

Fiscal Year 2008-09 and Beyond

Enhancing Efficiencies in the City of Jacksonville



A Florida TaxWatch Special Report by
The Center for Local Government Studies
at Florida TaxWatch
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August 11, 2008

Dear Mayor Peyton, Jacksonville City Council, and Fellow Citizens of Jacksonville,

Jacksonville, like many cities around Florida and the United States, is operating in difficult fiscal and economic times that require creative, innovative, and bold leadership. Mayor Peyton and the Jacksonville City Council have consistently worked hard to keep the City's budget under control amid rising costs and service demands.

Florida TaxWatch was invited by then-City Council President Daniel Davis, and further welcomed by Mayor John Peyton, to assist in identifying cost savings and enhancing efficiencies in the City of Jacksonville. Increasing efficiency will help ensure that more resources are directed to the vital services of the City and important quality of life initiatives, such as the "Jacksonville Journey." Together, with the release of the Mayor's proposed budget and his plans to maintain a careful balance of citizen safety and quality services, this Florida TaxWatch *Special Report* has identified tens-of-millions of dollars worth of savings that will add value to the City's operation.

Especially in tight fiscal times, it is important that the City take extra steps to operate efficiently and provide the services that the citizens rightfully expect and deserve. Proactive government is critical to maintaining the excellent quality of life and healthy business environment that keeps Jacksonville thriving. Raising taxes and fees in a recession is like adding fuel to a fire.

Through the Mayor's and City Council's leadership, we hope that the City will integrate these ideas into an action plan that will ensure significant and systemic changes. These improvements will assist the community in "weathering" the current economic downturn, protect the City's fiscal future, and ensure the City of Jacksonville remains an affordable place to live, while promoting a healthy and growing economy.

Providing long-term solutions for the fiscal health of the City of Jacksonville will improve the well-being and prosperity of the citizens and taxpayers of Florida's First Coast. Florida TaxWatch stands ready to help the City's officials and leading citizens implement these valuable cost savings and structural improvements. It is now up to the Jacksonville community to turn the current budget challenges into opportunity.

Respectfully submitted,

David A. Smith

Dominic M. Calabro

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"Improving taxpayer value, citizen understanding and government accountability"

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Executive Summary

Florida TaxWatch was invited by then-City Council President Daniel Davis, and further welcomed by Mayor John Peyton, to assist in identifying cost savings and enhancing efficiencies in the City of Jacksonville. The focus of this project is the successful identification of innovative cost-saving ideas, intended to provide significant and systemic change to assist the City in (1) “weathering” the current economic downturn and (2) preparing for the City’s future. It is also intended to provide ideas to support the City’s immediate challenge of addressing anticipated property tax revenue reductions resulting from the passage of Constitutional Amendment 1.

Florida TaxWatch offers the following observations and recommendations to assist the City’s leaders and taxpayers with its current budget challenges, as well as meet their future needs. Implementation of these recommendations will require varying levels of effort and time to realize the potential savings, both near-term cost savings and longer term structural improvements.

Near-term Savings Realization: The following observations and recommendations will require some analysis and effort with near-term savings realization by the City:

Reducing the City’s Social Security Tax Costs

Florida TaxWatch has identified a method by which the City could potentially reduce its Social Security costs by over \$3.2 million. The savings can be realized by implementing an alternative retirement savings program (401(a) FICA Alternative Plan) for part-time, temporary, or other employees that are not in an existing pension plan.

Further Realizing Sales Tax Exemptions on Construction Materials

Florida TaxWatch has identified an opportunity to realize approximately \$1 million that could have been saved in the prior fiscal year, had the City’s sales tax exemption been fully utilized on the materials portion of construction contracts. There may be some procurement and storage costs incurred in this cost reduction strategy.

Reducing the Cost of City Elections

The cost of City elections could be reduced with several changes in practice:

- Moving the City’s local elections to a fall cycle that coincides with the state and federal election cycle would save over \$3.4 million each City election cycle (every 4 years).

- Discontinuing the practice of paying the return postage cost on absentee ballots in all elections would save more than \$50,000 each election year.
- Florida has mandated early voting to assist the public in accessing polling facilities (Section 101.657, Florida Statutes). Duval County currently provides this service at 15 local sites (downtown and at branch libraries), costing approximately \$250,000 per election. Limiting early voting to fewer sites, or just the downtown site, could eliminate a majority of this cost.

Improving Cash Management

While the City has recently become more aggressive in its investment strategy, a five-year comparison with State Treasury rates indicates that the City could have earned \$3.5 million more per year, on average, if the State Treasury pool had been used. The City should consider expanding its performance benchmarks to include the State of Florida investment pool and include experts from the private sector on its investment committee. In addition, the option to use the State of Florida Treasury investment pool should also be considered.

Long-term savings realization: The following observations and recommendations will require *extensive* analysis and effort by the City, resulting in great long-term savings:

Avoiding Unsustainable Growth in Expenditures

Analysis of growth in expenditures for the last five years indicates the cost of funding the Sheriff and Fire/Rescue significantly outpaced the sum of the inflation rate and percentage increase in population. The Sheriff and Fire/Rescue represent approximately 50 percent of the City's General Fund budget.

For the fiscal years 2002 to 2007:

- The Sheriff's budget increased nearly \$100 million, or 50 percent; staffing increased by approximately 11 percent.
- The Fire/Rescue budget increased nearly \$45 million, or 46 percent; staffing increased by approximately 11 percent.
- Even with the cost increase, data provided by the Sheriff's Office indicate fewer officers and less cost-per-resident than other major Florida cities.

Most of the increased budget was used to fund the rising cost of operating expenses and personnel services, primarily retirement costs. Only a modest amount of this significant increase went to hire additional police officers to serve and protect the City of Jacksonville and its people.

Reducing Risk of Future Employee Benefits Obligations

The cost and risk of future employee benefits needs to be addressed to ensure the City can sustain its core services at a reasonable cost to taxpayers. While this is an issue involving employee union negotiation and legislative action, a resolution to address the following observations is essential.

- As of September 30, 2007, the City's two pension funds (the General Employee Pension Fund and the Police and Fire Pension Fund) had unfunded actuarial accrued liabilities (UAAL) of \$231 million and \$534 million, respectively, for a total of \$765 million. For purposes of perspective, this amount will require the average annual property tax collections of 900,000 households, or approximately 1.8 times the City's total annual property tax receipts.
- The General Employee Pension Fund's unfunded actuarial accrued liability (UAAL) of approximately \$231 million represents a 10% UAAL for general employees and 33% for correctional officers. The UAAL for the Police and Fire Pension Fund of \$534 million is a 36.5% UAAL.
- The UAAL for these funds are higher as of June 30, 2008, and continuing to increase with the current economic downturn. The UAAL is based upon assumptions, such as rate of return, annual pay increases, and mortality rates. Errors in these assumptions, which are estimates, can have a significant impact on the UAAL.
- Managing the two plans separately results in duplicative administrative costs. Administrative costs of the two separately-managed pension funds have grown at approximately 30% over each of the last two years. Management reports this increase to be primarily the result of an information technology system implementation.
- The City's annual portion of the retirement contribution for each police and fire/rescue professional has increased to over 32 percent of their salary, due to the UAAL.
- The Police and Fire Pension Fund's Deferred Retirement Option Program (DROP) fund benefits guarantee retired police and fire rescue professionals a generous return of 8.4 percent on their accumulated DROP funds for life. The current economic downturn, could cost the City over \$20 million (assuming a 6% market loss for fiscal year 2007-08), an amount which is approximately the value of property tax levies on 23,000 households in Jacksonville.
- Any savings from lowering the DROP program's costs and the unsustainable future pension obligations could be reallocated to improving direct service in critical areas and neighborhoods throughout the Jacksonville community, such as those recently identified by the "Jacksonville Journey" initiative.

Properly addressing pension challenges and risks could save future taxpayers tens-of-millions, if not hundreds of millions, of dollars. The City can reduce its risk exposure from future employee benefit obligations by addressing the type of pension funds offered, the level of pension benefits, funding practices, actuarial assumptions, and/or administrative costs. Many private organizations have moved to defined contribution plans, which require pay-as-you-go funding and do not inhibit employee mobility. Many government organizations are also now offering alternatives to defined benefit plans.

Leveraging Organizational Strengths and Purchasing Power

Cost savings between closely related government organizations within the City should be sought out in good times, and especially during this challenging economic climate. The City has reported savings from centralizing administrative services among its departments. Additionally, collaboration and appropriate consolidation of administrative and support functions and activities should be sought between the City, Constitutional Officers, independent Authorities, and other local government entities to leverage purchasing power, share best practices, and encourage other information/resource sharing.

Florida TaxWatch provided a list of frequently purchased commodities that could be used to conduct a “market basket” comparison with other organizations. A 1 percent savings goal realized from leveraging the purchasing power, sharing best practices, and encouraging resource sharing among city/county entities would result in over \$20 million in savings, collectively. Even more could be saved if the local school districts, colleges and universities participated. For such an initiative to be successful, it is critical that the leadership of the various entities be supportive and committed to this effort.

Incentives to groups accomplishing savings in this manner should be provided to foster the collaboration. Provisions should also be made to recognize and address any personal sacrifice that may occur from an employee making a suggestion that is in the best interest of the City, but perhaps not their self.

Enhancing Employee Recognition & Reward Program

Especially 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 to identify potential cost-savings than motivated and creative staff that have firsthand knowledge of the City’s business processes and required outcomes.

While Florida TaxWatch recognizes the City has a program to recognize and reward its employees a more specific focus, intended to foster cost savings and cost avoidance could save

the City millions of dollars. The Prudential-Davis Productivity Awards program for the State of Florida (a highly successful and nationally recognized government productivity partnership between Florida TaxWatch, the State of Florida and the Florida Council of 100 for 20 years) is a recognition program that offers robust commitment, with great stature and credibility, and substantial taxpayer savings, year after year. A modest one-half-of-one percent savings of the City's billion dollar budget would generate \$5 million per year.

