary increases for the current fiscal year.

In 2006, the Escambia County Board of County Commissioners hired a consultant to conduct a study of compensation for employees of the Board, Supervisor of Elections, and Sheriff. (The only remaining constitutional officer not addressed in the scope of the study, the Property Appraiser, contracted with another compensation consultant separately.¹²) County staff stated that the study was initiated due to high turnover in certain County position classifications after repair and recovery work from recent hurricanes caused shortages of skilled workers. A memo from the County Administrator at the time explained the need for the study as follows, "...to determine the prevailing market wage for all employee positions of the Board and Supervisor of Elections; then to establish salaries and hourly wages that approached the prevailing market wage in an effort to recruit and retain employees."¹³

The study reviewed the salary levels of the participating offices and recommended targeted areas where competitive adjustments would be appropriate, and serve as an enhancement to attract and retain the targeted highly skilled employees vulnerable to high turnover. In January 2007, the Board approved implementation of the recommendations made by the consultant approving an increase in payroll costs of approximately \$6.8 million per year for offices included in the study.

As discussed, the Board's compensation study suggested making targeted adjustments in select positions, which included recommendations for no salary increases in the case of some positions and up to 20% salary increases for other positions. The study did not recommend across-the-board raises for all employees, although the Board moved forward to provide minimum raises of 5 percent to all employees. The Supervisor of Elections was the only affected employer who opted to follow the recommendations adopted for implementation by the Board and did not give raises to employees beyond those recommended in the study. Further, although the recommendation to implement the salary study was not approved by the Board until January 2007, the recommendations that were implemented were made retroactive to October 1, 2006, by the then-County Administrator.

Simply because of the large amount of taxpayer money involved, it is imperative that the County's payroll costs be managed effectively. At the same time, it is also recognized that in order to hire and retain a high quality and motivated workforce the County should be prepared to effectively respond to market demands and conditions in an appropriate manner.

In fiscal year 2007-08, the Board created and offered an early retirement incentive program. Employees who agreed to retire early and leave the County's employment were offered two weeks' pay for every year of service, up to a maximum of one year's pay. In response, 37 employees accepted the County's offer to retire early. The incentive payout for these 37 employees was \$1,667,768.46. In addition, four employees received severance pay totaling \$60,133.12. Retiring employees were also paid for their accumulated leave. In total, the cost of

¹² The Property Appraiser's Office contracted with another compensation consultant because it was cheaper to do so than to join with the other study initiated by the Board of County Commissioners.

¹³ Memo dated January 3, 2007, to the Escambia County Board of County Commissioners from George Touart, Escambia County Administrator regarding "Implementation of Pay Study."

funding the incentive package for these 37 employees, including leave benefits and fringe benefits, was \$2,670,345.66. Two of these employees' payouts exceeded \$200,000 each, and another four employees' payouts exceeded \$100,000 each. Reducing staffing in this way, while a quick "fix," was a costly method of achieving payroll reductions. When asked what the justification for providing what appears as additional severance pay on top of the voluntary incentive pay to the four management employees, the County's explanation was simply that it was "county policy." No other support for these payments was found.

Salary expense is by far the largest expense incurred by local governments. However, local governments must also be equipped to compete with other employers for their workforce needs and therefore be nimble and responsive to market conditions. That said, Escambia County has not always managed its salary and benefit costs as frugally as opportunities have offered. It is a fine balance between making advantageous decisions and providing expansive generosity beyond the realm of fiscal stewardship in the public interest. All budget actions have a direct impact on the ability of the County to provide necessary services to its citizens and unwise budget decision making effectively limits critical service delivery while eroding taxpayer confidence in government. **Florida TaxWatch recommends that the Board develop a more strategic and publicly accountable approach to managing salary and benefit costs. Such a plan must both allow the County as an employer to compete for a quality workforce in a variety of market and financial conditions, as well as most assuredly ensure the best value for Escambia taxpayers.**

Leveraging Organizational Strengths and Purchasing Power and Eliminating the Duplication of Effort

Operational "silos" can hinder governments from operating cost-efficiently by preventing the advantages of leveraging and coordinating resources by different entities of the county government. As a result of the operational silos, duplication of similar functions can exist and operational leveraging of the economies of scale cannot be fully realized. In Escambia County, except for the Supervisor of Elections who relies on the administrative support functions of the County and to some extent the Clerk of the Court, most of the Constitutional Offices operate fairly independently, each maintaining duplicative administrative functions including the following:

