Fiscal Stability of Collier County: What Has Happened Since 2004?

ANDERSON ECONOMIC GROUP

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Patrick L. Anderson
Principal & CEO

Caroline M. Sallee
Consultant

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About Anderson Economic Group

- Economic consulting firm founded in 1996 by Patrick L. Anderson. Offices in East Lansing, Michigan, Chicago, Illinois, and Los Angeles, California.
- Experts in tax policy, economic and fiscal impact analyses, valuation, economic development plans, and market studies.
- Have assisted with tax policy reforms in Michigan including: property tax reforms (1994); sales tax reforms (1996); reforming tax reversion laws (1999); enforcing shareholder rights (2003); repealing Michigan's Single Business Tax (2006), and passing a statewide Earned Income Tax Credit (2007).

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About Anderson Economic Group

Relevant Work

- Currently assisting clients in Michigan analyze the State of Michigan's revenues and expenditures and develop strategies to balance the budget.
- AEG's *State Business Tax Burden Rankings* is published annually and compares business tax burdens in all 50 states.
- AEG's *State Economic Handbook* (edited by Patrick Anderson, published by Palgrave Macmillan) presents economic and demographic data on all 50 states.

AEG's Collier County Report (2004)

- The Economic Development Council of Collier County, with support from the Board of County Commissioners, retained AEG in 2004 to:
  - Analyze Collier County's underlying economic conditions and drivers of county revenue.
  - Forecast key economic variables, tax and fee revenue, and expenditure pressures for the County.
  - Present policy options that would create a stable fiscal situation for the county.

2. Fiscal Situation 2004-2010

- 2004 Study Conclusions
- Revenue Sources
- Drivers of Revenue
- Actual v. Predicted Revenue

Conclusions of 2004 Study

We identified the following factors that present the most likely causes of revenue instability: (p. 33 of 2004 AEG Report)

1. **"Slowdown in Population Growth Inevitable"**
   Population growth began to slow in 2005. Since 2007, population growth has been negative or less than 1% per year .
2. **"Small Fraction of Budget from Sustainable Sources"**
   In 2010, one-third of Collier's County revenue was from "sustainable" sources, which we define as revenue from stable sources on a recurring annual basis.

Conclusions of 2004 Study (continued)

3. **"Reliance on Impact Fees"**
   Policy changes resulted in large increases in impact fee revenue between 2004-2007. In 2010, impact fees will likely be one quarter the amount of fees collected in 2007.

4. **"Cyclicality of Economy"**
   U.S. in biggest economic downturn since Great Depression. Collier County revenue is more affected by this due to reliance on impact fees and high property values.

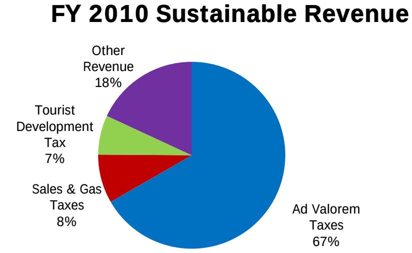
2004 Study Conclusion: "Shortfall ahead"

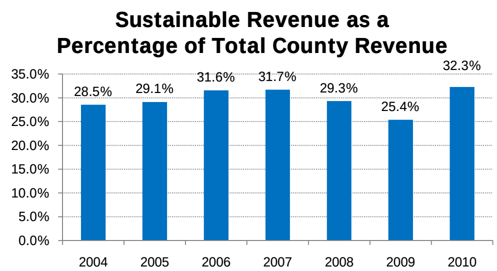
Collier County Revenue

- Collier County's adopted budget is $1.4 billion in FY 2010.
- Core government services are mostly funded by the General Fund and Special Fund. Revenue for these funds come from a variety of sources that include recurring "sustainable" revenue and one-time revenue.
- "Sustainable revenue" includes revenue from stable sources on an annual basis. This includes revenue from ad valorem taxes, charges for services, and intergovernmental revenue from sales and gas taxes.
- "Other financing sources," which include impact fees, account for one-third of revenue for the General Fund and Special Funds.

Collier County Sustainable Revenue

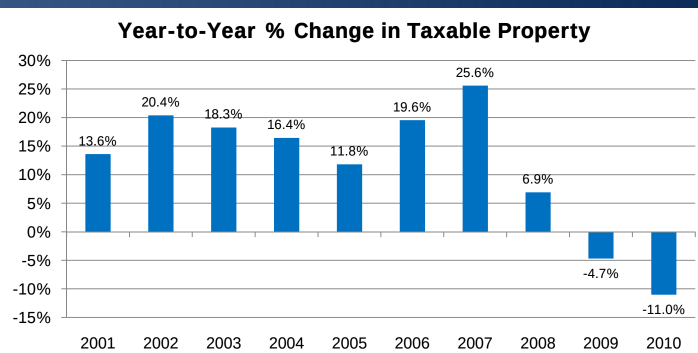
- Two-thirds of sustainable revenue is from ad valorem taxes.
- Tourist development taxes and intergovernmental revenue provides another 15% of sustainable revenue.
- Sustainable revenue has accounted for only 25% to 32% of total revenue since 2004.