Florida TaxWatch encourages the City to enhance or establish a separate awards program, specifically focused on improving efficiency and generating cost savings. These new awards would be based upon a three-pronged program to recognize, reward, and replicate innovations and cost savings across departments and throughout City 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 operations. An example of the evaluation criteria used in the Prudential-Davis Productivity Awards program to determine winners is included in Appendix A.

Managing for Results

Managing for results is accomplished by recognizing citizen needs and desires (through surveys, focus groups, and data benchmarking) and then collectively managing the services that must collaborate to attain common goals. For example, leaders manage for results by establishing measureable key public safety objectives, and managing a consortium of City managers critical to their success. Other examples are:

- Safe community: sheriff, fire, neighborhood programs, social work, emergency dispatch, public works, transportation
- Economic Development: seaports, highways and roads, airport, neighborhoods, health care
- Healthy Community: health care, social work, physical environment, sheriff, fire
- Fiscal Responsibility: finance and accounting, treasury, budget, human resource, internal services – e.g., information technology, fleet management, legal services

The City can foster effective and efficient government and save millions of dollars by managing across its various organizational lines, with informal groups of City leaders. This approach will help prevent the City's organizational "silos" from inhibiting the accomplishment of outcomes that require collaboration and cooperation across organizational units.

While the City is pursuing strategic initiatives and further implementation of a performance measurement system, Florida TaxWatch encourages the City to establish a formal strategic plan and implement strategic performance measures (a sample template of strategic performance

measures was provided to the City and is included in Appendix B). A focus on managing for results will help the City ensure the best balance in its strategic initiatives (e.g. libraries vs. police presence vs. low millage rate) and should include defining an expected return on investment that is measured against actual results.

Managing Facility Cost

While the City has vacated real estate along the river to realize revenue from its sale and development, Florida TaxWatch found that better data-based facility management (including buy vs. lease price comparisons and use of facility space utilization standards) could provide cost-savings to the City. State and national benchmarks of square footage cost and space utilization are readily available for making performance comparisons. As a conservative example of savings, if the City could achieve a 10 percent reduction in its administrative space, a potential annual savings of \$2 million or more could be attained. In addition, efficient space utilization is a positive “going green” environmental initiative.

Leveraging Technology

Although the City did not provide us a comprehensive assessment of their technology needs, our interviews indicated the City has an operational, but not strategic, information technology plan. Their current administrative systems utilize highly-customized systems that do not provide for real-time data entry. City staff reports a culture of “too much paper.” The accounting and human resource system of the City does not provide for the ease of use and management cost data needed for maximum efficiency. Old and outdated systems that are not fully-integrated can hinder the productivity of staff and limit information available for decision making.

Maximizing Competition and Outsourcing Best Practices

Any serious effort in streamlining City operations and securing low-cost services for the citizens of the City of Jacksonville would not be complete without exploring and capitalizing on the opportunities competition can offer through proficient outsourcing. Areas ripe for serious consideration include: information technology, fleet maintenance, payroll processing, benefits management, and social services. Florida TaxWatch recommends that the City of Jacksonville adopt the model, systems and processes similar to those that were successfully used by the City of Indianapolis, Indiana in maximizing the benefits of competition and outsourcing best practices. By implementing this strategic initiative in a proficient and timely manner, the City of Jacksonville can save many millions of dollars annually and improve the delivery of City services and functions.

Maintaining an Active Audit Committee

Maintaining a strong and active audit committee can help ensure accountability and boost public trust. An audit committee is recommended by professional internal auditing standards and can help ensure the proper focus of internal auditing activities. Florida TaxWatch has noted key functional areas in the City that had not recently been subject to audit. Supplementing the City Council’s audit committee with volunteer members from the community that have auditing expertise could further strengthen the effectiveness of the committee.

Financing of Motor Vehicles

The City previously acquired motor vehicles on a “pay-as-you-go” basis; but, having used their vehicle reserve for operations, is now acquiring motor vehicles using financing arrangements. Florida TaxWatch recommends returning to the more prudent pay-as-you-go basis of acquiring vehicles.

Implementing Cost-Saving Ideas and Efficiencies

To properly and fully implement these ideas across departments, constitutional offices and other City-related entities, much work is still necessary to realize the potential benefits from this effort. Implementation of significant initiatives requires proper planning, accountability, momentum, and individuals willing to champion the effort. A task force of respected citizens from the local business community (appointed by the Mayor and City Council) is needed to lead the charge necessary to ensure the effective implementation of these recommendations. Involving community minded business leaders offers additional skill-sets, citizen involvement, and helps ensure that the potential benefits become a reality.

* * * * *

A detailed discussion of each of these observations and recommendations is contained in the report.

We wish to thank the City leadership, staff, and citizens that assisted Florida TaxWatch with the gathering of information and resources needed to conduct this review and generate this report. Florida TaxWatch hopes that the City of Jacksonville will benefit from this independent cost savings endeavor, now, and for many years to come, so that the City can enhance its reputation as a model of good, effective, and efficient local government promoting the confidence and respect of its citizens.

Introduction

The City of Jacksonville¹

Jacksonville, the largest city in land mass in the continental United States, is a major metropolitan area located in Northeast Florida, with a rapidly growing population of approximately 900,000 residents. Under its “strong mayor” form of government, the city’s residents elect a Mayor and a 19-member City Council, with five at-large members and 14 district members. The Honorable John Peyton is Jacksonville’s sixth mayor since the consolidation of the Duval County and City of Jacksonville governments in 1968.

Due to its prime location, mild climate, reasonable cost of living, excellent quality of life, and business-friendly government, Jacksonville is a popular location for corporate expansions and relocations. Jacksonville’s status as an intermodal transportation hub is a tremendous asset for the City, which is also a leading distribution center. With a transportation network that includes port and air cargo facilities and rail and trucking routes, millions of tons of raw materials and manufactured goods move through the City annually.

Jacksonville’s status in the national and international marketplace continues to gain momentum. In fact, Jacksonville is consistently rated one of the “Hottest Cities in America” for business expansions and relocations in an annual poll featured in *Expansion Management* magazine. Ranked number eight in 2006, it has been in the top 10 for six consecutive years and is the only city to claim the number one spot, three times. Meanwhile, Jacksonville ranked 11th in *Inc.* magazine’s list of “Best Cities for Doing Business” in 2006.

As a briskly expanding municipality, Jacksonville is recognized as a national leader in managing growth and development. Mayor Peyton formed a growth management task force in 2005 and is now focused on the committee’s research and planning recommendations, which form a vision for the next 25 years. The overall strategy involves balancing commercial and residential development with transit and infrastructure capacity while preserving green space.

One of Jacksonville’s many natural assets is being home to one of the largest urban park systems in the country. These parks and preservation lands are a key part of Jacksonville’s quality of life, as are the miles of beaches and waterways, a major symphony orchestra, sports and entertainment complex downtown, and a myriad of special events that the city hosts each

¹ This City of Jacksonville information was taken from the City Profile from the City of Jacksonville fiscal year 2008 Annual Budget.

year. In addition to being the home of the NFL's Jacksonville Jaguars, the City welcomed its first Super Bowl in 2005.

With a growing population, a strong economy, diverse cultural and recreational opportunities, and abundant natural resources, Jacksonville continues to distinguish itself as one of the nation's most dynamic and progressive cities.

Budget Challenges

The City of Jacksonville is a dynamic City with significant potential, as well as a host of challenges not unlike other major metropolitan areas. In recent years, property values have increased dramatically across the State of Florida. Even though many local governments rolled back (reduced) millage rates, local governments still realized significant increases in tax revenues resulting from the dramatic increases in property values. As a result, 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. The City of Jacksonville, recognizing its low millage rate, was placed in the 3% category, approximating a \$65 million rollback.²

Amendment 1 increased the current exemption for homesteaded property, allows property owners to transfer a portion of their "Save Our Homes" benefits to their next homestead (known as "portability"), limits the annual increase in assessed value for non-homestead property to 10%, and provides an exemption for a portion of tangible personal property taxes. While the exact fiscal impact of these changes is not yet determined, it is estimated by the Jacksonville budget office to be approximately \$40 million annually.

According to the City's 2007 Comprehensive Annual Financial Report, the City passed a referendum, limiting the growth in property tax revenue, separate from new construction, to 3 percent annually. The City's General Counsel determined that the vote was advisory and not mandatory, but each Mayor and City Council (from 1993 through 2005) has abided by the referendum. Being a consolidated city/county government, the constitutional millage rate cap

² City of Jacksonville Comprehensive Annual Financial Report, Fiscal Year Ending September 30, 2007

is 20 mills, which is the combination of the 10 mills that can be assessed by a city and a county government. The City has repeatedly reduced its millage rate over the past 12 years, from 11.31 mills in 1994-95 to 9.64 mills in fiscal year 2006-07. However, the City's related tax revenue collections continued to increase throughout the period. During 2005-06, the City elected to forgo the 1993 "advisory" property tax revenue limit passed by referendum, collecting greater than the 3 percent limit contained in the referendum. However, the 2007 legislatively mandated 3 percent roll-back resulted in the City's fiscal year 2006-07 millage rate of 9.64 mills decreasing to 8.48 mills for the fiscal year 2007-08.

To meet the budget challenges of fiscal year 2007-08, the City implemented budgetary reductions and three new commonly exercised local government user fees: (1) garbage fee, (2) storm water fee, and (3) utility franchise fee. Additional budget challenges remain for 2008-09, as the impact of Amendment 1 will begin to take effect.

