

Our Money, Our City:

Financing Jacksonville's Future

A report to the citizens of Jacksonville

SPRING 2009



JACKSONVILLE COMMUNITY COUNCIL INC.

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Executive Summary

The first study in JCCI's 35-year history was *Local Government Finance*, in 1977. The volunteers found Jacksonville's financial position "to be basically sound, with the exception of the underfunding of its pension plans." As a result of that study, the City Council took actions to address the solvency of the pension funds, legislative actions at the state level set standards for local government pension funds, and the City Council adopted a formula for the JEA's annual contribution to the city.

Fifteen years later, JCCI was asked to return to the same issue. The 1992 *Long-Term Financial Health of the City of Jacksonville* found many of the same problems of the prior study had returned, bringing new challenges along with them. Pension underfunding was a problem, and the City was engaging in short-sighted financial planning without forecasting models to adequately plan for future needs.

The study recommended increasing citizen involvement in the budget and planning process, and resulted in the creation of the TRUE (Taxation, Revenues and Utilization of Expenditures) Commission. The study also resulted in the Mayor's Fiscal Policy Commission and in a ballot initiative to revise the tax cap to allow for growth and capital needs.

Another fifteen years have come and gone, and JCCI has been asked to address City finances once again. This time, the problems were worse than before. On top of the underfunding of pensions and long-term effects of short-term financial planning were actions by state and federal governments that hurt local government budgets. Then came the trauma of a national economic crisis.

The problems at the outset of this study were significant, and grew worse during the study's course, due to national economic downturns and state budget shortfalls. While facing these issues, however, the committee recognized that the key question was what the City could do to avoid the need for another group of volunteers dealing with the same issues in another fifteen years. The future of the City of Jacksonville rests on becoming financially sustainable, with budgetary processes and priorities in place that transcend administrations and an open, transparent process that builds community confidence in the governance of the City.

The study's recommendations are in two parts. Part I of the recommendations addresses **Jacksonville's Financial Crisis**. To meet today's financial problems, the City must:

- *Make the hard choices now.* This includes deciding what the role of government should be in Jacksonville, what level of services the citizens expect, and how to pay for those government functions. Too often today's costs have been pushed forward to future generations. The bills have come due. The City must increase revenues and/or cut expenditures; it cannot finance an operating budget by increasing debt and future financial obligations.
- *Fund infrastructure maintenance.* If the City's capital infrastructure, including buildings and roadways, is not taken care of, the costs over time increase. Maintenance is not optional, nor should it be funded by increasing debt.
- *Eliminate the unfunded pension liability and share risks.* None of the options are easy; all must be considered.

Part II of the recommendations deals with **The Public Trust**. To move forward, Jacksonville must do the following:

- *Develop a long-term community vision.* Government officials and the citizenry working together must make the critical determinations of the proper role of local government.
- *Require accountability through increased transparency and performance benchmarks.* This is necessary to establish public trust in the use of taxpayer dollars.
- *Open up the budget process.* Meaningful public involvement builds confidence that the system respects community priorities.
- *Strengthen the TRUE Commission.* The community's tax use overseer must take a stronger role in the City's long-term financial planning and communicating with the public.

Introduction

In Spring 2008, the City of Jacksonville faced a funding crisis. Decisions over the past 15 years to lower property tax rates left Jacksonville ill-prepared when State action cut the property tax rate an additional 12 percent. At the same time, a collapse in housing prices nationally left the city facing lowering property values, increased foreclosures, and a significant drop in new construction.

While the City's primary revenue stream was slowing, costs were rising. Increased demand for public safety services in the face of rising crime challenged the city budget. Increased needs for human services struggled against decreasing funding. Rising fuel prices strained budgets further. Pension obligations were catching up to the city, as were promises made in the Better Jacksonville Plan that were outstripping anticipated revenues and their expected costs.

