

A Municipal Budget Guide

A Joint Project of:



and





Dear Fellow Floridian:

We are pleased to offer this local budget process overview in hopes of assisting new and existing government officials with the inherent, structural realities of city and county fiscal administration.

Florida TaxWatch, the Tallahassee-based non-profit research institute and government watchdog, joined the Florida League of Cities to design a document which is timely, factual and easily understood.

Florida TaxWatch is well known for its empirically sound research products which recommend where and how to improve government productivity and explain statewide impact of economic and tax-related developments.

Without lobbying, Florida TaxWatch has worked diligently and effectively to reduce government inefficiency and promote responsible, cost-effective improvements that benefit taxpayers.

The Florida League of Cities, as the official organization of the cities, towns and villages of Florida, strives to promote the effective improvement of local government, encourage mutual assistance in the solution of municipal problems and provide a medium to exchange ideas and experiences in successful methods of local administration. Furthermore, the League is strongly committed to the advancement of municipal education and increasing a greater civic consciousness among the citizens of Florida.

A handwritten signature in cursive script that reads "Dominic M. Calabro".

Dominic M. Calabro
President
Florida TaxWatch, Inc.

A handwritten signature in cursive script that reads "Raymond C. Sittig".

Raymond C. Sittig
Executive Director
Florida League of Cities, Inc.

Table of Contents

Introduction	4
Chapter 1 - Budget Overview and the Truth in Millage Act	5
Budget Overview	5
The Truth in Millage Act	7
Table and Figures	
1-1 How to Read Your TRIM Notice	9
Chapter 2 - Municipal Revenues	10
Ad Valorem Property Tax	10
Municipal Utility Tax	11
Franchise Fees	12
User Fees	12
Intergovernmental Revenue	12
Local Option Taxes	13
Occupational License Tax	14
Fines and Forfeitures	14
Investment Income	14
Contributions and Donations	15
Miscellaneous Revenue	15
Tables and Figures	
2-1 Municipal Revenue Categories, FY 1987-88, As A Percentage of Total Revenue	16
Chapter 3 - Municipal Expenditures	17
General Government	17
Law Enforcement	17
Fire Control	17
Utilities	18
Solid Waste	18
Roads and Streets	18
Stormwater and Environmental	19
Economic Improvement.....	19
Human Services	19
Culture and Recreation	20
Debt Service	20
Miscellaneous Expenses	20
Tables and Figures	
3-1 Municipal Expenditure Categories, FY 1987-88, As A Percentage of Total Expenditures	21
Chapter 4 - Revenue and Expenditure Comparisons	22
Tables and Figures	
4-1 Municipal Revenue Comparisons, Fiscal Years 1985-86, 1986-87, 1987-88	23
4-2 Municipal Expenditure Comparisons, Fiscal Years 1985-86, 1986-87, 1987-88....	24

Introduction

This publication, *A Municipal Budget Guide*, is a joint project of the Florida League of Cities, Inc. and Florida TaxWatch, Inc. The Florida League of Cities is the official organization of cities, towns and villages of Florida, designed and established to meet and serve the needs of Florida municipal officials. Florida TaxWatch is a statewide, non-profit, non-partisan research institute which advances productivity and efficiency in government and independently monitors state and local tax spending policies.

This guide was conceived and inspired by the 1988-89 Municipal Finance and Taxation Committee of the Florida League of Cities, chaired by Mark J. Wolff, Commissioner, Coral Gables. It is intended for use by newly elected officials of Florida's municipalities, businesses and citizens interested in the budget process. After Commissioner Wolff was appointed chairman by President Raul Martinez, he secured approval for the idea of adding an educational component to the committee's historical focus. Commissioner Wolff said, "As a professor at St. Thomas University School of Law and a newly elected public official, I perceived a need for this type of publication particularly to assist newly elected officials and the public in understanding their city's budget. This publication underscores the constraints on municipal revenues and the demands municipal services place on expenditures. We welcome comments and suggestions which can be incorporated in future publications." This publication also incorporates some excellent information from the Florida TaxWatch publication, *The Taxpayer's Guide to Local Budgeting*. It is not intended to be a technical review of the complicated processes and strategies of budget preparation, but rather a general overview of the budget process, "Truth in Millage" (TRIM) requirements, and major revenue and expenditure areas.

For additional information on municipal revenues, you may request a copy of the publication, *A Profile of Florida Municipal and County Revenues*, March 1989, Florida Advisory Council on Intergovernmental Relations, House Office Building, Tallahassee, Florida 32399-1300; (904) 488-9627.

A Municipal Budget Guide was written by Ken Small, Director of Economic Research, Florida League of Cities and Dr. Karen Walby, Director of Research, Florida TaxWatch. Special thanks to Joann Sapolsky of the Florida Advisory Council on Intergovernmental Relations (ACIR) and Hal Foy, Bureau of Local Government Finance, Florida Office of the Comptroller.

Florida League of Cities, Inc.
201 West Park Avenue
Post Office Box 1757
Tallahassee, Florida 32302-1757
(904) 222-9684

Florida TaxWatch, Inc.
111 North Gadsden Street
Post Office Box 10209
Tallahassee, Florida 32302
(904) 222-5052

Chapter 1

Budget Overview and the Truth in Millage Act

Budget Overview

A budget is the “plan of attack” that sets forth the program priorities and allocation of resources available to accomplish the goals of the municipal government during the upcoming fiscal year. It is developed through the combined efforts of staff, citizen participation and elected municipal officials.

Development of an operating budget generally utilizes one of three approaches: Line Item, Program Budgeting or Zero Base Budgeting. Line Item, the simplest and most common method, adds next year’s proposed spending increase on top of the current year’s total. This is also called traditional or incremental budgeting. A basic assumption in this budgeting method is that the current level of expenditures is fully justified, and that programs/operations/administration are fully effective and productive.