A Record of Accomplishments

Florida TaxWatch recognizes the City has made a number of accomplishments. A sampling of these accomplishments includes the bold initiative of consolidation that the City of Jacksonville and Duval County put in place in 1968. In 2001, the City won the prestigious Sterling award and, more recently, received significant awards from the Government Finance Officers Association. The City administration has conducted internal efficiency reviews projected to save millions of dollars per year and appears to have done much more to improve the City's operations and the quality of life of its citizens. The Mayor and other City leadership appear aggressive in attempting to deal with the multitude of issues facing the City. While several suggestions are offered in this report to save money, improve processes, and focus attention to certain aspects of the City's operation, it is not the intent of Florida TaxWatch to diminish all of the positive accomplishments and efforts that have been and are being made by the staff and leadership of this large, complex, and wonderful City.

The Role of Florida TaxWatch

Florida TaxWatch is a statewide, nonpartisan, nonprofit research institute and government watchdog organization. It receives no government funding and its mission is to provide the citizens of Florida and public officials with high quality, independent fiscal, economic, tax and expenditure research, government accountability and citizen education. Monies to fund this project were raised from private sources primarily from citizens of the City of Jacksonville who were interested in an objective assessment of the City's spending practices and for further

opportunities to improve the efficiency of their local government, including near term and long term meaningful cost saving ideas.

Purpose

The focus of this project is the successful identification of innovative cost-saving ideas intended to provide significant and systemic change to assist the City in (1) “weathering” the current economic downturn and (2) preparing for the City’s fiscal future. The study will provide ideas, and where possible “An Actionable Cost Savings Plan”, to support the City’s immediate challenge to address anticipated property tax reductions resulting from the passage of Constitutional Amendment 1.

Methodology

This review was conducted through interviews with department heads and other staff; studying the City’s history, challenges, and successes; analysis of various financial data; examination of selected documentation and business processes; multiple on-site visits; and review of various City improvement and quality initiatives and good public management practices and accomplishments enjoyed by other local governments which could be adapted to benefit the City of Jacksonville and its people. This review was not an audit, nor did it include a comprehensive departmental process review. Observations and recommendations were based on approximately four months of field work and incorporated the ideas of City staff, current and past elected officials, business and civic leaders in Jacksonville, as well as the knowledge and experience of Florida TaxWatch professional research staff and consultants.

Potential Cost Savings and Efficiencies

Reducing the City's Social Security Tax Costs

Federal tax laws provide state and local governments with employee pension plans an option to not participate in the federal Social Security program, except for the Medicare portion of the tax. Making the decision not to participate reduces the employer's or local government's required matching contribution. The City of Jacksonville, like many other local governments, has chosen this option. However, the City has a number of part-time or temporary employees that do not participate in the City's pension plan, so these employees and the City are subject to paying Social Security taxes relating to these specific employees.

Many local governments, school districts, community colleges, and universities have implemented "401(a) FICA Alternative Plans," which are retirement savings programs for part-time, temporary, or other employees that are not in an existing pension plan. These programs provide for the employees to contribute amounts approximately similar to what they would have paid in Social Security taxes to an authorized retirement savings account. As a result, the government employer does not need to match the employees' contributions.

Florida TaxWatch was told by City staff that the City pays approximately \$3.5 million per year for Social Security taxes, of which a little over \$200,000 is for City employees participating in the Florida Retirement System Plan, rather than the City's pension plan. It does not appear that the remaining employees paying Social Security taxes are in any other form of retirement plan, which may make them eligible to participate in the "401(a) FICA Alternative Plan." Use of this plan has the potential to save the City in excess of \$3 million per year, if fully utilized. To save Social Security costs, **Florida TaxWatch recommends** the City consider adopting a "401(a) FICA Alternative Plan".

Further Realizing Sales Tax Exemptions on Construction Materials

The Public Works department provided data indicating the City saved more than \$4 million, over several years, by taking advantage of its sales tax exemption on certain material costs included in over \$400 million in construction projects. This cost avoidance is accomplished when the City purchases construction materials directly from vendors, rather than having the cost included in contractor agreements.

The City's Public Works department has had numerous new construction projects over the last several years, primarily funded from the Better Jacksonville Plan (BJP). The BJP is funded from a half-cent sales tax committed for funding various new construction projects and improvements. It appears that the capturing of sales tax exemptions was primarily limited to only certain projects funded from the BJP.

However, during the last fiscal year, the City spent approximately \$70 million in construction funds from their \$141 million Autumn Bond proceeds. Public Works staff indicated that they did not take advantage of the sales tax exemptions on materials purchased in conjunction with these funds. While it is recognized that extra effort and some costs may be involved to realize these savings using the City's sales tax exempt status, the additional savings could be in the neighborhood of \$1,000,000 and well worth the extra effort to achieve the savings. **Florida TaxWatch recommends** the City establish procedures to take full advantage of its sales tax exemption status.

Reducing the Cost of City Elections

The City of Jacksonville is on a four-year spring election cycle for its Mayor, City Council, Tax Collector, Property Appraiser, Sheriff, Clerk of the Circuit Courts, and Supervisor of Elections. Moving the City's elections to a fall cycle to coincide with the state and federal election cycle has been proposed and debated by the City Council in the past. The benefits of changing the election cycle would be to reduce the cost of the separate elections and increase voter participation. Florida TaxWatch was told the counter arguments are that a separate election allows more focus on the City election itself, and frees local candidates from competition with the federal and state elections for campaign contributions. The cost of the 2007 City elections was approximately \$3.4 million.

To keep taxes and fees fair and affordable, local governments should always consider how tax dollars are spent. The combined benefit of reducing costs and increasing voter participation appears to be a compelling argument for changing the City election cycle. It is recognized that this issue has already been discussed and debated; however, **Florida TaxWatch recommends** that the City election cycle policy be revisited in light of the current budget situation.

The City of Jacksonville/Duval County Supervisor of Elections office pays the return postage on absentee ballots. It is not a common practice of most local governments to pay this cost. The Supervisor of Elections has changed the size of the return absentee ballot to a standard letter size, reducing half of the return postage cost. However, the City can still expect to spend more than \$50,000 in an election year on the return postage and a somewhat lower cost in other

election years. The cost to the City can be expected to increase with the future popularity of absentee ballot voting and increased postage costs. **Florida TaxWatch recommends** that the City discontinue paying postage cost for absentee ballots and allow those individuals that use and benefit from the convenience of mailing their absentee ballots to pay the cost of postage.

Florida has mandated early voting to assist the public in accessing polling facilities (Section 101.657, Florida Statutes). Duval County currently provides this service at 15 local sites (downtown and at branch libraries), costing approximately \$250,000 per election. It has been suggested that limiting early voting to fewer sites, or just the downtown site, could eliminate a majority of this cost. This may be a prudent option for the City, given the current economic climate. The off-site alternative of mail-in ballots would remain an option for those not able or desiring to go to the polls on Election Day. **Florida TaxWatch recommends** that the City consider limiting early voting to its downtown site.

Improving Cash Management

As of September 30, 2007, the City's reported cash and investments, excluding pension funds and component units, were approximately \$683 million. While this amount fluctuates daily, the City generally has several hundred million dollars available for investment at any given time. As a result, it is critical that the City have a well-maintained and secure investment strategy in place to maximize the earnings from these resources.

TaxWatch was told by City staff that the City traditionally invested its on-hand cash balances through a local bank's investment program, with the current City administration becoming more aggressive in its investment strategy. Currently, funds are placed with certain established money managers, which the City Treasurer's Office refers to as "Extended Cash" or "EC." However, significant amounts of money are still maintained through the banking program. It should be noted that the City investment policy limits the types of investment instruments that it will use to minimize risk and ensure liquidity.

In an attempt to make a quick assessment of the City's cash management/investment program, a comparison was made against the City's "Bank" earnings and their more aggressive "EC" program for approximately the last five years, from July 2003 through April 2008. For comparison purposes, the State Treasurer's and the State Board of Administration's (SBA) investment pools were used. The City is authorized to participate in either of these investment pools. Beginning in the fall of 2007, the City's Chief Financial Officer stated they had implemented an entirely new investment strategy to further improve the City's investment performance. The results of this new program were not included in our comparison.

Investment Program	Fiscal Year					
	2003/04	2004/05	2005/06	2006/07	2007/08	Average
City's Program:						
Bank	0.906%	2.061%	4.008%	5.042%	3.947%	3.193%
EC	1.500%	2.108%	3.164%	5.419%	6.696%	3.778%
Comparables:						
State Treasurer	3.051%	3.514%	3.527%	5.002%	5.848%	4.189%
SBA	1.260%	2.229%	4.208%	5.314%	4.622%	3.527%

The average rate of return paid by the State Treasurer over the entire period of comparison exceeded the City's bank and EC investment programs by approximately 100 and 40 basis points, respectively. While recognizing that "hindsight is 20/20," if this return had been achieved on the City's investments, it would have provided millions of dollars in added revenue for the City. At times, the City's investment program exceeded the State Treasurer's and SBA rates, as is typical of the cyclical nature of different investment strategies. **Florida TaxWatch recommends** the City include the State Treasurer and SBA in their investment performance benchmarks. For purposes of illustration only, assuming an annual average investment balance of \$500 million over the last five years, with investments equally split between the City's Bank and EC programs, the City could have potentially earned an additional \$17.5 million over the last five years, or average annual investment earnings of \$3.5 million.

The current City Investment Committee includes the City's Chief Financial Officer, the City Treasurer, and the City Investment Officer. They have the significant responsibility to ensure the proper safety of the City's cash/investments, while maximizing the yield on these resources. Expanding expertise could allow the City to make better and more objective investment decisions and create greater stability in the event of retirements or other employee changes. **Florida TaxWatch recommends** that the City consider adding City business leaders with investment expertise to the City Investment Committee. A screening process should be implemented to ensure that these business leaders have no conflicts of interest.