Source: Collier County Fiscal Year 2009-10 Adopted Budget

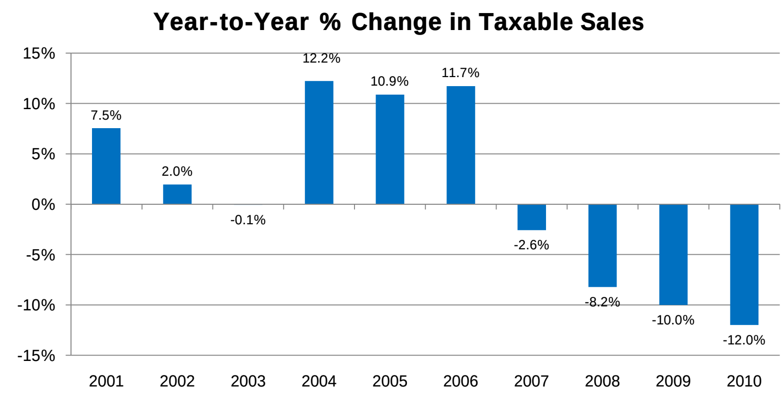
Drivers of Revenue: Property Values



Note: General Fund Taxing District Taxable Property
Source: Collier County Fiscal Year 2009-10 Adopted Budget

- Collier County has experienced a decline in taxable property value like the rest of the country. The declines have not been as great as other parts of the country.
- The tremendous growth in taxable value during much of the 2000's means that taxable property increased 2.5 times between 2000-2010.

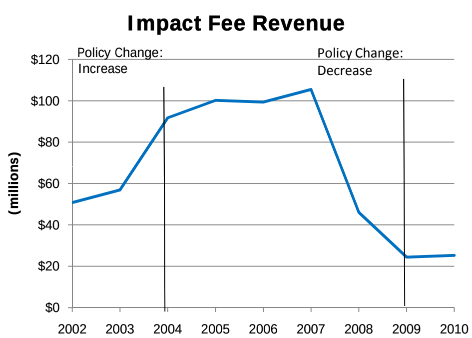
Drivers of Revenue: Sales



Source: Data Provided by Collier County; Note: FY 2010 decrease is based on State of Florida revenue projections

- Consumption is more sensitive to economic downturns and adjusts faster than taxable values of property.

Drivers of Revenue: Impact Fees



Source: *Collier County Fiscal Year 2009-10 Adopted Budget*
Note: In 2004, a policy change required developers of Planned Unit Developments to pay 50% of the total estimated road impact fees up front. This policy was changed in FY 2009 to 20% per year for 5 years.

- Impact fee revenue is one-quarter of the amount it was in 2007.
- We consider impact fees to be an unsustainable revenue source.
- Impact fees are not raising enough revenue to pay off debt associated with growth-related projects.

Economic Factors Long-term

- Florida is still a good state for long-term growth.
  - Good climate
  - Immigration
  - Proximity to market
- Collier County is still a desirable county.
  - Beautiful place
  - High growth areas
  - Premier destinations
  - Building good infrastructure
- However, to prosper long-term you must think and act with the long-term in mind.

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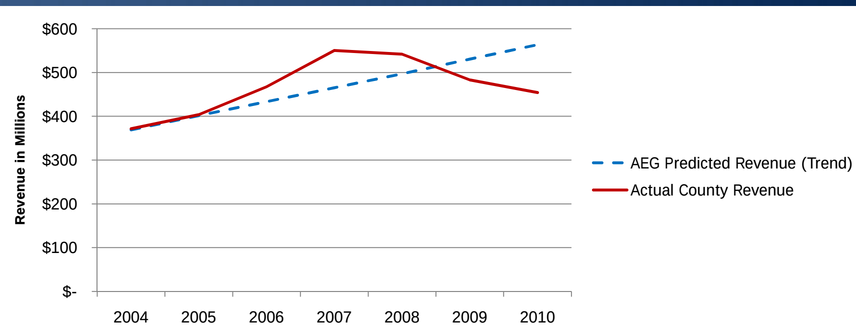
Predicted v. Actual Revenue, 2004-2010



Source: Collier County FY 2009-10 Adopted Budget; AEG Revenue Trend Projections

- In 2004, we modeled the County's revenues from recurring sources that support the GF and SF expenditures, which is our definition of core government. This modeling was not budget forecasts, and ignored temporary cycles in economic conditions.
- As shown above, the trend captures growth in revenues until the economic recession at the end of 2008.

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Looking Ahead

Yellow Flags

1. Downgrades in Bond Rating
   During FY 2008 Collier County experienced downgrades on its Series 2002, 2003, and 2005 Capital Improvement Revenue Refunding Bonds.

2. Rapidly Growing Burden of Short-term Debt
   County has Commercial Paper debt of $9.5 million (of which $3.3 million is interest). Other short term debt totals over $10 million.

3. Using General Fund Revenues to Fund Debt Payments
   Growth related projects financed by Commercial Paper loans and/or capital improvement bonds were to be paid off with impact fees. Due to the decline in impact fees, GF 0.3333 mil equivalent allocation is assisting with debt service payments.

Recommendations

1. Collier County still needs to address 4 concerns from AEG's 2004 report:
   a) Slowdown in population growth
   b) Small fraction of budget from sustainable sources
   c) Reliance on impact fees
   d) Cyclicality of economy

2. County needs to enact policies aimed at diversifying the economy and tax revenue sources.

Recommendations (continued)

3. County expenditures should be based on sustainable revenues. County should not rely on impact fees and other one-time sources of revenue.
   a) Properly base recurring expenditures on tax revenue from recurring sources.
   b) This will require an informed decision by citizens about what level of services they want and how they will pay for them.

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