Program budgeting is designed to fund the implementation of goals established by the municipal officials. It concentrates on the total cost to achieve the goal. This approach provides opportunities to prioritize and select among competing programs and service alternatives.

Zero base budgeting is designed to essentially build the annual spending plan from scratch. Current funding levels are not automatically the base for the new budget. This approach isolates and extracts activities which may have outlived their usefulness but continue to receive funding because they are seldom closely examined. Programs or services are ranked in priority order on the basis of how effectively and efficiently each accomplishes the municipality’s goals and objectives. The lowest ranked may be eliminated, funded at a lower level or redirected to a program or service that better reflects the stated goals.

A modified version of zero based budgeting, Service Level Analysis, starts at a specified percent (75 to 85 percent) of the current year’s expenditures. Any proposed expenditure above this level must be justified with evidence of the need for an increased service level.

While traditional or incremental budgeting methods almost guarantee that all programs are funded at the same level as the current year, Service Level Analysis can achieve real spending reductions in less important or ineffective programs.

The specific budget process will vary among municipalities depending upon size, services provided, projected need to maintain and/or expand services and revenues available. However, the process will generally contain the following:

- * Development of general policy guidelines and a budget calendar.
- * Projection of revenues available during the upcoming fiscal year.
- * Analysis of current year expenditures to determine the level of service provided and how well the need is satisfied.

- * Department by department submission of projected fiscal needs to provide a specified level of service.
- * Public discussion of needs incorporating citizen and elected officials participation.
- * Prioritize need within projected revenues by elected officials (tentative budget).
- * Formal adoption at a public meeting of the final budget by the elected officials.

The Budget Calendar guides the budget development process. The following is an example of a typical calendar:

January - March

- * Development of guiding policies by municipal officials.
- * Development of the budget calendar.
- * Preparation of revenue estimates for the new fiscal year and the out years.

April - July

- * Submission of funding requests by each department.
- * Budget workshops involving the municipal officials, budget staff, department personnel and taxpayers.
- * Development of tentative spending plan.

August - September

- * Advertisement of the proposed budget and tax rate to taxpayers.
- * Formal public hearings for taxpayers.
- * Authorization of tax rate and adoption of ordinances appropriating operating funds and adopting the capital budget.

October 1st and beyond

- * Budget implementation.
- * Post-audit review of expenditures and performance of the previous fiscal year.

In addition to the operating budget, municipal officials will also consider a Capital Budget. A capital budget reflects the budget year expenditures required to implement the municipality's Capital Program.

The capital program is usually a five- to seven-year plan outlining in priority order the capital improvements previously determined to be necessary and the method of financing. Examples of capital improvements would include road resurfacing, construction of new fire stations and other similar projects. Once the capital program has been established, projects move forward each year for consideration in the capital budget.

An important consideration in the budgeting process is the recognition of the additional operating costs associated with the completion of a capital project. As an example, additional

personnel costs will be reflected in the operating budget to fund staffing of a new fire station funded in the capital budget.

Capital projects may be financed through the issuance of bonds. A bond is evidence of a municipality's obligation to repay a specified amount on a future maturity date, plus interest. A bond issue must receive voter approval by Referendum, and authorization of sale by Resolution of the municipal officials.

General Obligation bonds pledge future tax dollars to repay the debt. Revenue bonds pledge a particular source of revenue, usually generated by the new asset, as the means of repayment. Debt service is the amount of funds required to pay interest on the outstanding bonds, principal on bonds maturing in the budget year and sinking fund requirements in the budget year and should be reflected in the operating budget.

A major component of the budget process is the setting of the Ad Valorem Tax millage necessary to raise the required property tax revenues for the upcoming fiscal year. The setting of the millage involves a formal process defined in the Florida Statutes. This is commonly referred to as TRIM (the Truth in Millage Act).

The Truth in Millage Act

The Truth in Millage Act (TRIM) serves to formalize the property tax levying process by requiring a specific method of tax rate calculation, form of notice, public hearing requirements and advertisement specification prior to the adoption of a budget and tax rate.

The effect of TRIM is to inform taxpayers that their property taxes are changing (up or down), the cause (a change in the assessed value of their property and/or an increase in the proposed spending level) and how the proposed new tax rate compares to the rate that would generate the same property tax dollars as the current year (the "rolled-back" rate).

The rolled-back rate is the rate of property tax required to raise the same tax revenues in the budget year as in the current year (Note: this does not take into consideration the effects of inflation in the budget year). If there is no increase in revenue requirements in the budget year, the tax rate (millage) will generally be lower because of increased property assessments and the value of new construction being added to the tax roll.

The following is a TRIM calendar of required actions and maximum deadlines. It assumes that the process begins with the certified tax roll as of July 1st.

<u>Days</u>	<u>Required Action</u>
July 1 (1)	Property Appraiser certifies to each municipality the taxable value within the boundaries of the municipality. Budget workshops are being conducted during this period.
(35)	Municipal officials advise Property Appraiser of proposed millage, rolled-back rate and date, time and place of the Tentative Budget Hearing. (Note: If municipality fails to provide the required information in a timely fashion, the municipality shall be prohibited from levying a millage rate greater than the rolled-back rate for the upcoming year.)
(55)	Property Appraiser mails the Notice of Proposed Property Taxes (commonly referred as the TRIM notice). This also serves as notice of the tentative budget and millage hearing.

- (80) Tentative budget and millage hearing. The tentative budget and millage are adopted at this hearing (usually in early/mid-September).
- (95) Advertisement of final budget and millage hearing.
- (100) Final budget and millage hearing and adoption (usually in mid/late-September).

At this final hearing, municipal officials will adopt a series of ordinances and resolutions relating to taxation and spending for the new fiscal year. These are:

- * An Operating Budget Appropriations Ordinance to fund the ongoing operations of the city. Appropriations are generally made for each unit within the municipal government.
- * Revenue ordinances for levying of ad valorem property tax and other tax rates.
- * A Capital Budget Ordinance to appropriate funds for specific construction and public works projects.
- * A Bond Resolution to authorize the issuance of debt to pay for other capital projects.