- Accounting system
- Payroll system
- Human resource function
- Procurement function including facility leases
- Securing bank depository accounts, including investments and for reporting necessary information to the State to collateralize County funds being held
- Information technology
- Legal services

Operational “silos” not only exist between the Constitutional Offices and the Board of County Commissioners, but also between some County departments. The potential for additional cost-savings could be realized through increased collaboration between Escambia County and other local government entities. Some of the local government entities that the County should consider partnering with include the Emerald Coast Utility Authority, the local school district, and the City of Pensacola. Combining organizational strengths to maximize the utilization of resources would eliminate the waste incurred through double marginalization.

The County’s spending exceeds \$330 million per year, which does not include the spending of other local government entities. Savings of \$3.3 to \$6.6 million could be generated if a conservative 1% to 2% cost reduction could be achieved through the elimination of duplication of services, better pricing on purchasing, and the overall leveraging of the County’s resources. A reasonable estimate of 5% savings would produce more than \$16 million for the county alone – plus additional savings for the other governmental entities with which they cooperate and leverage resources. While this calculation was simply prepared for illustration purposes, it is used here to point out how a small fractional savings can generate several million dollars in savings.

Leveraging of necessary support and administrative resources could be applied to a wide variety of government entities or functions. During our study, we have identified a few examples of activities that the County should consider consolidating to leverage the resources and improve cost-efficiency.

Some form or level of County vehicle maintenance is operated by the Escambia County Transit Authority, Sheriff’s Office, County road department, parks department, and ambulance/fire department. The ambulance and fire department had separate vehicle maintenance operations until the department reorganization, which combined the two departments thereby allowing consolidation of vehicle maintenance to occur. Sharing vehicle maintenance services with other local governments could also prove to be beneficial to all parties. The County should assess the most appropriate means of securing vehicle maintenance service at the most economical cost. In addition to considering consolidating these various vehicle maintenance operations, the County should explore whether outsourcing of this function would be of further benefit to the County.

Additionally, while the County jail is under the supervision and management of the Sheriff’s Office, the Board operates a separate department responsible for the County road prison and certain other corrections related functions. Separation of the County corrections function in this manner hinders opportunities to leverage size and reduce duplication. Florida TaxWatch recommends that the Escambia County Sheriff and Board explore how much savings would occur with such a merger and whether such a merger would be in the County’s best interest.

Another area that should be explored for merger or consolidation is the County’s “911” dispatch services. Currently, both the County ambulance/fire service and the Escambia County Sheriff’s Office operates with their own “911” dispatch operations. Additionally, the City of Pensacola has its own “911” dispatch service. Each operation requires a staff of dispatchers and supervisors to provide 24-hour service, seven days a week. Consolidating or merging these operations could not only improve the cost effectiveness of these operations, but may also have the potential of improving services to the citizens of Escambia County. This is another area where the County should explore whether outsourcing opportunities exist that would be cost

beneficial to the County. In addition, the County should consider collaborating with neighboring counties, particularly for emergency backup services in the case of a natural disaster.

During our review, it was noted that the current County Administrator had consolidated some of his departments and reduced the number of senior managers that report to the office. It is our understanding that this consolidation effort has resulted in the elimination of some senior management level positions, as well as the elimination of some duplicative functions within at least one department. We applaud such initiatives, but a multitude of potential opportunities to further alleviate excess spending still remain. **Florida TaxWatch recommends that County leadership, including Constitutional Officers and other public entities in Escambia County, work together to develop a strategic approach to eliminating or merging duplicative functions and leverage the public resources to gain the optimum value for Escambia County taxpayers.**

It is also worth noting that the consolidation efforts do not need to be limited to administrative/support services and the purchasing of necessary goods between county government entities. The 2009 Florida Legislature authorized the creation of the Escambia Consolidation Commission, and Florida TaxWatch is aware of the ongoing work of this group – which includes a representative of the Escambia Taxpayers’ Association, Inc. Consolidation of government services and the leveraging of governmental resources can produce significant cost savings and efficiency improvements at any level, and Florida TaxWatch fully supports the efforts of this commission.