Avoiding Unsustainable Growth in Expenditures

The growth in budgets for the Sheriff, Fire Rescue, and Library System significantly outpaced the growth in the Consumer Price Index and population over fiscal years 2002-2007. This growth trend has reduced funding in other non-public safety programs and is increasing the future tax burden on citizens.

The following data was taken from the City's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007.

Areas of Large Expenditure Growth – General Fund			
	<u>Fiscal Year</u> 2001-02	<u>Fiscal Year</u> 2006-07	<u>Percent</u> <u>Change</u>
<u>Sheriff:</u>			
Staffing	2,687	2,997	11.6%
Budget (in millions)	\$202.6	\$303.9	50%
<u>Fire Rescue:</u>			
Staffing	1,125	1,329	18.2%
Budget (in millions)	\$97.1	\$141.9	46.2%
<u>Library System:</u>			
Staffing	229	382	66.9%
Budget (in millions)	\$18.3	\$35.2	92.4%
<u>Other non-public safety:</u>			
Staffing	2,206	1,803	(18.3%)
Budget (in millions)	\$198.8	\$211.3	6.3%

Source of Data: 2007 Comprehensive Annual Financial Report

The growth in Library System expenditures is the result of staffing and operating two new regional libraries, 16 new or remodeled branch libraries, and a new main downtown library that is nearly 300,000 square feet of space and is reported to be the largest public library in the state. The expansion of libraries is part of the Better Jacksonville Plan, which was adopted and funded with voter approval.

Post 9/11 most governments in the United States increased emphasis on public safety (Sheriff/Police, Fire/Rescue, and Emergency/Disaster Response). However, while public safety expenditure growth has been significant, there has been neither a significant reduction in crime nor an increase in police presence. Even with the cost increase, data provided by the Sheriff's

Office indicate fewer officers and less cost per resident than other major Florida cities. Our expenditure analysis primarily focused on the Sheriff's budget, which comprises approximately 35 percent of the General Fund budget. Actions taken by the City to properly address crime rates and manage the growth in the Sheriff's Office expenditures include:

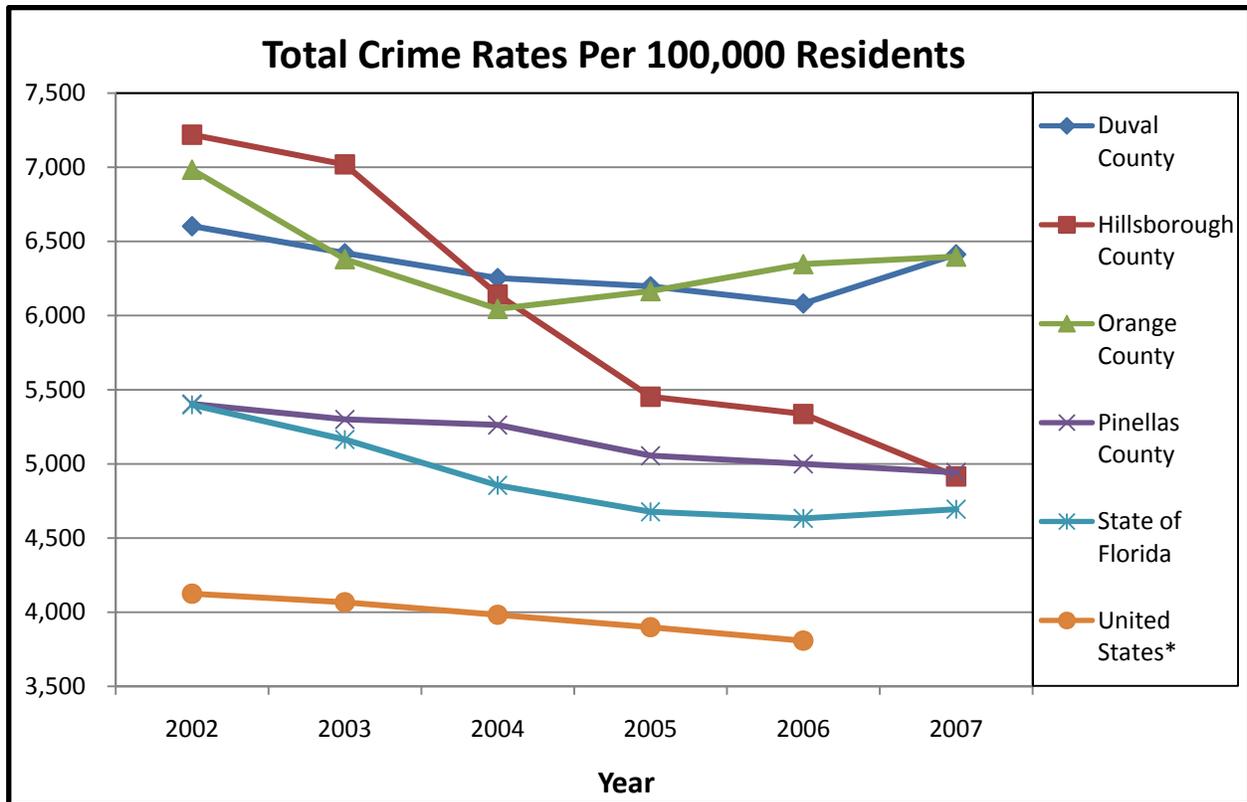
- Preparing an analysis of the five-year increase in the Sheriff's budget from fiscal year 2002-03 to 2007-08;
- Hiring an outside consulting firm (Matrix), in conjunction with the Sheriff, to perform an operations audit of the Sheriff's Office; and,
- Initiating the "Jacksonville Journey," a comprehensive, community-wide, anti-crime effort, led by an action group consisting of more than 140 community leaders, activists, and subject matter experts.

Murder rates in Duval County were higher in the years 2002-2007 among "comparable" counties³ and have drastically increased by 29 percent per capita since 2005. Data for 2006, gathered from the Federal Bureau of Investigation's Unified Crime Reports, showed an overall decrease in violent crimes and total crimes. However, in 2007, the data showed a sharp increase in Jacksonville's violent crime per capita of 18.7%, resulting in a total crime per capita increase of 5.5% in Duval County and making Duval County the highest among comparable Florida cities.⁴

The Sheriff reported that a better incident reporting system has recently been implemented and that the systems and processes previously used to gather and report crime statistics were found to have at least a 4 percent error rate. He stated that the improved incident reporting system accounts for at least a portion of the significant increase in crime reported for 2007.

³ "Comparable" counties include the data totals, as determined by Florida TaxWatch analyses, for counties and their municipalities (Hillsborough, Orange, and Pinellas Counties).

⁴ The City of Jacksonville accounted for 98 percent of all crimes committed.



Source of Data: FBI's Unified Crime Reports & FL Department of Law Enforcement Unified Crime Reports
 Note: US data not yet available for 2007

The Jacksonville Journey report prescribes increased prevention and intervention programs, along with increases in police presence, to address the crime rates. The Jacksonville Journey report recommends adding \$10.8 million for increased police presence and \$23.2 million in prevention programs.⁵ The Mayor's proposed fiscal year 2008-09 budget would allow for 40 new police officers (as well as additional corrections officers, emergency communications officers, and civilians necessary to support police work) and overtime payments to deploy existing officers until the new officers begin work.

⁵ Source: Final recommendations submitted by Jacksonville Journey. Approved by the Steering Committee on June 26, 2008.

The following is a summary of the increase in the Sheriff's Office budget during the last five years:

Sheriff's Budget (in thousands)

Major Areas of Change:	FY 2003	FY 2008	Increase	Percent Change
Personnel Services:				
Salaries and Wages	\$121,366	\$151,724	\$30,358	25.0%
Overtime	7,930	16,227	8,297	104.6%
Retirement Contributions	15,068	36,173	21,105	140.1%
Life & Health Insurance	12,217	19,648	7,630	62.5%
Worker's Comp. Insurance	3,021	7,646	4,625	153.1%
Other Personnel Expense	17,463	18,119	654	3.7%
Operating Expenses:				
Contractual Services	14,820	21,719	6,899	46.6%
Internal Service Charges	20,709	33,683	12,973	62.6%
Other Operating Exp.	11,794	17,184	5,390	45.7%
Capital Outlay	57	60	3	5.7%
Total Budget	\$224,444	\$322,380	\$97,937	43.6%

Salary and wage costs were the result of salary increases and the cost of 262 new positions, less the cost of 110 full-time equivalent positions converted from part-time status. Retirement contribution costs greatly outpaced growth in the other areas and will be discussed in more detail in a subsequent section of this report. The City should continue their efforts to understand why costs in several of the above areas increased so significantly and look for ways of reducing the rate of increase in these costs.

The Sheriff's Office operations audit conducted by Matrix Consulting Group included the following objectives in its scope: Determining (1) appropriate service levels, (2) staffing levels, (3) if resources are managed effectively, and (4) if the Jacksonville Sheriff's Office is organized effectively. Matrix Consulting Group issued their comprehensive 377 page report, on November 27, 2007. In order to keep their analysis in a complete context, Matrix highlighted a number of the strengths of the Sheriff's Office, commenting: "It is important for this project team to point out that this Sheriff's Office has developed a culture of excellence, which can be seen in the quality of its management, its attention to the efficiency and effectiveness of its programs and services, as well as its attention to community needs." The Matrix report noted

a number of specific potential cost reduction opportunities, as well as suggestions where additional resources were needed. The net result of all suggestions would have been a first-year added cost just over \$1.2 million. However, this estimate is well below what the Sheriff anticipates is needed to properly staff and fund his operations. The Sheriff first year funding request presented after the release of the Matrix report was for approximately \$2.8 million in additional funding, increasing to over \$19 million within four subsequent years. The differences in the two recommended budgets appear to be primarily the result of (1) differences in community policing philosophy, (2) who should fund certain positions, (3) the need to meet the Traffic Enforcement Index, and (4) other resources believed to be necessary for public safety.