HOW TO READ YOUR TRIM NOTICE

NOTICE OF PROPOSED PROPERTY TAXES

**DO NOT PAY
THIS IS NOT A BILL**

EXAMPLE: Your taxes are proposed to rise \$100 over last year. Why?

TAXING AUTHORITY	YOUR PROPERTY TAXES LAST YEAR	YOUR TAXES THIS YEAR IF PROPOSED BUDGET CHANGE IS MADE	A PUBLIC HEARING ON THE PROPOSED TAXES AND BUDGET WILL BE HELD:	YOUR TAXES THIS YEAR IF NO BUDGET CHANGE IS MADE
County	\$400	\$500	<p>Your county has proposed to up its tax rate by 1 mill to fund a budget increase. This is responsible for \$50 of the tax hike —the difference between columns 2 and 3.</p> <p>The remaining \$50 of the tax hike is because of the assessment increase on your property from \$65,000 to \$75,000. See below.</p>	\$450
City	\$250	\$350		\$315
School District	\$330	\$425		\$385
Water Mgmt. District	\$ 40	\$ 50		\$ 50
<p>*FOR DETAILS ON INDEPENDENT SPECIAL DISTRICTS AND VOTER APPROVED DEBT, CONTACT YOUR TAX COLLECTOR AT:</p>				
SEE REVERSE SIDE FOR EXPLANATION		COLUMN 1	COLUMN 2	COLUMN 3
SEE REVERSE SIDE FOR EXPLANATION		ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE
YOUR PROPERTY VALUE AS OF JANUARY 1:		\$75,000	\$25,000	\$50,000
LAST YEAR'S ASSESSED VALUE:		\$65,000		

Chapter 2

Municipal Revenues

Municipal governments utilize a wide variety of revenues to pay for the many services provided to their citizens. Each municipal government attempts to balance its revenue sources to produce long-term solvency while utilizing a revenue mix that is compatible with local circumstances. Depending upon these local circumstances, which could include such variables as the federal income tax status of its citizenry or the proportional amount of property tax exemptions in relation to the property tax base, municipal officials conscientiously formulate the mix of revenues which they utilize to fund their municipal operations and services.

Municipalities in Florida, by virtue of the state constitution, have general home rule authority in all areas except taxation. A municipality is allowed the discretion to perform any public service or to enact any ordinance unless specifically prohibited by the state. However, when it comes to taxation, municipalities do not have home rule authority. The constitution requires that municipalities can only levy taxes that the Legislature has specifically authorized by general law, with the exception of the property tax. The property tax is the only local tax source which is authorized by the constitution and it is capped at 10 mills.

The basic revenue categories addressed in this publication are as follows: ad valorem property tax, municipal utility tax, franchise fees, user fees, intergovernmental revenues, local option taxes, occupational license taxes, fines and forfeitures, investment income, contributions and donations, and miscellaneous revenue.

Ad Valorem Property Tax

The property tax is based on the value of real and personal property. Each year, the county property appraiser determines the total value of each parcel of property. The value of residential property represents only the value of the real estate, which includes buildings and improvements; while commercial property includes these values in addition to all relevant personal property. This value is called "assessed value." After subtracting all lawful exemptions (i.e., homestead: \$25,000; widow: \$500; widower, effective 1990: \$500; disability: \$500), the remaining value is called "taxable value." It is this figure on which ad valorem property taxes are calculated. The property tax is calculated by multiplying the taxable value of the property by .001, and then multiplying this number by the rate of taxation, which is referred to as "mills" or "millage rate." One mill is equivalent to \$1 per \$1,000 of taxable value. For example, if you own your own home, and the property appraiser has set the assessed value at \$35,000, the taxable value would be \$10,000 after subtracting your \$25,000 homestead exemption. If your municipality's millage rate is 5.0 mills, you would owe \$50 in property taxes ($\$10,000 \times .001 = \10 . $\$10 \times 5.0 \text{ mills} = \50).

According to a recent Florida ACIR report (*A Profile of Florida Municipal and County Revenues*), the property tax is likely to remain a significant source of revenue to local government for the following reasons:

- * large revenue generating potential;

- * easily adjustable rates;
- * relatively stable source of revenue, even during recessions;
- * virtually impossible to evade or avoid;
- * the only local tax not constitutionally pre-empted to the state;
- * deductible from federal income taxes;
- * not earmarked for particular expenditure categories; and
- * not linked to consumption of goods or services.

On the other hand, the ACIR report points out several reasons for the property tax to be viewed as relatively unpopular:

- * The property tax is regressive in relation to current income, and thus has the potential to be a serious burden on fixed- and low-income families.
- * Property taxes impose a levy on unrealized capital gains, particularly in residential properties.
- * For many taxpayers, the property tax is a highly visible, large lump-sum annual payment.
- * The influence of inflation and speculation on local property values. During the 1970s and early 1980s, property values increased at a greater rate than most incomes, thereby increasing the relative property tax burden. This occurred despite the homestead exemption increasing from \$5,000 to \$25,000 during the early 1980s.
- * The problems associated with assessment of property value.

During the fiscal year ending September 30, 1988, the Florida Comptroller reports that municipalities raised slightly more than \$970 million in property taxes, or approximately 16 percent of total municipal revenue. As municipalities (and counties to a larger degree) have reached their statutory maximums on other taxes, many local government officials have been forced to dramatically increase property taxes.

Municipal Utility Tax

The Municipal Utility Tax is another powerful revenue source. This tax is levied by the municipality on specific utility services and collected by the utility provider, even if the provider is the municipality itself. The tax is incorporated into the utility bill and is considered to be relatively less unpopular since it is based on relative consumption and paid in small portions on a monthly basis.