Facilities Management

Proper space utilization and management are important aspects of controlling costs in both public and private organizations. In addition to the high cost of constructing new facilities, there are significant ongoing costs for utilities, maintenance, and the general operation of such facilities. Facility data supplied by County staff showed that the total County owned facility space increased from 1,119,086 square feet at September 30, 1999, to 2,378,533 square feet at September 30, 2007. This was greater than a 100% increase in new space over an eight-year period. The current annual cost of the Board of County Commissioners’ facilities space maintenance and utilities exceeds \$11 million per year. This includes the cost of facility space occupied by the Constitutional Officers, but not the School Board.

We did find that the County Facilities Department maintained comparative data on utility and custodial costs. However, no space utilization standards or benchmarks were utilized in assigning space or to gauge the County’s effectiveness in properly utilizing its facility resources.

The online benchmarking subscription service of one provider claimed that its clients saved between 5% and 15% in using its benchmark tools to manage facility space utilization. For purposes of estimating potential facility cost savings based on this information, we multiplied these percentages against the County’s current facility space usage of 2,378,533 square feet to derive the amount of space that might be saved through better utilization. To quantify this in potential dollar savings, we multiplied these space savings against a conservative rental rate of \$15 per square foot to capture the more complete cost of facility space, e.g. construction,

financing, utilities, maintenance, etc. **This exercise showed a potential cost savings for the County of \$1.8 million to \$5.35 million per year.** Without benchmarking the County's facilities space and setting space utilization standards, it is difficult to truly know the full savings that the County could accrue. It should be recognized that it may take a number of years after such studies are conducted before the full savings potential may be realized, as lease contracts are not renewed and other uses are found for County owned space.

Florida TaxWatch recommends that the County benchmark its facility space usage and determine how facility space might be better utilized, what cost savings can be realized, and what principles should be established for assigning new space.

Pensacola Civic Center

Although the Pensacola Civic Center was not specifically identified in the scope of our review, due to the significant amount of tax dollars used to supplement its ongoing operations each year, Florida TaxWatch did examine its operation to a limited extent. The Escambia County Board of County Commissioners constructed the Civic Center and opened the facility in 1985. Tourist development tax dollars, also referred to as "bed taxes," were pledged to fund the tax exempt bonds used to construct the facility.

The Civic Center receives a significant allocation of tourist development tax dollars each year to supplement its operating budget, which is consistently in the red. In addition to an initial annual allocation, the County provides funds to offset further operating losses that the Civic Center incurs. In fiscal year 2007-2008, the County provided total tourist development tax dollars in the amount of \$1,557,764. Over the last seven years, the Civic Center has received over \$6 million of Tourist Development Tax dollars to support its operation in addition to the amounts used to fund the debt service on the facility.

While publicly owned civic center operations are frequently not profitable – and therefore are often considered successful if they can consistently break even or require minimal taxpayer support for their general operation – the operation of the Pensacola Civic Center has cost the taxpayers of Escambia County nearly \$10 million since FY 2004.