As noted earlier, the City established an initiative referred to as the “Jacksonville Journey,” a comprehensive, community-wide, anti-crime effort led by an action group consisting of more than 140 community leaders, activists, and subject matter experts. The Jacksonville Journey has set specific goals related to crime-fighting and prevention, targeting intervention, and rehabilitation. This large group was divided into various subcommittees that produced specific recommendations, with much of the focus on crime prevention — including strategies, such as added childcare centers. The City is faced with no small challenge in determining how best to deal with crime and other major issues facing the City, while maintaining restraint in controlling the burden of taxes and other charges on its citizens. As will be discussed further in this report, a major public safety cost the City will need to gain control over is the employee benefit expenditures.

Reducing Risk of Future Employee Benefit Obligations

Reducing the risk of future employee benefit obligations is essential. There has been a significant increase in the funding requirements of the City’s plans, particularly for police and fire/rescue professionals. In addition, there is a significant unfunded actuarial liability (UAAL) associated with the City’s pension programs. While our review was limited and did not constitute an “audit,” the following observations offer a framework for determining a comprehensive solution to reducing the risk of future employee benefit obligations.

Pension Administration

The City has two separately administered pension funds, both “Defined Benefit” plans, in which benefits are calculated at a given percentage factor times the years of employee service and then multiplied by a factor of the employee’s salary rate. The General Employee Pension Fund (GEPF) manages the recently-separated (as of fiscal year 2004-05) pension funds of nonpublic safety employees and correctional officers employed by the City. The Police and Fire Pension

Fund (PFPF) manage the pension fund for sworn law enforcement officers and fire/rescue professionals. The City has direct fiscal management control over the GEPF. The PFPF is administered by an independent Board. However, the City remains responsible for funding the plans and any unfunded liabilities that may exist.

At a glance, administering these funds separately appears to be an unnecessary duplication of effort. These separately administered pension funds each have their own staff. The establishment of these separate funds was based upon legislation and would require further legislation to be revised. The scope of the Florida TaxWatch review did not include complete research of the history and reasons for the separation of the administration of these funds. Particularly given the current economic conditions, **Florida TaxWatch recommends** the City explore possibilities to eliminate or reduce duplicative administrative costs. The combined administrative costs of operating the two pension funds for the past three years and the annual increase for the past two years follow:

City Pension Fund Administration Costs – FY 2005/FY 2007

Fiscal Year	General Employee’s Pension Plan	Police and Fire Pension Plan	Total Pension Plan Administration Costs	Percent Increase In Administrative Costs
2004-05	\$ 882,000	\$1,550,000	\$2,432,000	
2005-06	\$1,245,000	\$1,978,000	\$3,223,000	32.5%
2006-07	\$1,773,000	\$2,399,000	\$4,172,000	29.5%

Source: City’s Comprehensive Annual Financial Reports

While the GEPF is significantly larger than the PFPF, the administrative costs of operating the latter are much greater. According to the City and the PFPF staff, most of the administrative cost increases were the result of new computer systems development and implementation. In addition, PFPF staff stated that other increases were the result of increased pension contributions and costs associated with their real estate investment program. PFPF staff stated that it appeared they had higher administrative costs than the GEPF because the PFPF absorbs more general operating costs than are allocated to the General Employee Pension Plan (GEPP), due to the independent nature of the their organization.

It is recognized that one must be cautious in reaching conclusions with limited analysis of data and without a full understanding of the rationale for past decisions. The purpose of this discussion is to foster further analysis of the need to separately operate these City pension funds, and explore whether there are opportunities to reduce the administrative costs of these

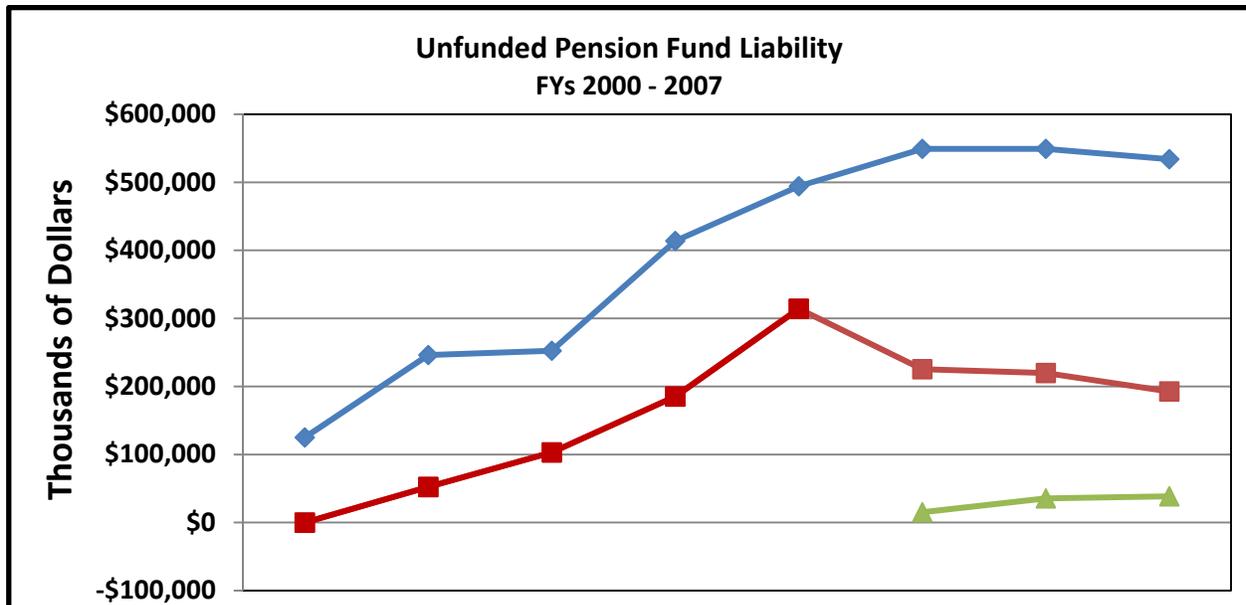
funds with more cooperation and coordination. While past circumstances may have justified the current separated structure of these funds, given the current economic situation faced by citizens, it is an appropriate time to consider all potential cost savings.

Unfunded Actuarial Accrued Liability

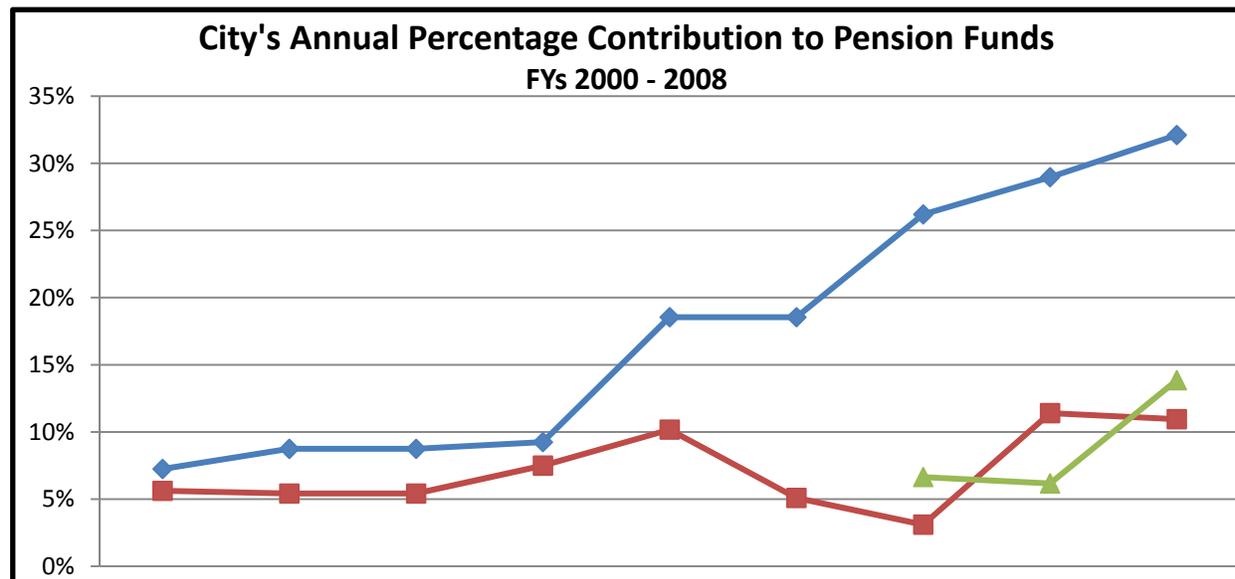
The unfunded actuarial accrued liability (UAAL) is the expected amount owed by the City for the unfunded portion of pension costs associated with the prior service costs of City employees. The GEPF has an UAAL of approximately \$231 million at September 30, 2007, with a funding ratio near 90% for general employees and 67% for correctional officers. The UAAL for the PFPF is \$534 million, with a funded ratio of approximately 63.5 percent. The total UAAL of these funds is \$765 million. To provide some context for this pension liability, it represents approximately \$850 per man, woman, and child living in the City of Jacksonville, and represents nearly 1.8 times the City's annual ad valorem (property) tax collections.

The UAAL is based upon assumptions such as rate of return, annual pay increases, and mortality rates. Errors in these assumptions, which are estimates, can have a significant impact on the UAAL. For example, the PFPF estimates a future net return on investments of 8.5 percent after expenses and the GEPP estimates 8.4 percent. While higher investment returns could reduce the UAAL, lower returns would increase the unfunded liability. Without improved economic conditions, the current economic downturn could result in a fund loss for the fiscal year. This fund loss could increase the UAAL by several hundred million dollars.