Section 166.231, Florida Statutes, authorizes this tax to be levied on the purchase of electricity, telephone and telegraph, water and heating fuels (natural and LP gas, propane, fuel oil and kerosene) at a rate not to exceed 10 percent. Approximately 60 municipalities apply this tax on a broader definition of telecommunications, which includes intrastate long distance, cellular, "beepers," etc. In this case, the maximum rate allowed is 7 percent on all applicable telecommunications. This option does not affect the 10 percent cap on the other utilities.

During FY 1987-88, municipalities collected \$382.7 million, which represents 6.5 percent of all municipal revenues.

Franchise Fees

Franchise fees generate revenue in much the same way as the utility tax; however, it is a fee which is usually levied on a company or utility for the privilege of doing business within the municipality's jurisdiction and/or for utilizing municipal rights-of-way to transact their business.

According to a 1987 Florida League of Cities survey, franchise fees are levied on electricity, telephone (1 percent maximum), water, sewer, natural gas, cable television (5 percent maximum), solid waste collection, taxis, marinas, mass transit and golf courses. These fees are generally levied at rates up to 6 percent of gross billings, except where noted above.

User Fees

User fees or charges for services are defined by the Florida Comptroller as "voluntary payments based on direct, measurable consumption of publicly provided goods and services." These revenues, by far, are the single largest category of municipal revenues. Accounting for approximately 40 percent of the average budget, user fees are derived from charges for water, wastewater, natural gas, electricity, mass transit, garbage collection, recreation, building inspections, public transportation and a variety of other services.

Since the 1970s, user fees have substantially increased as a proportionate share of the budget; however, there appears to be a general leveling off in recent times. For some services, fees are charged at rates below actual cost and are partially offset by taxes. This is necessary for some services such as public transportation and recreation so that low-income residents are not excluded due to high prices.

In recent years it has become more common for municipalities to incorporate "administrative charges" to offset indirect administrative costs computed as a percentage of gross collections on various enterprise operations such as electric, water, wastewater, natural gas, golf course, airport, parking and other user fee-type services. These show up on the revenue side as "transfers to the general fund" and overhead.

Intergovernmental Revenue

This category is often referred to as "revenue sharing." These revenues are collected by one government and shared with other governmental units. Intergovernmental revenue, the third largest category, accounts for nearly 14 percent of total revenue.

Due to the steady decline of federal grant-in-aid programs over the past several years, as well as the elimination of Federal Revenue Sharing in 1986, state-shared revenue programs have become the most important intergovernmental revenue source. Presently, there are nine state-shared revenue programs available to municipalities. The major state-shared revenue sources are Municipal Revenue Sharing, Local Government Half-Cent Sales Tax and the Municipal Financial Assistance Trust Fund. The Municipal Revenue Sharing Program is funded from three state revenues: eighth cent of gas tax, 11 cents per pack from cigarettes sold and a

portion of the State Alternative Fuel Decal Users Fee. The Local Government Half-Cent Sales Tax Program is funded from an approximate 10 percent share of the Florida sales tax. The proceeds are shared with municipalities and counties, with approximately 36 percent of the funds going to municipalities. The Municipal Financial Assistance Trust Fund receives its monies from two cents per pack of cigarettes sold within each county. According to the Florida ACIR, the state-shared revenue programs have the following advantages:

- * certain taxes are more efficiently collected at the state level from an administrative perspective;
- * municipalities can take advantage of the greater revenue-generating capacity of the state;
- * they provide a form of aid that is aimed at redressing the differing fiscal capacities and needs of local government; and
- * they provide compensation for state restrictions on local government revenue-raising capacity or to offset the fiscal impact of state mandates.

From the local government perspective, they have certain disadvantages: the requirement to meet specific conditions in order to receive such monies, to spend these appropriations on specific purposes, and that inflation tends to reduce the spending power of these monies over time.

Local Option Taxes

With the exception of the municipal resort tax, which was available to only a handful of municipalities in Dade and Broward counties beginning in the late-1960s, municipalities in general do not have specific authority to levy local option taxes within their jurisdictions. Some municipalities are allowed by state law to levy the Local Option One-Cent Infrastructure Sales Surtax and Six-Cent Gas Tax. Only those municipalities that represent a majority of their countywide population and adopt identical resolutions calling for a referendum may place the One-Cent Infrastructure Surtax on the ballot. Upon passage of the referendum, the municipalities are still required to share the proceeds with the county and any remaining municipalities according to a state-stipulated formula. As of the April 1, 1988 official population estimates, only municipalities in Alachua, Bay, Brevard, Broward, Duval, Leon, Palm Beach, Pinellas, St. Lucie and Volusia counties could use this option in lieu of action by their respective board of county commissioners.

The One-Cent Infrastructure Surtax, by law, can only be spent on infrastructure. Section 212.055(3), Florida Statutes, defines infrastructure as "any fixed capital expenditure or fixed capital costs associated with the construction, reconstruction, or improvement of public facilities which have a life expectancy of 5 or more years and any land acquisition, land improvement, design and engineering cost related thereto." The law further states that this money cannot be used for any operational expenses, nor to replace user fees or to reduce property taxes. A one penny levy of the infrastructure surtax would raise approximately \$1.3 billion, statewide. The Six-Cent Gas Tax may only be expended on transportation-related expenditures. A one penny per gallon levy will raise approximately \$66 million, statewide.

Of the two remaining local option taxes (One-Cent Voted Gas Tax and Tourist Development Tax) that may be levied by all 67 counties, only the One-Cent Voted Gas Tax may be shared directly with municipalities. The statute language does not require counties to share their proceeds--only that they may share it.

In those cases when the county and its municipalities cannot agree to a funding formula among themselves, in reference to the One-Cent Infrastructure Surtax and Six-Cent Gas Tax, state law specifically states that mandatory sharing will exist according to state formulas. In essence, a county cannot arbitrarily keep all the money unless the municipalities agree to it through an interlocal agreement.