**Table 6: Five-Year Time Series of Pensacola Civic Center Operating Losses
FY 2004 – FY 2008**

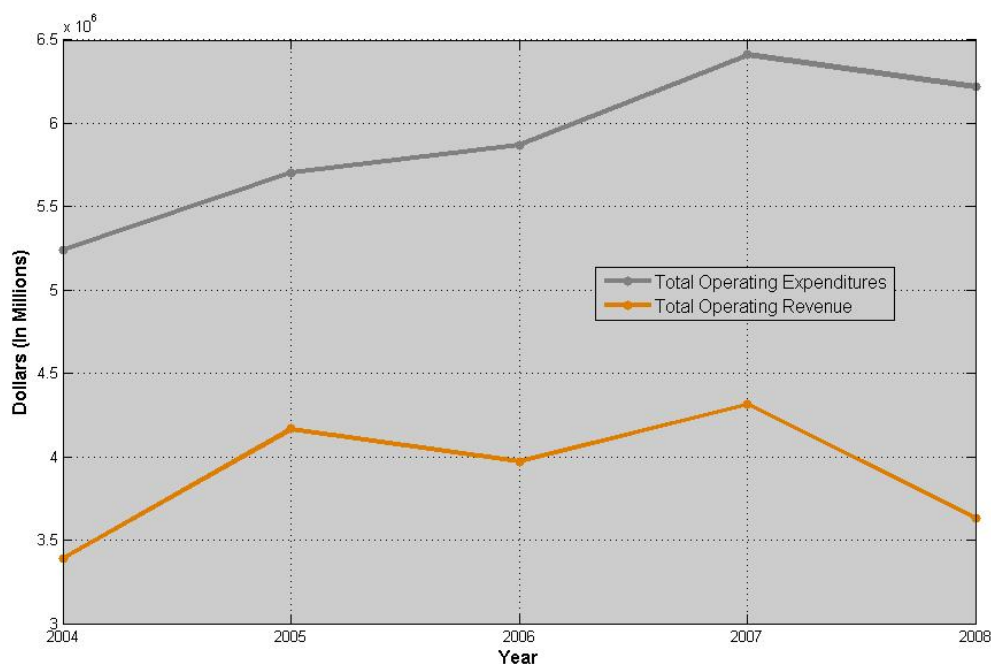
Year	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Total Operating Revenues	\$3,389,852	\$4,168,563	\$3,971,999	\$4,314,095	\$3,632,468
Total Operating Expenditures	\$5,241,532	\$5,705,100	\$5,868,510	\$6,410,538	\$6,218,222
Operating Income	-\$1,851,680	-\$1,536,537	-\$1,896,511	-\$2,096,443	-\$2,585,754
Operating deficit as a percentage of total operating expenditures	35.3%	26.9%	32.3%	32.7%	41.6%

Source: Florida TaxWatch analysis of Escambia County Comprehensive Annual Financial Reports, 2004-2008.

Since FY 2004, tax dollars have covered no less than one-quarter of the total operating expenditures of the Pensacola Civic Center. The County is currently under contract with SMG, a private management company for public facilities, to operate the facility – although the County remains responsible for its losses and for reporting its revenue and expenses. During FY 2007-08, SMG was paid management fees of \$320,802.

As a point of reference, the Tallahassee/Leon County Civic Center, which is internally managed, has required supplemental operating funds from the City and County in only 5 of the last 28 years for a total accumulated contribution from taxpayers of well below \$1 million. While other circumstances exist that may contribute to these significant financial operating differences, it is worth noting the greater financial burden that the taxpayers of Escambia County bare in supporting thier Civic Center. During previous years, the Pensacola Civic Center has consistently required a significant amount of tax dollars to supplement its operations. SMG, the facilities management company, acknowledged that recent losses were higher than they would normally expect, but offered various explanations as to what may have contributed to the larger losses.

**Figure 7: Five-Year Time Series of Pensacola Civic Center Operating Losses
FY 2004 – FY 2008**



Source: Florida TaxWatch analysis of Escambia County Comprehensive Annual Financial Reports, 2004-2008.

In February 2007, an auditing firm hired by the County Clerk and Comptroller, released a report on the Civic Center. The internal audit report offered a number of recommendations relative to the operations of the Civic Center and related contract with SMG. We did not follow up on the auditor's recommendations to see if corrective action had been taken, however we noticed that they had concerns similar to our own regarding the lack of a meaningful financial incentive built into the contract. We were told by SMG's management staff that the main reason that contract incentives were not based on the net operating income of the Civic Center was that it could have

negative consequences on the tax-exempt bonds that were used to finance the facility. As a consequence, in accordance with contract terms, SMG has been awarded fairly significant financial performance incentives, even though the County has to heavily subsidize the Civic Center operation.

The primary interest of Florida TaxWatch relative to the Pensacola Civic Center is for it to operate as successfully as possible for the public good and with the least amount of burden to taxpayers. **Additionally, as a result of current conditions and perceptions, we believe it would be useful for the County to consider establishing a Civic Center Advisory Board or Council made up of appropriate and capable individuals committed to the success and greatest public benefit of the Civic Center facility, while also attempting to reduce the level of public funding necessary to support its operations.** Such a specifically focused board could provide more direct oversight and direction to the Civic Center, while serving in an advisory capacity to the Board of County Commissioners relative to budgets and other significant issues impacting the Civic Center. Having such a Board made up of community stakeholders will ensure opportunities to influence the business and operational success of the Civic Center and decrease the reliance on tax dollar support for its operations.

Like with the expenditure of LOST funds, a Citizens Advisory Board for the Civic Center would improve oversight of the management and operation. An Advisory Board would also engage the expertise and experience of the community in operating the Civic Center. Florida TaxWatch recommends the formation of a Citizens Advisory Board to advise the Board of County Commissioners about the operation of the Pensacola Civic Center.

