To the Honorable Board of County Commissioners of Seminole County:

I am pleased to present to you the Adopted Budget for Fiscal Year 2004/2005 (FY05), which represents the second year of the Board of County Commissioner's (the "Board") biennial budget. After an extensive budget review process last summer, the Board formally adopted the budget for FY04 and tentatively approved a budget for FY05. Seminole County is one of a small number of county governments that utilize a biennial budget process and is now in its second biennial budget cycle. Under the biennial budget process, the second year of the biennial budget undergoes a less extensive "update" process to fine tune the budget while meeting all statutory requirements for formal adoption. The two-year budget is an innovative means of providing important and consistent policy direction, minimizing the annual replication of the labor-intensive budget preparation process, while allowing critical issues to be re-addressed as necessary in the "off year" of the process.

In July, the Board was presented with a proposed budget for FY05 as a working document intended as a starting point for public scrutiny and further refinement by the Board. It reflected my recommendations, as well as my understanding of the Board's priorities and direction. The FY05 adopted budget is a balanced budget as required by state law, and is a working document that can be further refined by the Board throughout the fiscal year. It reflects my recommendations, as well the priorities and direction established by the Board throughout the budgetary process.

The total adopted budget for FY05 is $593.4 million, an increase of $116.5 million from the tentatively approved FY05 budget. The increase is primarily related to $65 million in carry-forward capital projects (re-budgets) from FY04 to FY05 and $40 million of infrastructure sales tax revenue that will be spent over future years. The proposed level of appropriations (excluding reserves and inter-fund transfers) is $447 million, which represents only a 2.9% increase from the FY04 adopted budget.

I am proud to report that this budget reflects the sixth straight year the County has been able to maintain the same low countywide ad valorem rate of 4.9989 mills. Using FY04 for comparative purposes this rate is an average of 1.3 mills lower than comparative rates in other central Florida counties, and Seminole County has the ninth lowest operating millage of the State's 67 counties.

The ability to maintain such a low countywide millage rate is, in large part, due to continued strength in the County's property tax base. While the County experienced solid growth in the property tax base, with an increase of 7.8% over FY04, it was only

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slightly above the anticipated increase of 7% utilized in the tentatively approved FY05 budget. The 7.8% increase in countywide taxable value was the result of $595 million of new construction that was added to the 2004 tax roll (up 5.3% from the 2003 tax roll) and a 4.8% increase in the taxable valuation of existing property.

The County's unincorporated valuation increased 8.8% over FY04, a significant increase over the assumed 5% increase utilized in the tentatively approved FY05 budget. New construction in the unincorporated area was $357 million (up 7.2% from the 2003 tax roll), representative of 60% of the new construction countywide. The value of existing property in the unincorporated area increased 5.3%.

During the budget update process, it was necessary to consider three types of changes to the tentatively approved budget for FY05:

- to address actions approved by the Board since the FY05 budget was tentatively approved during the biennial process in September 2003;
- to consider external events that had occurred during that same period that require action in the upcoming budget; and
- to consider new information submitted by departments and agencies.

Each of these updates required consideration of what offsetting actions would be necessary to rebalance the budget. Specific issues related to the updates are outlined below.

1) **Interim Actions Approved by the Board** – Since the tentatively approved budget for FY05 was developed, the Board had addressed key policy issues that impacted the current budgetary plan for the County.

   a) Community Information Department – After identifying the need for a centralized department to manage the information-related demands of the organization and its many activities, the Board authorized the creation of the Community Information Department in September 2003. The FY04 budget was amended through a funding-neutral and position-neutral reorganization. The FY05 adopted budget has been updated to reflect this change from the approved budget.

   b) Solid Waste Refunding – In November 2003, the Board authorized the completion of a refinancing and refunding of outstanding Solid Waste System bonds, which resulted in a net present value savings of $1.9 million. The transaction allowed the County to shorten the debt maturity by three years for an average annual reduction in debt service of $860,000 through October 1, 2020. The FY05 adopted budget has been modified accordingly.

c) Florida Water Services Acquisition – In May 2004, the Board authorized the purchase of seven Florida Water Services (FWS) systems within the County, serving approximately 2,700 customers. This action was taken after the private utility announced its intent to sell all of its remaining systems in the state of Florida to Aqua America, Inc. FWS sold the systems to the County under the same contract terms as the agreement with Aqua America, Inc. under the City of Altamonte Springs' right of first refusal agreement. The $4 million purchase was funded through capital reserves. It is anticipated that this capital reserve will be replenished from bond financing that is planned for FY05. The FY05 adopted budget is updated to reflect both operating revenue and expenses (inclusive of seven positions) associated with the FWS purchase.