Occupational License Tax

According to Section 205.042, Florida Statutes, "The governing body of an incorporated municipality may levy, by appropriate ordinance or resolution, an occupational license tax for the privilege of engaging in or managing any business, profession or occupation within its jurisdiction."

The occupational license tax is designed specifically to raise revenue and should not be confused with the regulatory fees referred to in Section 166.221, Florida Statutes.

Occupational license tax revenues during the pre-1970s contributed a greater proportion of the municipal revenue stream than at present time. In 1972, the Legislature froze all license rates as they were in place on October 1, 1971. In 1980, the Legislature allowed local governments to raise rates of licenses with flat rates according to a three-tier schedule: 100 percent increase for rates \$100 or less; 50 percent increase for rates between \$101 and \$300; and a 25 percent increase for rates above \$300. In 1982, the Legislature allowed graduated or per unit rates to increase up to 25 percent.

Even with the one-time increases allowed in 1980 and 1982, the occupational license tax represents a minor revenue source in relation to other sources. For FY 1987-88, it represented 1 percent of all revenues.

Fines and Forfeitures

This revenue category includes receipts from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations, and for neglect of official duty. Fines include court fines, library fines, pollution control violations and violations of local ordinances. Forfeitures include revenues resulting from confiscation of deposits or bonds held as performance guarantees, and proceeds from the sale of contraband property seized by law enforcement agencies.

Revenue from fines and forfeitures are usually much lower than many people expect. For FY 1987-88, it represented only 1.1 percent of total municipal revenues, slightly more than occupational licenses.

Investment Income

Revenues derived from the investment of cash receipts and idle funds are an important, yet often overlooked, source of revenue. Many local governments are recognizing the importance of establishing effective cash management/treasury programs and restructuring their governmental operation to accelerate revenues, promote aggressive revenue collections and maximize cash flow.

During FY 1987-88, interest income amounted to \$344.5 million, or 5.7 percent of all municipal revenues.

Contributions and Donations

This revenue category is comprised of various sources, primarily gifts, pledges, bequests or grants from non-governmental entities. Due to the nature of this category, revenue derived from these sources can fluctuate greatly from one year to the next. Statewide, contributions and donations accounted for 3.8, 3.6 and 4.2 percent of municipal revenues during fiscal years 1985-86, 1986-87 and 1987-88, respectively.

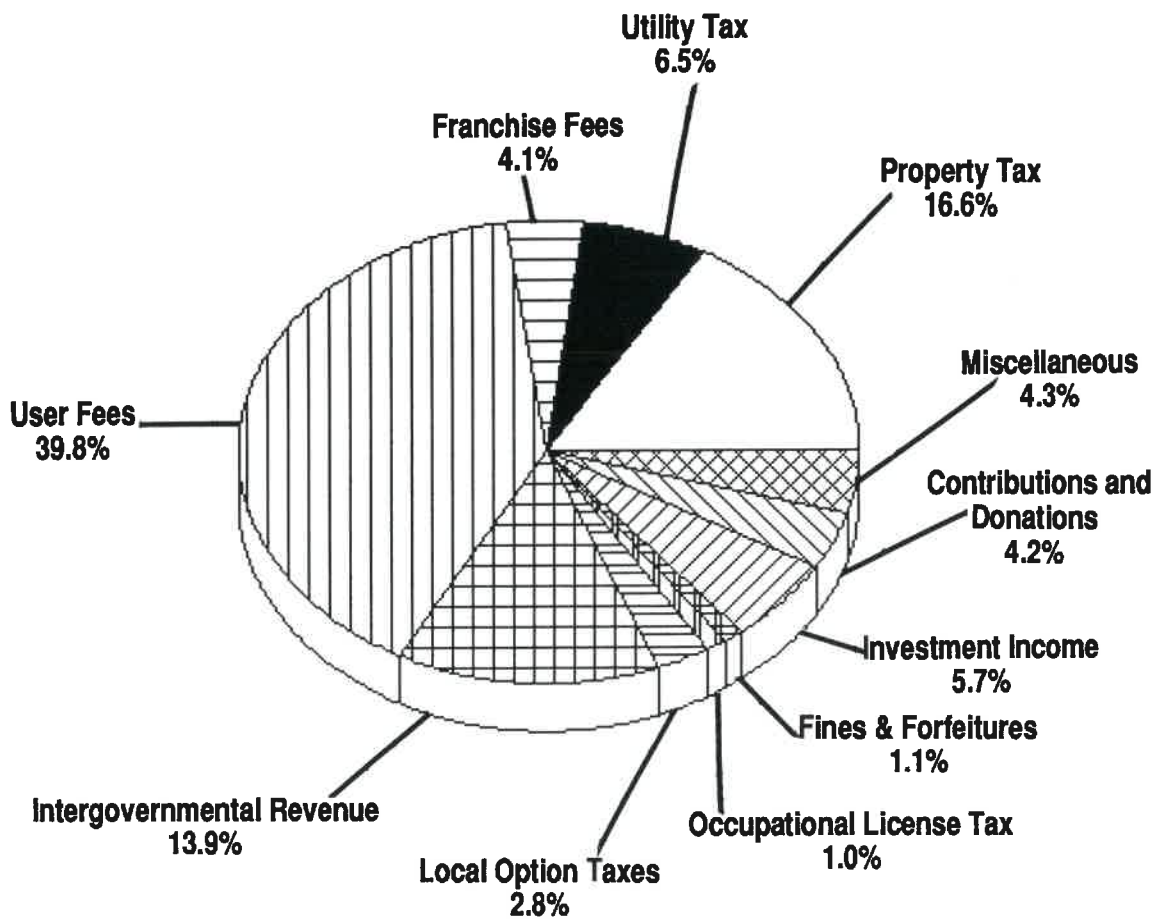
Miscellaneous Revenue

The miscellaneous revenue category includes a variety of lesser important sources such as permit fees, non-occupational license fees, rents, royalties, special assessments, the sale of assets, insurance compensation, etc. Collectively, this category represented approximately 4.3 percent of total revenue for FY 1987-88.