Ambulance Service

As part of our review, we examined certain enterprise fund operations that were losing money. Enterprise fund operations generally charge for goods or services that they provide, and ideally the fees charged cover the cost of the service so that each fund more-or-less breaks even each year. The department that manages the County ambulance service indicated that they had requested a \$1.5 million subsidy for the ambulance operation for the current fiscal year. Additionally, it was noted that much of the ambulance service vehicles and equipment were funded from LOST funds, so the actual County subsidy is greater than it appears. Due to time constraints, our review of this area was limited. However, we did note that one option that the department had not fully explored was the outsourcing of the County ambulance operation. The County should do all that it can to ensure that such enterprise fund operations are as close to self-supporting as possible. Another option that may be implemented is to merge the ambulance and fire services. When large recurring subsidies are required in enterprise fund operations, all options should be fully explored to eliminate the need for additional County funds. The goal of County leadership should be to reduce operating subsidies for enterprise fund operations.

Establishment of a Countywide Internal Performance Audit Function

In our earlier report, we noted that the County Clerk provides a limited auditing function for the County. The Clerk provides a pre-audit function of Board of County Commissioners

expenditures as required by law and also contracts with private accounting firms for a limited number of internal audits. The internal audits are primarily operational and compliance focused, and conducted at the departmental level. Operational and compliance audits do not generally assess performance and efficiency of operations to ensure that the County is providing effective government programs at a reasonable cost. More significantly, the separate Constitutional Officers, which account for over 60% of County General Fund uses, are not subject to audit by the Clerk. Because of budget shortfalls in the Clerk's Office, the contracting of internal audits was suspended for the current year. A competent and capable performance auditor should be able to assist management in finding ways to reduce costs.

Florida TaxWatch recommended in 2008 report that Escambia County creates an independent audit function, established with the cooperation of the Board and Constitutional Officers, to assist in ensuring County cost effectiveness and foster greater trust and confidence from County citizens. It does not appear that the County took any action relative to this recommendation. Florida TaxWatch continues to believe that this function would assist management in making a more thorough assessment of programs, operations, and compliance with laws, rules, and regulations, as well as identifying cost reduction opportunities.

In our prior report, we also envisioned that this function would report to an audit committee comprised of knowledgeable citizens appointed in an equitable manner by the Board and Constitutional Officers. This structure would allow auditing across County organizational lines. Without a formal legal change, this effort would require voluntary adoption by the Board and five Constitutional Officers. While some of the Constitutional Officers fiercely guard their independence, an objective and competent internal audit function could provide good value to the citizens of Escambia County by making all County offices subject to internal audit, offering suggestions for eliminating duplication and inefficiency, and enhancing the transparency of all of County government.

We understand that a current audit committee has existed for some time, but their role has been limited to selecting an external auditor to audit the County's financial statements. They appear to have played no role in reviewing the results of such external audits or the recommendations contained in the external audit reports.

In our prior study we noted that in addition to providing performance audit work, internal audit offices often maintain a "hotline" where reports of fraud, waste, and abuse can be reported for independent review and appropriate follow-up. During the course of our prior review, we received a number of comments and concerns from various individuals that might typically go to an internal auditor for review. During the conduct of this study, we received a call alleging an instance of retaliation for reporting the misuse of County resources (as well as additional wasteful spending and management practices). In situations such as this one, employees become fearful for their jobs and it can be challenging to investigate such instances while maintaining the confidence and anonymity of the whistleblower. Follow-up of such complaints was beyond the scope of our review. However, having a respected, independent, and objective internal auditor on staff, who is familiar with the County organization, operations, and culture, would provide an appropriate avenue for employees and citizens to report concerns and an appropriate means to investigate such complaints to separate fact from perception and maintain the confidentiality of those involved. **Florida TaxWatch again recommends that Escambia County enact an independent internal audit function and establish a "hotline" where reports of fraud,**

waste, and abuse can be reported. Given the current economic climate, a top priority of such a function should be to assist management and their departments in identifying cost reduction opportunities.