2) **External Events Impacting the Approved Budget** – External events that impact the budget must be considered in the update for the second year of the biennial budget process.

a) The State's budget woes continue to make our financial future uncertain. The state government remains unwilling to address its responsibilities in a straightforward manner. Therefore, it continues to pass along unfunded mandates to county governments. The following are State of Florida legislative actions affecting the FY05 adopted budget.

- Implementation of Revision 7 to Article V of the State Constitution – In this update year of the biennial cycle we were able to focus our attention to final legislative decisions on the implementation of Revision 7 of Article V, which became effective July 1, 2004. The combination of HB 113A and SB 2962 result in a significant impact on our budget. The County will retain funding responsibility for communications services, courier services, existing radio systems and multi-agency criminal justice information systems; the cost of construction and leases, maintenance, utilities, and security for facilities for the circuit and county courts, public defenders, state attorney, clerk of courts and guardian ad litem offices. In addition, the County will be responsible for local requirements such as legal aid. Other court related expenses that historically were funded by the County are now shifted to the State or funded by newly implemented user fees. Most of the County's previous court related revenues and local fees have been repealed by the legislation. The final legislation provided for the implementation of new fees to offset the mandated costs of communications and technology, facility maintenance, legal aid and other discretionary programs. The revenue to be generated from these fees is included in the proposed budget with funding for all mandated costs as well as discretionary programs approved by the Board. Staff is continuing

to research alternatives to provide for a funding neutral solution of all discretionary costs. Also, there appears to be numerous issues, problems, and glitches associated with the legislation which will require correction in the next legislative session.

- Detention Costs of Juvenile Offenders – Senate Bill 2564 passed by the state legislature mandates that counties have a joint obligation with the State to financially support the detention care provided for juvenile offenders. Under the legislation, each county must incorporate into its annual budget sufficient funds to pay its cost of detention care for juveniles who reside in the county for the period of time prior to final court disposition. The amount is based upon the prior use of secure detention for juveniles who are residents of the county and will be reconciled to actual costs at the end of each year. The estimated cost to Seminole County for this unfunded state mandate is $2.1 million has been incorporated into the FY05 adopted budget. A legal challenge to this mandate is currently underway by a number of county governments (inclusive of Seminole County Government) in the State.

- Florida Retirement System – On a positive note, SB 2230 held the employers' required contribution rate to the same rate funded in FY04 by utilizing the actuarial surplus in the FRS to reduce employer contribution rates. This resulted in a $2.1 million reduction in retirement funding from the FY05 approved budget. However, the bill establishes rates for the plan year beginning July 1, 2005; at a 3.7% to 4.8% increase, which if implemented will have a significant negative effect on the County's FY06 budget.

b) Self Insurance/Workers Compensation – The increased cost of liability insurance and workers compensation continues to be a challenge across the nation. The self-insurance fund budget reflects a 25% increase over FY04 and a 15% increase over the tentatively approved FY05 budget. The increase is attributable to a $2 million increase in the workers compensation reserve requirement established by the actuarial evaluation of September 30, 2003. Effective October 1, 2004, the Sheriff's Office will no longer secure workers compensation coverage through the County's self-insurance fund. The fund will continue to be responsible for Sheriff's Office claims that occur prior to October 1, 2004. It is anticipated that the separation will have a positive fiscal effect in the long run. An actuarial evaluation estimated to be completed in December 2004, will determine the amount of any additional funding necessary for a one-time true up of fund reserves.

c) Fuel Costs – The FY05 approved budget was based on $1.50 per gallon cost for fuel inclusive of gasoline and diesel. The adopted budget has been revised to reflect a $1.70 per gallon cost for heavy gasoline users for an additional cost of $70,000. The change was reflective of the average of the County's current pricing on both gasoline and diesel fuel.