Table 2-1

Municipal Revenue Categories Fiscal Year 1987-88

As a Percentage of Total Revenue



Chapter 3

Municipal Expenditures

Monies expended by municipal governments normally cover a wide variety of areas. The specific areas, though, are largely dependent upon the desired needs of its citizens and are formulated by the municipality's elected officials. In the following pages, general expenditure categories will be presented, including the basic components which are included in each category. Each municipality's budget structure and expenditure titles will often vary.

The expenditure categories addressed in this chapter were selected from specific expenditure groups and subgroups as reported in the *Florida Local Government Financial Report*, which is prepared annually by the Florida Comptroller's Bureau of Local Government Finance. Since these numbers are a collective of all municipalities, they can be construed as simple averages. They are not intended to be recommended as rule-of-thumb expenditure proportions.

General Government

The general government category includes the legislative, judicial and administrative functions of the municipal government for the benefit of the public and governmental entity as a whole. This includes total expenses for elected officials, city manager, city clerk, finance, administrative, legal counsel, comprehensive planning, elections and insurance. On a state-wide basis, the general government category accounted for 6.7 percent of municipal expenditures.

Law Enforcement

Law enforcement is the largest single expense area for Florida's municipalities and has shown sizable increases for the past several years. With Florida's growing population and increase in crime, this trend is expected to continue. Statewide, municipalities expended \$863.8 million for the operation of their police departments and for payments to house prisoners. This area accounted for 14 percent of all expenditures.

Fire Control

The fire control category includes all expenses associated with fire prevention services, municipal fire departments and contractual payments for fire-fighting services to other entities. Fire control, which is only one of several categories within the broader category of public safety, amounted to 6.6 percent of municipal expenditures.

Utilities

Municipal utilities in this context refers to basic user fee services associated with enterprise fund operations of water, sewer, electric and natural gas.

Utilities traditionally are one of the larger portions in most municipalities' budgets. On a statewide basis, these four utilities account for over one-fourth (25.6 percent) of all municipal expenditures.

Solid Waste

Under the function of solid waste are three components: collection, disposal and recycling.

The collection aspect can take several forms. Many years ago, backdoor collection was the primary method. As personnel costs steadily grew over time, municipalities were forced to find cheaper and more cost-efficient methods. Today, the majority of municipalities utilize "curbside" collection, or they contract with a private contractor to perform all or part of the operation.

Solid waste disposal has become increasingly complex and expensive in recent years following the passage of state and federal environmental laws. Due to these actions, virtually all municipalities have gotten out of the landfill business, leaving this function to be performed by counties or independent districts that operate from larger tax or population bases.

While recycling of discarded goods has been utilized for many years, it was not until the passage of the Solid Waste Management Act in 1988 that it has emerged as a major component of solid waste management. This act requires, among many other things, that certain local governments initiate viable recycling programs, and reduce the volume of solid waste entering landfills by 30 percent by 1994.

Roads and Streets

The construction, maintenance and improvements of the road and street network is the most expensive area of the various transportation-related expenditures (other transportation-related expenses are addressed in Miscellaneous Expenses). Specific expense areas associated with the road and street network include roadway and right-of-way operations and maintenance, roadway and right-of-way drainage, street lighting, traffic signage and signalization, pavement markings, traffic engineering and bridge maintenance.

Municipal road responsibilities are assigned by the State of Florida through a system termed "functional classification." The functional classification system specifies that municipalities shall be responsible for the city street network. Basically, this includes all local residential streets and short-distance connecting roads. It does not include roads which are part of the state highway system even though they may fall within the municipal boundaries.

The road and street function accounted for approximately 6.3 percent of all municipal expenditures during FY 1987-88.

Stormwater and Environmental

This category includes only the master drainage system, flood control and environmental-related expenses incurred by the municipal government. It does not, however, include costs associated with stormwater runoff attributable to roads and streets, nor roadside drainage.

In the past, stormwater-related functions were traditionally handled as a general government service funded through the municipality's general fund. In the past few years, some local governments have established the stormwater function as a full-fledged utility operation. The utility is placed in a separate enterprise fund with revenues generated from monthly billings on the municipality's traditional water and sewer bills.

During FY 1987-88, stormwater and environmental expenses accounted for approximately 1.3 percent of all expenditures.

Economic Improvement

The economic improvement category is a collection of related services associated with developing and improving the economic condition of the municipality and its residents. It includes such programs as employment training, job search, downtown and industrial development/improvement, housing and urban development, etc. These expenses are related to only those programs directly served by the municipality and excludes those performed by independent districts and authorities which are often located within and named after the municipality.

These programs amounted to approximately 2.9 percent of expenditures during FY 1987-88.

Human Services

Human service expenditures pertain to those costs associated with the provision for the care, treatment and control of human illness, injury or handicap; and for the welfare of the municipality and its residents. This category includes all municipal costs to operate hospitals, health and rehabilitation, diagnosis and treatment of mental illnesses, and the economic assistance to the indigent.

The function of human service assistance is primarily funded and administered by county agencies (as a function of state government) and by independent authorities and districts; however, municipalities cumulatively expended approximately 1.4 percent of total costs in this area. The average municipality, in most cases, spent proportionately less on human service programs.

This category was severely impacted by the elimination of Federal Revenue Sharing in October 1986. As you can see in Table 3-1, total statewide municipal expenditures in human services was \$175.8 million in FY 1985-86, while FY 1986-87 and FY 1987-88 was \$83.9 million and \$85.4 million, respectively.

Culture and Recreation

Culture and recreation is a general category combining the expenditures of libraries, parks, recreation, cultural services, special events and special recreation facilities.