The City implemented new fees on garbage, utilities, and stormwater to plug holes in the budget. City departments were streamlined, reorganized, and shrunk. Funding for children's programs, public service grants, and the arts were significantly reduced. But the efforts were not enough. In 2008, JCCI was asked to convene the community to address city finances, as it had successfully done twice before, in 1977 and 1992.

Then the bottom fell out of the U.S. economy.

The study committee found itself facing three distinct but inter-related challenges:

- A short-term funding shortfall, triggered by external economic and political forces;
- Long-term financial sustainability for the City, moving out of crisis mode into a strategic, long-range vision for the role of local government and the revenues appropriate to fund that role; and
- Community access to the financial decision-making process, from priority-setting to budgeting to fiscal accountability.

Separately, each of these challenges is significant. Together, they (at times) seemed overwhelming, especially as the language of city finances can be difficult for citizens to understand. But the critical nature of these conversations demanded community effort, and the study committee responded, with strong cooperation from the City and other interested parties.

Scope of this Study

At the outset of this study, the management team decided to focus attention on the General Fund budget of the City of Jacksonville, a complex and difficult challenge. This is almost a billion-dollar piece of a much larger picture of local government financing, which extends to public authorities and the Duval County Public Schools. The financing of public authorities and of public education involve different systems, actors and agencies. It was clear from the earliest stages of this study that attempting to address public authorities, the School District, and the City's financial crises together would result in a great disservice to each.

About JCCI Studies: Each year, JCCI brings citizens together to explore and study the important issues facing Jacksonville and Northeast Florida. JCCI asks citizens throughout the region to identify topics of significant concern. A volunteer committee representing the diversity of the community reviews the suggestions received to identify topics for JCCI programs and studies for the coming year. If you have a suggestion for a future study topic or would like to serve on a JCCI topic review committee, please let us know at www.jcci.org or by using the contact information on the back of this report.

Background on the City Budget

The governments of the City of Jacksonville and Duval County, Florida merged in 1968 to create the Consolidated City of Jacksonville. This means that the budget of Jacksonville contains both municipal (city) and county functions. The Annual Budget document provides several different ways to talk about local government financing.

The City's adopted Annual Budget document begins with the Net Consolidated Budget. Because money gets transferred between departments within the city and between governmental units, the same dollars may show up in more than one place. The "net" budget eliminates the double-counting of funds. Even though the budget is described using the term "net," this still allows for the transfer of funds between authorities or entities during a budget year.

The Net Consolidated Budget (see Table 1) includes the budgets of the Duval County School Board, Jacksonville's Independent Authorities (see page 17), and the total City of Jacksonville budget. For Fiscal Year 2009 (see definition below), this totaled \$6.6 billion.

The City of Jacksonville's portion of this budget, called the Net City Budget, was \$1.6 billion (see Table 1). Of that total, a sizable amount (\$700 million) is in designated funds – Enterprise Funds, Special Revenue Funds, and the Capital Project Fund, among others. The rest is in the General Fund. This is the part of the budget that has some flexibility in how money is allocated, and it is on this part of the city budget that the study committee concentrated.