As can be seen in the charts on the following pages, over the past seven years the combined unfunded pension liability has increased from approximately \$125 million to \$765 million — an increase of \$640 million. At the same time, the City's required annual contribution rates have significantly increased, particularly for the PFPF. The PFPF's rate of contribution, as a percentage of salary, is currently 32.11 percent. This percentage does not include the employee's contributions or special funding that is provided by the to the PFPF. During this period of time, the City took what they referred to as "pension holidays," permitted under state law, which essentially allowed the City to use "Previous Excess Contributions Reserve" funds from the GEPF to cover at least a portion of the required annual contribution. However, it was not readily apparent what portion of the increased growth in the UAAL was the result of inadequate funding levels, differences in funding levels between the two pension funds, poor market performance, incorrect pension fund assumptions, or the result of over-generous benefits. The bottom line is that the City has a large UAAL in its pension funds that is somewhat of a moving target, depending on market conditions and validity of other assumptions.



	2000	2001	2002	2003	2004	2005	2006	2007*
◆ Police & Fire	\$124,913	\$246,163	\$252,363	\$413,933	\$494,400	\$549,244	\$549,321	\$534,054
■ General Employees	-\$181	\$52,180	\$103,034	\$185,175	\$314,136	\$225,287	\$219,676	\$192,468
▲ Corrections Officers	-	-	-	-	-	\$15,044	\$35,335	\$38,487



	2000	2001	2002	2003	2004	2005	2006	2007	2008
◆ Police & Fire	7.25%	8.75%	8.75%	9.25%	18.55%	18.55%	26.20%	28.97%	32.11%
■ General Employees	5.62%	5.42%	5.42%	7.50%	10.18%	5.09%	3.10%	11.41%	10.96%
▲ Corrections Officers	-	-	-	-	-	-	6.65%	6.17%	13.86%

Source of Chart Data: City of Jacksonville

Note: While remaining in the General Employee's Pension Plan, the City segregated the Correctional Officers Pension Fund from the General Employees Pension Fund, pursuant to City Ordinance in FY 2005.

Pension Fund Contribution Rate and Unfunded Liability (Surplus) - FY 1997/ FY 2008							
	Police & Fire Pension Fund		General Employees Pension Fund		Correctional Officers Pension Fund*		Total Pension Liability
FY	Contribution Rate	Unfunded Liability/ (Surplus)	Contribution Rate	Unfunded Liability/ (Surplus)	Contribution Rate	Unfunded Liability/ (Surplus)	
1997	N/A**	\$227,428,000	N/A**	\$16,250,000	*	*	\$243,678,000
1998	N/A**	\$226,621,000	N/A**	(\$43,722,000)	*	*	\$182,899,000
1999	N/A**	\$231,957,000	N/A**	(\$3,652,000)	*	*	\$228,305,000
2000	7.25%	\$124,913,000	5.62%	(\$181,000)	*	*	\$124,732,000
2001	8.75%	\$246,163,000	5.42%	\$52,180,000	*	*	\$298,343,000
2002	8.75%	\$252,363,000	5.42%	\$103,034,000	*	*	\$355,397,000
2003	9.25%	\$413,933,000	7.5%	\$185,175,000	*	*	\$599,108,000
2004	18.55%	\$494,400,000	10.18%	\$314,136,000	*	*	\$808,536,000
2005	18.55%	\$549,244,000	10.18%	\$225,287,000	*	\$15,044,000	\$789,575,000
2006	26.20%	\$549,321,000	11.6%	\$219,676,000	6.65%	\$35,335,000	\$804,332,000
2007	28.97%	\$534,054,000	11.41%	\$192,468,000	6.17%	\$38,487,000	\$765,009,000
2008	32.11%	N/A**	10.96%	N/A**	13.86%	N/A**	-

Source of Data: City staff prepared schedule

Note: While remaining in the General Employee's Pension Plan, the City segregated the Correctional Officers Pension Fund from the General Employees Pension Fund, pursuant to City Ordinance in FY 2005.

** N/A means "Not Available"

Generous "DROP" Benefit

An example of a benefit provided to employees participating in the Police and Fire Pension Fund that poses additional risk to the City is the structure of the Deferred Retirement Option Program (DROP) benefit. The City, like many other governmental entities, provides what is generally referred to as a DROP program for its employees. These programs allow employees to begin drawing their pension benefits up to five years prior to work termination, permitting the employees' retirement benefits to accumulate in tax sheltered accounts in the pension fund. As of September 30, 2007, approximately \$115 million of the Police and Fire Pension Fund DROP proceeds belonged to individuals who have retired and are no longer working for the City.

The City has agreed to provide the police and fire employees a rate of return of 8.4 percent on the funds maintained in their DROP accounts. For comparison purposes, the State of Florida guarantees its DROP participants 6.5 percent. However, unlike the DROP programs for the

City's GEPP and the State of Florida plan, which require the transfer of accumulated DROP earnings from the fund upon full retirement, the PFPF allows their retirees to withdraw their accumulated DROP funds over their life expectancy, still guaranteeing them an 8.4 percent return for the rest of their and/or their spouse's life. There would be no cost to the City for this arrangement if the Fund generates a return on its investment higher than 8.4 percent, minus its investment management and administrative cost. However, should the pension fund not be able to make this high rate of return, the City is responsible for making up the difference.

During the current fiscal year, the stock market experienced a significant decrease, with financial forecasters anticipating the year to close with a loss. Last year, the 8.4 percent interest paid on the Police and Fire DROP program was approximately \$12.5 million. If, for example, the pension fund suffers a 6% loss for the current year, the City would essentially be required to fund the 8.4% guaranteed interest of approximately \$12.5 million, and make up the for the 6% loss, which could require another \$9 million by the City. While it might be argued that such losses are cyclical and that, over the long-term, if the PFPF's assumed average rate of return of 8.5 percent is achieved, the City will ultimately recover from such cyclical losses. However, there are numerous other tax-sheltered investment vehicles available to retirees for transfer of their accumulated DROP earnings. Therefore, guaranteeing an 8.4 percent rate of return on accumulated DROP earnings for the life of retired police and fire/rescue professionals would not appear to be a prudent risk to be assumed by the taxpayers of Jacksonville.

Recommendation

One aspect of fiscal responsibility is the consideration for any actions that may unnecessarily or inappropriately shift tax burden to future taxpayers without benefit to them. The City has shown positive financial stewardship by discontinuing "pension holidays" (not funding immediately required future pension liabilities) and creating an appropriate emergency reserve fund. However, to foster the City's financial stability, it is important that the pension funds be appropriately funded and that benefits be fair and appropriate without undue risk to the City or future financial burden to the taxpayer. Additionally, the City should explore current trends in pension management, such as the use of "Defined Contribution" plans, as well as options that could reduce the pension obligation faster, such as the use of pension obligation bonds. "Defined Contribution" plans provide for pay-as-you-go funding and do not inhibit employee mobility. To reduce its financial risk, **Florida TaxWatch recommends** the City establish a knowledgeable, independent, and objective task force to explore sound pension options and management processes for the City's future.

Leveraging Organizational Strengths and Purchasing Power

The City and its Constitutional Offices

Although the city and county government were consolidated in 1968, the existing structure of the five elected Constitutional Officers (Sheriff, Tax Collector, Property Appraiser, Supervisor of Elections, and Clerk of the Court) was essentially maintained. This structure is provided by the Florida Constitution, unless otherwise approved by the electors of the county. While providing the Constitution's intended separation of power and legal responsibilities, there is an inherent increase in the risks of duplication of effort and diffusion in responsibility, unless a strong, coordinated effort is maintained.

As a result of the consolidated government and City's strong executive leadership, it appears the City of Jacksonville and the Constitutional Officers have done a better job than most counties in removing some operational "silos." Operational "silos" often hinder government in attaining full operational leveraging and coordination of resources and providing the optimum level of "one-stop" citizen response. With that said, we believe that further improvement may be possible. **Florida TaxWatch recommends** that the operations of the Constitutional Offices be examined to ensure there is no unnecessary duplication of administrative services with those that are currently provided by the City. Additionally, such a review should look for opportunities to ensure that the delivery of services to the citizens is as seamless as possible and that effective and efficient utilization is made of all resources (including the effective collection, deposit, and investment of cash collections).

The City, its Legally Separated Authorities, and Other Local Governments

There are a number of entities within the City of Jacksonville that must be considered in accomplishing cost savings and improving efficiencies to benefit taxpayers. Currently, some of the City-established Authorities utilize limited services from the City, such as legal services and liability insurance.

- There are separate City government entities, considered component units of the City of Jacksonville for professional financial reporting purposes. These include the JEA (formerly, Jacksonville Electric Authority), the Jacksonville Transportation Authority (JTA), the Jacksonville Aviation Authority (JAA), the Jacksonville Port Authority (JPA), and the Jacksonville Economic Development Commission (JEDC).
- The Police and Fire Pension Fund is another example of an independent entity with its own independent Board, which is included as part of the City for financial reporting purposes.

- The city/county universities, community colleges, and school districts are entities that are neither a component unit, nor a part of the City for financial reporting purposes, but essentially serve the same citizenry as the City of Jacksonville/Duval County.

Good communication, coordination, and cooperation between closely-related governmental organizations have the potential of generating significant cost savings. While it is clear that some sharing has occurred, there appears to be room for much more cross-organization communication, coordination, and cooperation. **Florida TaxWatch recommends** that peer reviews (subjecting work to the scrutiny of others who are also experts) between similar departments or functions between the organizations be conducted. These reviews can benefit the organizations in the following ways.

1. Improved performance from the sharing of ideas, best practices, and the use of performance benchmarks between the organizations (i.e., free consulting advice).
2. Discovering ways to use the size, strengths, and buying power of the combined organizations to benefit each of the organizations
3. Establishment of consortiums to achieve targeted results and define strategies to meet the future needs of citizens.