Statewide, this category totaled almost \$600 million or 9.7 percent of municipal expenditures. Over half of these expenditures were for recreational facilities and activities, while municipal libraries accounted for approximately 7 percent of this category. According to League statistics, 73 out of 390 municipalities operate their own libraries.

Debt Service

Debt service is shown as a separate category due to the reporting requirements of the Florida Comptroller's *Local Government Financial Report* which shows it separately rather than by functional category. This category reflects those funds expended toward principal, interest and various handling fees associated with municipal bond issues. Interest and handling fees from enterprise funds are not shown in this category, and were not available due to the manner in which these costs are handled in enterprise accounting and the Comptroller's financial report.

The four basic forms of long-term debt are general obligation (G.O.) bonds, revenue bonds, general revenue bonds and special tax bonds.

G.O. bonds are also known as "full faith and credit bonds" because their repayment is unconditional and based on the general credit and taxing powers of the borrowing government. Since the power to levy and collect property taxes provides the basic security to these bonds, they require voter approval to issue them. G.O. bonds generally carry the lowest interest rates, and are typically used to finance general-purpose public buildings, roads and criminal justice facilities.

Another form is a revenue bond. These are obligations in which repayment of debt service is entirely from user fees of an enterprise operation. The most common municipal issues are for water, wastewater, electric, parking garages, civic centers, stadiums and airports.

A third type of long-term debt is a general revenue bond. This is a cross between a G.O. and a revenue bond. Like a revenue bond, it does not require a referendum; yet, like a G.O. bond, it has the full faith and credit of a specific or a percentage of all general fund, non-ad valorem revenues.

A final type is the special tax bond. It too is similar to G.O. bonds in that it is often used for general government purposes and the repayment revenue is from a source unrelated to the project. Special tax bonds are payable from a specifically pledged tax, usually a local option sales tax or tourist tax.

Miscellaneous Expenses

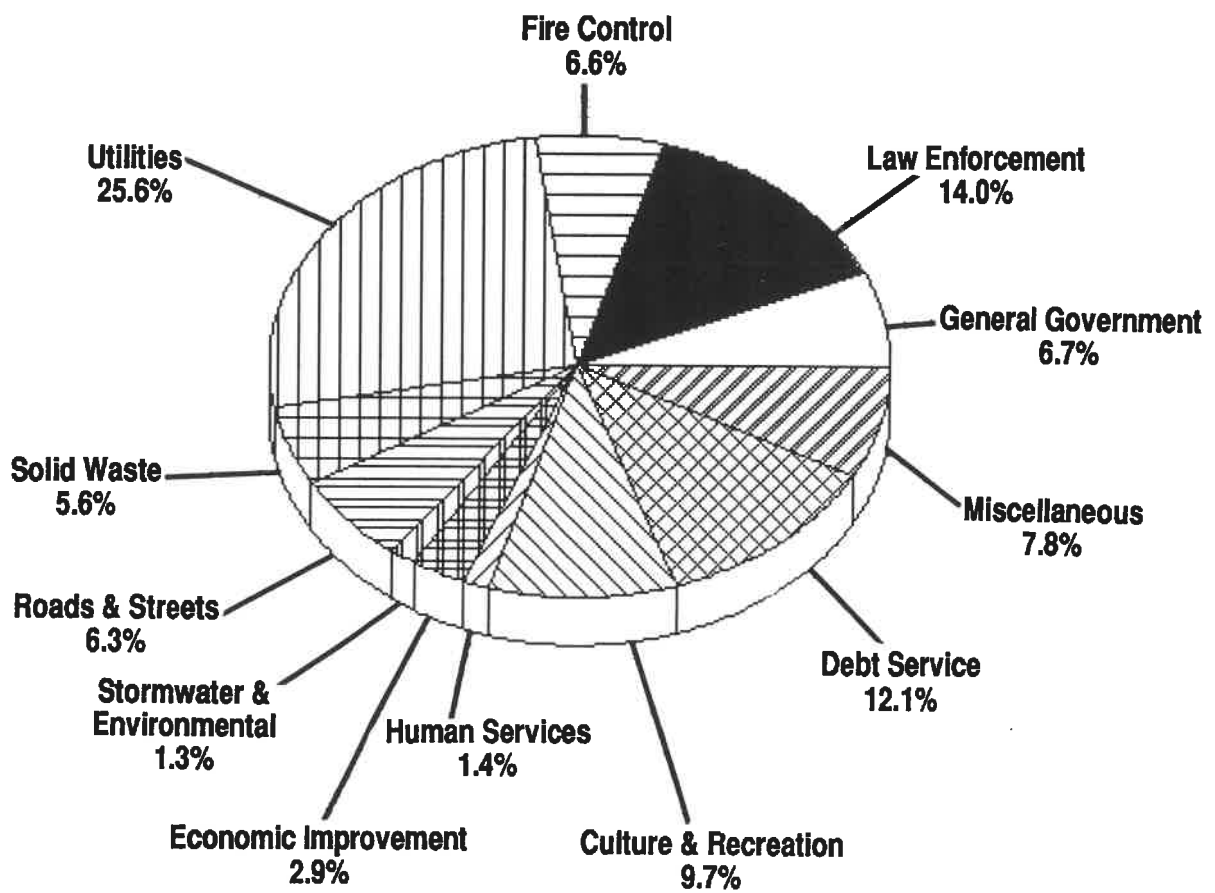
This category consists primarily of smaller budget functions or those which are not widely utilized by a significant number of municipalities. These include airports, port facilities, commercial docks, mass transit systems, traffic flow enhancement services, parking facilities and miscellaneous general government services not itemized within that category.

Collectively, the cost of providing these services and facilities accounted for 7.8 percent of municipal expenditures during FY 1987-88.