Chart 1: Budget Comparisons, FY2009

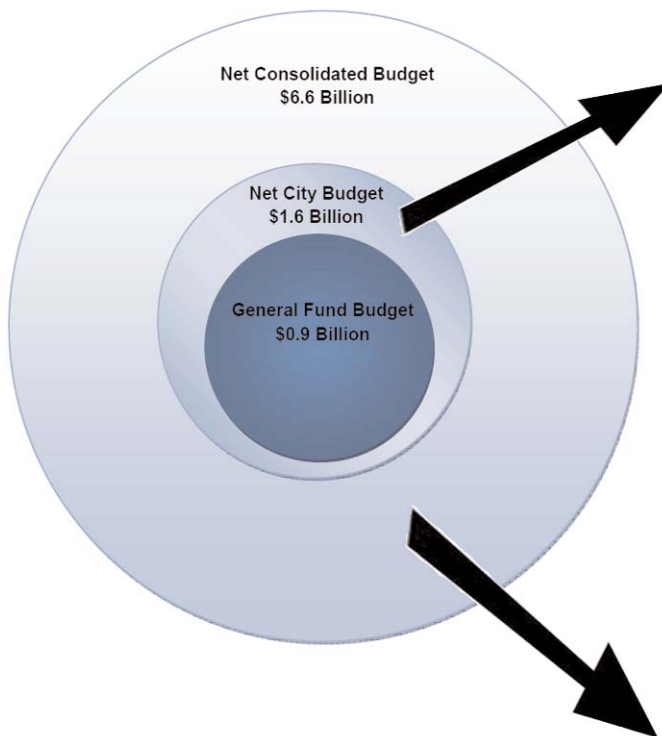


Table 1: Net Consolidated Budget

	FY2008	FY2009	Change
Net City Budget <i>(includes the General Fund Budget)</i>	\$1,510 million	\$1,620 million	+\$110 million (+ 7.3%)
JEA (Jacksonville Electric Authority)	\$2,096 million	\$2,237 million	+\$141 million (+ 6.7%)
Jacksonville Aviation Authority	\$133 million	\$142 million	+\$ 10 million (+ 7.3%)
Jacksonville Port Authority	\$346 million	\$657 million	+\$311 million (+ 89.8%)
JTA (Jacksonville Transportation Authority)	\$165 million	\$162 million	- \$4 million (- 2.3%)
Police & Fire Pension Fund	\$8 million	\$8 million	+ \$0.2 million (+ 2.0%)
Water and Sewer Expansion Authority	\$2 million	\$1 million	- \$1 million (- 44.3%)
Duval County School Board (Public Schools)	\$1,809 million	\$1,792 million	- \$17 million (- 0.9%)
Total Net Consolidated Budget	\$6,070 million	\$6,621 million	+\$551 million (+ 9.1%)

Definition—Fiscal Year: A financial year of 12 months, used for accounting purposes. The Fiscal Year for the City of Jacksonville begins October 1 and ends September 30 of the following year. Often abbreviated FY, as in "FY2009," meaning the fiscal year ending September 30, 2009.

Dollar values not adjusted for inflation. Percentages reflect change before rounding.

Financial Documents

The City of Jacksonville produces three documents for understanding city finances.

- The **Annual Budget** covers the Net City Budget in detail. It is organized by department (such as Public Works), and provides a comprehensive picture of the planned expenditures for the year. Its target audience is people with training in government finance.
- The **Budget in Brief** is primarily focused on the General Fund Budget. It is a big picture document, summarizing expected revenues and planned expenditures by category (such as Public Safety). Its target audience is the citizenry, and it is designed to be user-friendly.
- The **Comprehensive Annual Financial Report** (also referred to by its acronym, CAFR). This report contains the annual financial statements audited by independent auditors, which include basic financial statements required by City Charter. The CAFR serves a different function from the budgets – it reports how the money was actually spent. It reflects the actual dollars collected, and changes in policies and activities during the course of a year. Its target audience is again people with extensive training in government finance.

The three documents are different and must be used differently. For example, while the CAFR includes original and final budgets, as well as actual expenditures, meaningful comparisons cannot be made between the budget documents and the CAFR. Two different bases for accounting are used – one asset-based, and the other resource-based. One doesn't capture debt servicing or capital expenditures, but does include depreciation, while the other does not.

Even comparing the Budget in Brief to the Annual Budget is not meaningful. Planned expenditures are described differently, as budgets within a department may be allocated to multiple categories and the Net City Budget contains funds beyond those included in the General Fund Budget. Year-to-year comparisons are also made more difficult by structural and departmental reorganizations, which change where money is spent and under whose authority.