While not intended to be all-inclusive, the following areas for peer reviews have been listed for purposes of example only:

- Information Technology Services (including the sharing of major systems such as accounting and human resources)
- Purchasing
- Treasury Management
- Facilities Management and Maintenance
- Payroll
- Human Resources
- Insurance
- Fleet Management
- Property Management, particularly surplus property
- Internal Auditing
- Controller functions such as Accounts Receivable and Accounts Payable

Achieving a small, fractional savings from improved coordination and cooperation could generate big savings for the citizens of the City of Jacksonville because of the sheer size of these combined organizations. The combined operating budgets of just the City and its related Authorities approximate \$2 billion. For illustration purposes, a 1 percent savings goal from leveraging the resources and buying power of these large entities would generate cost savings

of approximately \$20 million, collectively — and would likely enhance customer service. The point of this illustration is that even small, fractional savings goals from such initiatives have the potential to save millions of dollars for the citizens of Jacksonville/Duval County. This illustration did not include the schools, colleges, and universities—which would generate even greater potential.

Achievement of targeted results through cross-sharing and cooperation can occur and be cooperatively determined by the leadership in the various organizations. To generate effective results, the leadership of the various organizations must be open and supportive of this effort. An incentive (recognition and reward) designed specifically for cooperative initiatives among the various government entities would foster the effort.

Enhancing Employee Recognition & Reward Program

The City has a broad-based program to recognize and reward employees who excel in their everyday efforts. The City's program has a host of specifically-identified objectives for its awards, including improving efficiency in City operations. While **Florida TaxWatch commends** the City for its program, a more specific focus that fosters a culture committed to cost-savings, cost avoidance and maximizing return on resources can save the City millions of dollars. In addition, involving the private sector in the judging and recognition process enhances the independence of the program and the stature of such awards, while bringing fresh perspective and additional expertise to the process. A modest one-half-of-one percent savings on a billion dollar budget would generate \$5 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 20th 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 \$2,500, plus commemorative plaques and certificates of commendation. The 2008 awards competition attracted 489 nominations for innovations and productivity improvements worth \$322 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.

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 potential cost savings opportunities than motivated and creative staff that have firsthand knowledge of the City's business processes and required outcomes. **Florida TaxWatch recommends** the City 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 City 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 operation. An example of the evaluation criteria used to determine winners is included in Appendix A.

Managing for Results

Managing for results is accomplished by recognizing citizen needs and desires (accomplished through survey, focus groups and data benchmarking) and then collectively managing the City services whose management must collaborate to attain common goals. For example, City leaders manage for results by establishing measurable key public safety objectives and managing a consortium of City managers critical to their success. Examples are:

- Safe community: sheriff, fire, neighborhood programs, social work, emergency dispatch (911), public works, transportation
- Economic Development: seaport, highways and roads, airports, neighborhoods, health care
- Healthy Community: health care, social work, physical environment, sheriff, fire
- Fiscal Responsibility: finance and accounting, treasury, budget, human resource, internal services - e.g., information technology, fleet management, legal services

The City can foster effective and efficient government and save millions of dollars by managing across its various organizational lines with informal groups of City leaders. This approach will help prevent the City's organizational "silos" from inhibiting the accomplishment of outcomes that require collaboration and cooperation across organizational units. A common complaint that citizens have about their government operations is the inherent weakness of organizations to be able to accomplish shared outcomes, realize efficiencies, and "know what each other are doing" across organizational lines. While the City is pursuing strategic initiatives and further

implementation of a performance measurement system, **Florida TaxWatch recommends** that the City establish a formal strategic plan and implement strategic performance measures (a sample template of strategic performance measures was provided to City and is included in Appendix B). There should be mission statements for programs with clearly defined goals and benchmarks. Operational plans and performance measurements should logically support the accomplishment of the strategic goals and foster analysis of adverse results.

Performance management tools can help the City ensure it is making decisions and utilizing resources, which will provide the most critical core services, at a reasonable cost. Pursuing this recommendation will also assist the City in assessing funding priorities in strategic initiatives (e.g. libraries vs. police presence vs. low millage rate) and ensuring an expected return on investment is defined and measured against actual results.

Managing Facility Cost

While the City has vacated valuable real estate along the river to generate revenue from its sale and development, we found that the City has the potential for significant savings with better data-based facility management, including buy vs. lease price comparisons, along with use of facility space utilization standards for its current facilities. State and national benchmarks of square footage cost and space utilization are available for making performance comparisons. To ensure best-value facility management, the City needs to compare its own facility cost to its lease options. Currently, some City facility space is owned and some is leased. In addition, proper facility space utilization and management is an important aspect of controlling costs, such as utilities and other related maintenance costs, and minimizing the costs of new construction and facility operations.

As noted earlier, library expenditures nearly doubled from \$18.3 million in fiscal year 2001-02 to \$35.2 million in fiscal year 2006-07, primarily from the operation of two new regional libraries, 16 new or remodeled branch libraries, and a new main library. Despite the near doubling of cost over this period for staffing and related library costs, these amounts do not include the substantial added maintenance and utility costs. The purpose of this example is to stress the correlation between building space and other associated costs.

City staff indicated that there are no facility space standards or comparisons made with national standards for facility space utilization. While Florida TaxWatch recognizes the difficulty of making comparisons with diverse space uses, using standards and benchmarks can be an effective management technique in controlling such related costs. Time and resources assigned to this review did not permit a thorough analysis of City facility space utilization. From our

limited observations, it appeared that not all existing space was being effectively used and, in some cases, the use of space appeared generous. The City could use facility space standards currently used by the State of Florida, or a national standard, as a benchmark for their facility space utilization practices. Inefficient utilization and management of space can be very costly to the City. For illustration purposes, a 10 percent reduction in administrative space using the state's current leasing rate suggests that, over time, there would be a potential annual savings of \$2 million. **Florida TaxWatch recommends** that a comprehensive survey of existing space be made before the City considers acquiring or building other new facilities.

Leveraging Technology

Although the City did not provide us a comprehensive assessment of their technology needs, our interviews indicated the City has an operational, but not strategic, information technology plan. Their current administrative systems utilize highly-customized systems that do not provide for real-time data entry. City staff reports a culture of "too much paper." The accounting and human resource system of the City does not provide for the ease of use and management cost data needed for maximum efficiency. Old and outdated systems that are not fully-integrated can hinder the productivity of staff and limit information available for decision making.

While Florida TaxWatch did not include a review of these systems as part of the scope of this work, based on interviews with staff and the difficulties with obtaining information, **Florida TaxWatch recommends** the City develop a strategic information technology plan that provides for addressing the City's long-term technology needs. Fully automated, integrated administrative systems is an area in which all City entities should consider a shared investment in defining needs and implementing or outsourcing enterprise-wide, state-of-the-art technology. While difficult to quantify, efficient and accessible administrative systems enable government to make timelier, better informed decisions.

Maximizing Competition and Outsourcing Best Practices

Any serious effort in streamlining the City operations and securing low-cost, quality services for the citizens of the City of Jacksonville would not be complete without exploring the opportunities provided through outsourcing. While the scope of our work did not enable us to fully analyze opportunities on behalf of the City, **Florida TaxWatch recommends** the City further its efforts to weigh the potential benefits and challenges of outsourcing.

Two potential resources for the City in pursuing outsourcing initiatives are: (1) *The Twenty-first Century City – Resurrecting Urban America*, by Mayor Stephen Goldsmith, who authored a book relative to Indianapolis’s successes with outsourcing and (2) a Florida TaxWatch report containing useful information when considering outsourcing, which is currently available in the research section the Florida TaxWatch web site at www.FloridaTaxWatch.org.

A major premise of outsourcing is that competition is a necessary condition in securing low-cost, quality services. Effective competitive contracting and documented cost of services to determine potential savings are important tools that will be needed. It is important that proper cost accounting be utilized when comparing costs with the private sector. Competition and comparability of privately-provided services, versus municipality-provided services, require complete and accurate cost information, including overhead costs. A service is a good candidate for outsourcing if it can be made more efficient, flexible, and responsive by changing how the service is delivered.

A significant area of outsourcing for the City of Indianapolis was the City’s Information Technology (IT) processing, including the City’s application development, data center, local-area network and personal computer (PC) support, and training. Outsourcing should be considered for a host of other areas as well, including fleet maintenance, payroll processing, benefits management, and social services. Through proper costing and benefit analysis, the City can determine when outsourcing could be advantageous and when such services are best kept “in-house.”

Maintaining an Active Audit Committee

An active Audit Subcommittee of the Council, which is an important function to ensure accountability and public trust, has not been consistently maintained in recent years. An active audit committee could also provide some indirect oversight of the various established City Authorities (e.g. JEA, JAA, and JPA), which operate fairly independently. The Audit Committee would determine the adequacy of audit plans and ensure proper resolution of audit findings. An audit committee provides an appropriate balance between maintaining a certain level of fiduciary responsibility by the City and preserving the independence of Authorities to accomplish City goals.

Florida TaxWatch did not review the Council Auditor’s method of risk assessment to establish an audit plan. However, there were two high risk areas noted in which internal audits had not been conducted in some time. These areas are the City’s construction activity and the Police and Fire Pension Fund, both are high risk areas due to the nature and the amount of resources

involved. In addition to reviewing the process for capturing the sales tax exemption, as noted earlier, the construction activity audit could include determining whether:

- the overall effectiveness, efficiency, and compliance of the bidding or acquisition process construction costs are legitimate, accurate, properly supported, and in compliance with the construction contracts;
- appropriate bonds and insurance coverage are maintained;
- construction costs are properly recorded for accounting purposes;
- construction related policies and procedures are effective; and
- appropriate internal controls exist throughout the construction process.

An internal audit of the Police and Fire Pension Fund could further ensure that appropriate controls and practices are in place over fund assets and that the administration of the fund is effective and efficient.