Reducing the County's Social Security Tax Costs

Federal tax laws provide methods for the County to reduce its share of the social security tax through programs often referred to as "401(a) Special Pay Plans" and "401(a) FICA Alternative Plans." With regard to the "401(a) Special Pay Plans," retiring employees can place the payment of their leave payout in special retirement accounts, subject to limitations, that make such payments exempt from social security taxes. This not only benefits the employees that participate in the program, but reduces the County's cost because the County does not have to match any social security payment for these employees. With the "401(a) FICA Alternative Plan," the County can create retirement savings accounts for part-time and temporary employees that require contributions from employees near what they would have paid in social security. This plan exempts the payments to these part-time and temporary employees from social security and saves the County money by not requiring them to match the social security payment. Since the Board and most of the Constitutional Officers have separate payroll and accounting systems, information was not readily available to estimate the savings the County could expect as a result of implementing such programs. However, the Escambia County Human Resource Director and Benefits Manager expressed an interest in pursuing this suggestion further. **Florida TaxWatch recommends that the County consider all potential cost savings opportunities to reduce County expenditures and the corresponding tax burden on the citizens of Escambia County, including exploring the development of a "401(A) Special Pay Plan."**

Enhancing Employee Recognition and Reward Program

Escambia County currently has a program to recognize and reward employees who excel in their everyday efforts. However, it does not appear that the program has been very active. While Florida TaxWatch commends the County for having such a program, a more specific focus to the program that fosters a culture committed to cost savings, cost avoidance, and maximizing return on resources can save the County significant amounts of money. In addition, involving the private sector in the judging and recognition process would enhance the independence of the program and the stature of such awards, while bringing a fresh perspective and additional expertise to the process. A modest one-half-of-one-percent (0.5%) to one-percent (1%) savings on a \$330 million budget would generate \$1.6 to \$3.3 million per year.

The Prudential-Davis Productivity Awards program is a major government improvement initiative chaired by Lt. Governor Kottkamp, and administered by Florida TaxWatch. This program is sponsored by Florida TaxWatch, The Florida Council of 100, the State of Florida, and the business community. In addition to Prudential's generous support, numerous corporate, individual, and philanthropic contributors supplement the awards program. Now celebrating its 21th Anniversary, the program recognizes and rewards state employees who clearly exceed their job descriptions and performance expectations in ways that improve service delivery and save

money for Florida taxpayers. There are cash awards of \$250 to \$2,750, plus commemorative plaques and certificates of commendation. The 2009 awards competition attracted 559 nominations for innovations and productivity improvements worth \$342 million in cost savings, cost avoidances, and increased revenue for state government. The program saves even more money by working with agencies and government officials to replicate the cost savings measures recognized and rewarded during the annual competition. Over the past 20 years, award winners have posted a total of \$6 billion in added value for Florida taxpayers and businesses. The County could model a local program on this successful and highly effective statewide program.

During these lean economic times, it is all the more important to establish, promote, and reward an employee culture committed to cost savings and cost avoidance. Few individuals are better suited for identifying cost savings opportunities than motivated and creative staff that have firsthand knowledge of the County's business processes and required outcomes. **Florida TaxWatch recommends that the County enhance the existing awards program or establish a separate awards program specifically focused on improving efficiency and generating cost savings. The new awards would be based upon a three-pronged program to recognize, reward, and replicate innovations and cost savings across departments and throughout County government. The judging of nominees and awardees must be impartial, and should engage civic and business leaders that have credibility and experience with efficient management and organizational operations.**

Other Cost Saving Ideas for the County to Consider

Additional cost savings ideas were offered to County staff, which they indicated they have or are currently exploring. Due to time constraints, we did not validate the effectiveness of their actions. These recommended cost saving ideas include:

- **Criminal justice.** A number of issues were noted in the criminal justice area, including with regard to the Escambia County Pre-Trial Release Program (the details of which are noted in a forthcoming report of the Escambia County Taxpayers' Association).
- **Travel costs.** Although the County Administration had taken action to restrict travel, questions were raised about the necessity of specific travel costs, including one incident relating to the Road Prison.
- **Renegotiating contracts.** With the current economic climate, many vendors are willing to renegotiate more favorable contract terms.
- **Underutilized assets.** Selling or leasing unnecessary or underutilized County assets.
- **Equipment and technology.** Reevaluating equipment and technology expenditures, from cell phones to copiers.

We applaud the County staff for their initiative in these areas and encourage them to continue to seek creative ideas to maximize County financial resources to the benefit of Escambia County taxpayers.