3) **New Information submitted by Departments & Agencies** – Consideration was given to new information and requests submitted by departments and agencies.

a) New Positions – The tentatively approved budget included the addition of eleven new full-time positions under the Board, one of which was eliminated. The adopted budget is inclusive of seven additional positions that resulted from an identification of additional needs not previously addressed. Five of the positions are a result of departmental requests to make current temporary personnel permanent and two are necessitated by increased work volume and responsibilities. Additionally, four part-time positions were added through the update process, all to replace deleted temporary personnel resulting from policy revisions enacted over the previous year.

b) LYNX – The adopted budget reflects a $200,000 shortfall from the requested funding level by LYNX. This is inclusive of appropriation of $500,000 of general revenues over and above the $2 million in revenue generated from the County's 9th cent gas tax that the Board has dedicated to fund transit operations. This funding level assumes continued funding by the cities for ADA and fixed route services. The shortfall can be minimized through use of $160,000 of the County's infrastructure sales tax for the capital portion of the requested funding. The issue will be readdressed with the Board during the mid-year budgetary review process.

Employee Compensation and Benefits

The County strives to offer its employees a wage and benefits package that is competitive with our peers in the public and private sector labor market. The County has endeavored to ensure that our employees are fairly compensated and recognized for their skills and work effort. This requires striking a balance between good wages and benefits for our employees and ensuring that our residents get good value for their tax dollars. The budget assumes an overall wage increase of 4%, which is anticipated to include a 2.5% annual adjustment based on recent CPI data. The remaining 1.5% is intended to accommodate a merit increase for high performing employees, as well as some salary adjustments to address inequities identified by the recent organizational compensation study. Health, life and AD&D insurance costs are anticipated to be at or below the 16% increase over FY04 that was assumed in the tentatively approved FY05 budget.

Fiscal Policy

Sheriff's Office Target Budget Policy – During the fiscal year, a "good faith" budget policy was established with the Sheriff's Office targeting a cap related to future growth of the budget for law enforcement, corrections and judicial activities. The policy targets the growth rate experienced by the County's property tax base during the same time period as a cap for the net cost to the County's general fund of the Sheriff's Budget. The implementation of this policy will help to assure that the Sheriff's Office will continue to receive an adequate level of funding in the future, while at the same time allowing for a reasonable proportion of our new revenues to be allocated to other budgetary priorities of the Board. This new policy will take effect beginning in FY06.

Reserves – The Government Finance Officer's Association recommends that local governments maintain adequate levels of unreserved fund balance. The suggested level is between 5% - 15% of regular general fund operating expenses, or no less than one to two months of operating expenditures. Over the years, the Board has directed that a minimum of 3% of revenue be maintained as undesignated general fund reserves. The reserve has been increased to 4.3% of revenue in the adopted budget. Future analysis will be conducted to assess the adequacy of reserves based upon Seminole County Government's own specific circumstances for future consideration by the Board.

Flow of Funds – To improve financial reporting and audit compliance, certain unrestricted general revenues (such as public service taxes and occupational licenses) that had been designated as funds for specific activities, are now being deposited into the general fund and then flowing out as a transfer, as appropriate, to the specified activity.

Capital Project Budgeting – Each year the County amends the budget after final adoption to carry forward appropriations for projects from previous fiscal years that are still in process. In an effort to reduce the amount of funding that is re-appropriated each year during our re-budget process, projects that have not been started and are not anticipated to start until after October 1, 2004, totaling approximately $65 million have been re-appropriated in the adopted FY05 budget.

Conclusion

In summary, the adopted FY05 budget reflects an update of the planned budget for FY05 that was developed as part of the County's biennial budget process for FY04 and FY05. Through both the Board worksession and public hearings, the Board responded to issues that could not be deferred to next year's comprehensive biennial process. Although this budget process has had its normal array of difficulties and challenges, it is my opinion that the financial health of Seminole County Government remains sound.

I strongly believe in the ability of our citizens, the Board, and County staff to work together to achieve our common vision to be the "Premier County Government in Florida, Recognized for Service Exceeding Expectations". I am confident that we will be able to meet and successfully overcome any future challenges. It is both an honor and a pleasure to serve as the County Manager of Seminole County. Finally, I would like to acknowledge the Board for its strong leadership, support, and guidance in the ongoing success story that is Seminole County.

Respectfully,

J. Kevin Grace
County Manager