Table 3-1

Municipal Expenditure Categories Fiscal Year 1987-88

As a Percentage of Total Expenditures



Chapter 4

Revenue and Expenditure Comparisons

The revenues and expenditures noted below were obtained from the *Florida Local Government Financial Report* which is produced by the Florida Comptroller's Office. These numbers reflect a compilation of each municipality's annual financial report, which is required to be submitted annually to the Comptroller.

In each of the three fiscal years presented, expenditures were larger than revenues. This is due to the way the Comptroller's Office defines debt proceeds. It is defined as a non-revenue and including it in the annual revenue figures would have unrealistically skewed the numbers. These comparisons only reflect the general government and enterprise funds of municipalities. For your information, debt proceeds amounted to \$2.08 billion, \$87.4 million, and \$1.03 billion during fiscal years 1985-86, 1986-87 and 1987-88, respectively. The debt service expenditure category also skews the figures as you can note in FY 1985-86 in Table 4-2. The Comptroller's Office stated that an unusually large number of bond refundings took place in that year causing the expenditure category to be abnormally high.

It is interesting to point out that in a three-year comparison of the growth in total revenues compared with total expenditures (excluding debt service payments), expenditures have grown at a much faster rate than revenues. From FY 1985-86 to FY 1987-88, revenues grew only 9.1 percent, while expenditures leaped 13.4 percent. The most significant increases in expenditures were in culture and recreation (35.6 percent) and law enforcement (19.1 percent). Likewise, to fund these two large general fund expenditure areas, property taxes increased 22.9 percent. In many municipalities, the property tax is the one revenue source that local government officials have any control over, and therefore it must be increased to keep up with inflation, service demands and larger populations.

Another interesting point is the comparison of property taxes and public safety expenditures. Law enforcement expenditures are nearly equal to the total revenue derived from property tax. It takes approximately 90 percent of the property tax to pay for law enforcement. If you include fire control with law enforcement, the nearly \$1.3 billion public safety bill exceeds property tax collections by almost \$300 million.

Intergovernmental revenue has increased by only 5 percent over the three fiscal years shown. Federal shared revenue has drastically declined from \$258.2 million to \$176.8 million, a decrease of 31.5 percent. Likewise, state-shared revenue rose 20.2 percent and local-shared increased 40.5 percent.

Although it is still a relatively small source of revenue, local option tax revenue has shown the largest percentage increase of all sources. Over the past three fiscal years it grew approximately 30 percent a year. This is attributable to the relatively new local option Infrastructure Surtax, as well as numerous counties increasing their local option gas tax and thus raising their municipalities' proportionate share.

Table 4-1

Municipal Revenue Comparisons Fiscal Years 1985-86, 1986-87, 1987-88

(\$ Millions)

	<u>1985-86</u>	<u>%</u>	<u>1986-87</u>	<u>%</u>	<u>1987-88</u>	<u>%</u>
Property Tax	\$ 790.6	14.7	\$ 875.5	15.8	\$ 971.4	16.6
Utility Tax	340.5	6.3	374.0	6.7	382.7	6.5
Franchise Fees	219.7	4.1	219.9	4.0	239.6	4.1
User Fees	2,173.8	40.4	2,217.8	40.1	2,337.0	39.8
Intergovernmental Revenue:	779.5	14.5	820.8	14.9	818.4	13.9
Federal	258.2*	4.8	207.1*	3.8	176.8*	3.0
State	446.7*	8.3	525.0*	9.5	536.9*	9.2
Local	74.6*	1.4	88.7*	1.6	104.7*	1.7
Local Option Taxes	104.3	1.9	133.8	2.4	166.6	2.8
Occupational License Tax	53.2	1.0	55.0	1.0	57.8	1.0
Fines & Forfeitures	50.4	0.9	63.4	1.2	65.7	1.1
Investment Income	335.6	6.2	307.6	5.6	334.5	5.7
Contributions & Donations	205.5	3.8	196.8	3.6	246.4	4.2
Miscellaneous	<u>329.0</u>	<u>6.1</u>	<u>260.3</u>	<u>4.7</u>	<u>251.6</u>	<u>4.3</u>
Total Revenues	\$5,382.1	100.0	\$5,524.9	100.0	\$5,871.7	100.0

* These revenue figures are subtotals whose sums equal the major category, "Intergovernmental Revenues."

Table 4-2

Municipal Expenditure Comparisons Fiscal Years 1985-86, 1986-87, 1987-88

(\$ Millions)

	<u>1985-86</u>	<u>%</u>	<u>1986-87</u>	<u>%</u>	<u>1987-88</u>	<u>%</u>
General Government	\$350.3	5.9	\$385.5	6.9	\$412.6	6.7
Law Enforcement	725.1	12.2	795.6	14.3	863.8	14.0
Fire Control	347.0	5.9	379.3	6.8	406.8	6.6
Utilities	1,518.4	25.6	1,530.3	27.5	1,580.2	25.6
Solid Waste	291.2	4.9	324.2	5.8	343.9	5.6
Roads & Streets	323.4	5.4	370.0	6.7	391.6	6.3
Stormwater & Environmental	68.7	1.2	87.0	1.6	80.9	1.3
Economic Improvement	156.9	2.6	172.4	3.1	177.2	2.9
Human Services	175.8	3.0	83.9	1.5	85.4	1.4
Culture & Recreation	440.9	7.4	471.1	8.5	597.8	9.7
Debt Service	1,150.6	19.4	504.1	9.1	743.2	12.1
Miscellaneous	<u>383.2</u>	<u>6.5</u>	<u>452.7</u>	<u>8.2</u>	<u>483.7</u>	<u>7.8</u>
Total Expenditures	\$5,931.5	100.0	\$5,556.0	100.0	\$6,167.1	100.0

Florida League of Cities, Inc.
201 West Park Avenue
Post Office Box 1757
Tallahassee, Florida 32302-1757
(904) 222-9684

Florida TaxWatch, Inc.
111 North Gadsden Street
Post Office Box 10209
Tallahassee, Florida 32302
(904) 222-5052