Conclusion

Included in this report are a number of cost savings ideas and areas where appropriate cost reductions opportunities exist which should be considered to reduce the tax burden on the citizens of Escambia County. To properly and fully implement these ideas across departments, constitutional offices, and other government entities, much work is still necessary. Implementation of significant initiatives and recommendations as contained in this report requires commitment, cooperation, momentum, and individuals willing to champion the effort. The key to substantial potential savings is found in the consolidation of services and functions of all local governments. This will not be easy. Each “silo” has a staff person who may well be opposed to relinquishing his/her autonomy regardless of the potential savings. In contrast, a private business would have already implemented consolidation of major functions like IT, human resources, and the purchasing and maintenance of vehicles. Escambia County and all of its governments, including the City of Pensacola, should begin this effort now. Finally, a freeze on hiring with the exception of critical job functions and a freeze of all pay increases for FY 2009-10 should be carefully considered. **Florida TaxWatch recommends that the County establish a task force of respected citizens from the local business community to ensure the effective implementation of the recommendations contained in this report. Involving community minded business leaders offers additional skill-sets, citizen involvement, and helps ensure that the potential benefits become a reality.**

This Florida TaxWatch *Special Report* was written by **Larry Reese**, CPA, Florida TaxWatch Center for Local Government Studies Consultant; **Deborrah Harris**, Florida TaxWatch Chief of Staff; and **Robert Weissert, Esq.**, Special Counsel to the President and CEO of Florida TaxWatch; with the assistance of **Balazs Koor**, Research Intern; and **Katie Hayden**, Florida TaxWatch Research and Communications Assistant; under the direction of **Deborrah Harris**, Florida TaxWatch Chief of Staff; **Robert Weissert, Esq.**, Special Counsel to the President and CEO of Florida TaxWatch; and **Dominic M. Calabro**, Florida TaxWatch President and CEO.

David A. Smith, Chairman; Dominic M. Calabro, President, Publisher, and Editor.

Florida TaxWatch Research Institute, Inc.

www.FloridaTaxWatch.org

© Copyright Florida TaxWatch, July 2009

Florida TaxWatch acknowledges the generosity of the Escambia County Taxpayers Association, Inc., and the contributions of its members, who provided the financial support to make this report possible. We extend our sincere thanks to these civic minded citizens for the confidence placed in the work of Florida TaxWatch and for their active role in ensuring the economic health and vitality of their Escambia County.

About The Center for Local Government Studies

The Florida TaxWatch Center for Local Government Studies conducts research projects and performs contract research for Florida city and county governments. Our services promote improvement of local government operations, modernization of local government structure, and competition for delivery of local government services. Our objectives also include the identification and promotion of local government best practices, and executive and staff recognition and rewards.

About Florida TaxWatch

Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 30-year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

Supported by voluntary, tax-deductible memberships and grants, Florida TaxWatch is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, large corporations, philanthropic foundations, professionals, associations, labor organizations, retirees -- simply stated, the taxpayers of Florida. The officers, Board of Trustees and members of Florida TaxWatch are respected leaders and citizens from across Florida, committed to improving the health and prosperity of Florida.

With your help, Florida TaxWatch will continue its diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer, who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and government agencies are more responsive and productive in the use of your hard-earned tax dollars.

The Florida TaxWatch Board of Trustees is responsible for the general direction and oversight of the research institute and safeguarding the independence of the organization's work. In his capacity as chief executive officer, the president is responsible for formulating and coordinating policies, projects, publications, and selecting professional staff. As an independent research institute and taxpayer watchdog, Florida TaxWatch does not accept money from Florida state and local governments. The research findings and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff, distinguished Board of Trustees, or Executive Committee, and are not influenced by the positions of the individuals or organizations who directly or indirectly support the research.

Florida TaxWatch Values

◆ Integrity ◆ Productivity ◆ Accountability ◆ Independence ◆ Quality Research

For a copy of this *Special Report*, please call:
(850) 222-5052

OR

Write to Florida TaxWatch at: P.O. Box 10209
Tallahassee, FL 32302

OR

Access and download the report at:
www.FloridaTaxWatch.org where this *Special Report* was initially
released before being printed in hardcopy format



NON-PROFIT ORG.

U.S. POSTAGE
PAID

TALLAHASSEE, FL
Permit No. 409