Maintaining a strong and active audit committee for the Council Auditor can help ensure accountability and boost public trust. An audit committee is recommended by professional internal auditing standards and can help ensure the proper focus of internal auditing activities and the satisfactory resolution of audit findings. The effectiveness of the Committee could be further strengthened by supplementing the Council audit committee with volunteer audit committee members from the community that have internal auditing knowledge and experience. **Florida TaxWatch recommends** that an audit committee be an on-going, established committee charged with assisting in approving audit plans, selecting external auditors, and reviewing and various internal and external audits conducted by the City, the Constitutional Officers, the established City Authorities, and the Police and Fire Pension Fund.

Financing of Motor Vehicles

The City previously acquired motor vehicles on a “pay-as-you-go” basis from a dedicated vehicle reserve fund; however, this fund was used to bring some temporary relief to the City’s operational budget needs and the City is now financing vehicle purchases. **Florida TaxWatch recommends** the City consider returning to the more fiscally responsible pay-as-you-go basis of acquiring vehicles.

Implementing Cost-Saving Ideas and Efficiencies

Building upon the successes of Jacksonville’s consolidated government, Florida TaxWatch appreciates this opportunity to identify cost-saving ideas and foster more communication,

consolidation, collaboration and/or cooperation. To properly and fully implement these ideas across departments, constitutional offices and other City-related entities, much work is still necessary to realize the potential benefits from this effort. There must be aggressive objectives, with clear definition and assignment of tasks, and date certain milestones established. Any legal impediments to implementation must be immediately determined to be overcome, as quickly as possible.

Implementation of significant initiatives requires proper planning, accountability, momentum, and individuals willing to champion the effort. Florida TaxWatch recommends the City establish a task force of respected citizens from the local business community (appointed by the Mayor and City Council) to lead the charge necessary to ensure the effective implementation of these recommendations. Involving community minded business leaders offers additional skill-sets, citizen involvement, and helps ensure that the potential benefits become a reality.

Appendix A – Awards Program Evaluation

PRUDENTIAL-DAVIS PRODUCTIVITY AWARDS EVALUATION OF NOMINATION

AGENCY/NOMINATION # _____

NOMINATION TYPE

- | | |
|---|---|
| <input type="checkbox"/> Individual | <input type="checkbox"/> Team/Work Unit/Partnership |
| <input type="checkbox"/> Exemplary Achievement of State Agency | <input type="checkbox"/> Adaptation of Previous Pru-DPA or other Govt. Innovation |
| <input type="checkbox"/> Sustained Exemplary Performance | <input type="checkbox"/> Long Time Nominator |
| <input type="checkbox"/> Change nomination type from _____ to _____ | |

SUGGESTED AWARDS CATEGORY

- | | | |
|--|--|---|
| H M L | H M L | Sustained Exemplary |
| <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> Outstanding Cash and Plaque | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> Plaque | <input type="checkbox"/> PRIDE Eagle <input type="checkbox"/> Plaque <input type="checkbox"/> Certificate |
| <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> Distinguished Cash and Plaque | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> Certificate | |
| <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> Notable Cash and Plaque | <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> Hon Mention | <input type="checkbox"/> No Award <input type="checkbox"/> Withdraw and re-submit in 2010 |

- ___ Total hours spent on achievement. ___ Nominees worked an average of ___ hours each
- ___ % of achievement reported to be beyond job expectations seems ___ realistic ___ exaggerated
- ___ Adaptable: ___ Widely ___ in nominee’s agency ___ by other agencies ___ by other states ___ by local govts.
-
- ___ Achievement was complex ___ took many hours ___ over long period. ___ Non-comp hours ___ average
- ___ Has been , or can be, ___ copyrighted ___ patented. ___ Innovative technology developed by nominee
- ___ Unusual effort/job-related/personal challenges ___ Exceeded peers’ work; nominee ranked # ___ of ___
- ___ Achieved was by a clerical, paraprofessional, skilled craft or maintenance employee(s)
-
- ___ Quality-related achievement included process mapping and/or other TQM techniques
- ___ National/international significance. ___ First in Florida
- ___ Crist/Kottkamp Administration priority
- ___ Benefited ___ specific citizens ___ specific private sector entities ___ both
- ___ Significantly increased ___ external ___ internal customer service
- ___ Increased federal funding or state revenue ___ Produced state General Revenue savings
- ___ Produced \$100,000 or more added value ___ Projected to produce \$100,000 or more value
- ___ Brought sub-par performance up to acceptable or better level, & not responsible for sub-par performance
- ___ Related to an agency’s Florida Sterling work ___ Applicable to Service First Savings Sharing program
- ___ Agency manager comment is ___ very persuasive; ___ good ___ fair
- ___ % of achievement attributed to ___ consultant/non-nominee ___ additional staff ___ additional funding.
- ___ Similar to an achievement previously recognized by Pru-DPA
- ___ Nominator’s follow-up email has information that ___ enhances achievement ___ diminishes achievement

COMMENTS

Appendix B – Strategic Performance Measures

PERFORMANCE MEASUREMENT TEMPLATE

GENERAL GOVERNMENT SERVICES

PURPOSE: To provide fiscal responsibility in the support and facilitation of the delivery of public service

DESIRED RESULTS

- Reasonable cost for public services
- Reasonable debt
- Citizen needs met

INDICATORS

- General government expenditures per capita
 - administrative
 - staff
 - other
- Outstanding debt per capita
- Debt expenditures
- Cost of government operating facilities
- Number of government employees by type
- Median property tax burden
- Percent of residents that are registered voters*
- Voter turnout rate*
- Citizen feedback*

PUBLIC SAFETY

PURPOSE: To provide a safe and secure community through coordinated, efficient, effective, and professional public safety service

DESIRED RESULTS

- Low crime rates
- Quality enforcement
- Rapid response
- Reasonable cost
- Reduced suffering
- Lives saved

INDICATORS

- Crime per capita per 100,000*
 - total
 - violent
 - non-violent
- Number of child abuse reports per 100,000 children (under 18)*
- Number of domestic violence offenses per 100,000 female capita*
- Number of arrests by category
- Percent of cases cleared
- Percent of arrests surviving judicial screening
- Average police call response time to emergency calls*
- Average fire call response time*
- Expenditures for law enforcement per capita
- Expenditures for public safety per capita

PHYSICAL ENVIRONMENT

PURPOSE: To provide a safe, clean, and economic living environment for the citizens of the regions and for future generations

DESIRED RESULTS

- Quality of natural Resources - air, water
- Resource efficiency
- Reasonable cost of environment
- Reasonable cost of utilities
- Preservation of natural/historical lands

*A Jacksonville Community Council, Inc. (JCCI) Quality of Life Indicator

INDICATORS

- Days the air quality index is good*
- Streams meeting dissolved oxygen standards*
- Streams meeting bacteria standards*
- Tons per person of solid waste recycled*
- Median cost per month per capita for electric, gas, water, garbage, sewage*
- Government physical environment expenditures per capita
- Number of acres of preserved land per capita

TRANSPORTATION

PURPOSE: To provide a seamless and accessible transportation system that enhances mobility and expedites commerce and travel

DESIRED RESULTS

- Travel safety
- Extent of public transportation usage
- Quality public transportation
- Accessibility
- Reasonable transportation costs
- Transportation efficiency

INDICATORS

- Traffic accidents per capita per 1,000 residents*
- Deaths from motor vehicle accidents per capita
- Number of modes by type
- Annual bus, rail, metro boarding per capita*
- Average commute time - in town/rural
- Percent of buses, metros, trolleys on time
- Number of bus, rail, trolley service miles provided per year per capita*
- Hours of transportation provided - bus, rail, trolley
- Number of direct connections to local airports
- Incoming/outgoing flights per 1,000 residents
- Annual cost per paved lane mile
- Transportation expenditure cost per capita

ECONOMIC ENVIRONMENT

PURPOSE: To improve the quality of life of the regions' citizens and businesses through improved economic status and opportunities

DESIRED RESULTS

- Strength of economy
- Wealth of citizens
- Housing affordability
- Job availability
- Efficient building

INDICATORS

- Median income
- Per capita income*
- Unemployment rate*
- Percent of population receiving housing assistance
- % workers living outside city/county

**A Jacksonville Community Council, Inc. (JCCI) Quality of Life Indicator*

- % increase in jobs
- Jobs created per dollar invested by Economic development program
- Number of tourism visitors per Florida visitor*
- Dollars spent on new construction
- Homeless individuals per 1,000 residents
- Environment expenditures per capita

HUMAN SERVICES

PURPOSE: To improve the quality of life through increased access to health care, housing, and social services

DESIRED RESULTS

- Prevention of diseases
- Promote individual health
- Low teen birth rate
- Sufficient health labor force
- Responsible cash management
- Quality health care
- Health care accessibility

INDICATORS

- Number of cases of vaccine preventable diseases per 100,000
- Infant mortality rate per 1,000 infants*
- Obesity rate per 1,000 residents
- Communicable disease per 100,000 residents - by type*
- Number of licensed physicians per 1,000 residents
- Percent of residents without health insurance*
- Number of public health facilities - by type
- Human service expenditures per capita - by type
- Teen birth rate per 1,000 Teens (ages 10-18)
- Percent of unsatisfactory inspections of group care facilities - by type
- Hospital quality score

CULTURE AND RECREATION

PURPOSE: To develop and preserve outstanding cultural and recreational experiences and opportunities for residents and visitors

DESIRED RESULTS

- Extent of cultural and recreational
- Preservation and opportunities
- Citizen engagement

INDICATORS

- Park acres per 1,000 residents*
- Number of events and performances open to the public each year*
- Museum attendance per 1,000 residents*
- Library circulation per capita*
- Cost per circulation - by media type
- Culture and recreation expenditures by type (Library, park, other) per capita

*A Jacksonville Community Council, Inc. (JCCI) Quality of Life Indicator

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About The Center for Local Government Studies

The Florida TaxWatch Center for Local Government Studies conducts research projects and performs contract research of 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 29 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.

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