All three documents – the Budget in Brief, the Annual Budget, and the Comprehensive Annual Financial Report – are available for citizen access. All three documents are available on the City's website for download. Each has a summary message in the front to explain the City's financial situation. The Budget in Brief, in particular, is an effort to provide information accessible to each Jacksonville resident.



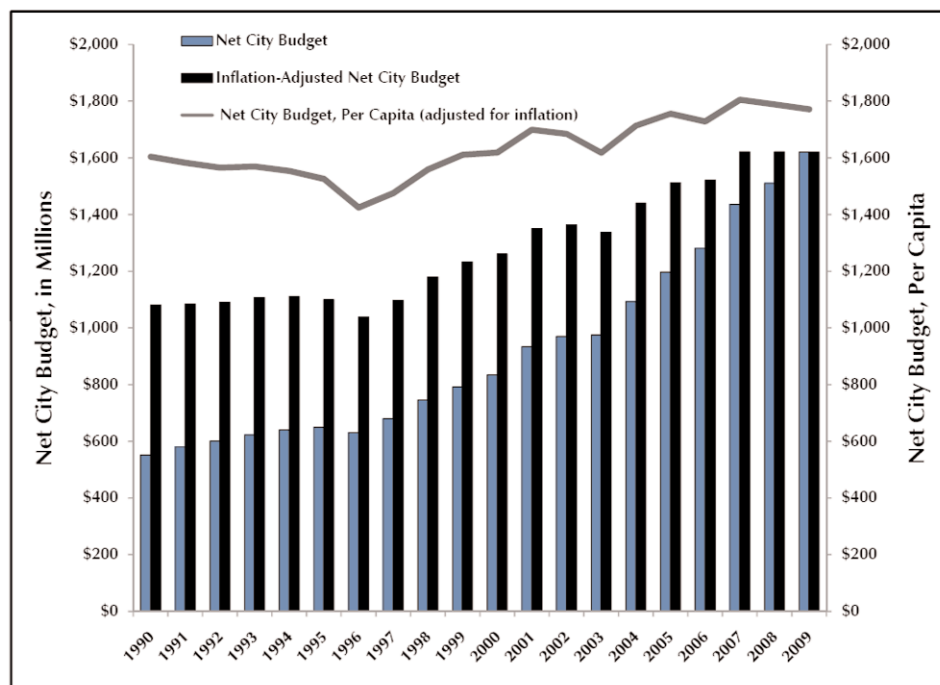
History

The Net City Budget has been increasing over the past 10 years. In FY2000, the Net City Budget was \$834.5 million; in FY2009, it had grown to \$1.62 billion – nearly doubling. However, when adjusted for inflation, the growth is less startling – about 28 percent. And when adjusted for population growth as well, the growth is closer to nine percent over nine years.

The same holds true going back to FY1990. The Net City Budget, again adjusted for population growth and inflation, has grown an average of half of one percent per year. The greatest decline over this time period was about seven percent; the largest increase was near six percent in one year.

During the last three years, the Net City Budget, adjusted for inflation, has been flat. Due to population growth, however, the Net City Budget per capita (dollars spent per person living in Duval County) has been decreasing for the past two years.

Chart 2: Net City Budget, in Actual Dollars, Inflation-Adjusted Dollars, and Per Capita



Fiscal Years	1990	1995	2000	2005	2007	2009
Net City Budget (millions)	\$ 552	\$ 650	\$ 835	\$1,197	\$1,436	\$1,620
Net City Budget (millions) (adjusted for inflation)	\$1,079	\$1,100	\$1,261	\$1,513	\$1,621	\$1,620
Net City Budget, Per Capita (adjusted for inflation)	\$1,604	\$1,526	\$1,619	\$1,756	\$1,806	\$1,772

Source: City of Jacksonville Annual Budgets

Definition—Per Capita: Per Person. Per capita figures are used to compare the amount of something (in this case, the total budget) divided by the total population. This is done to make comparisons possible from year-to-year by controlling for population growth.

Definition—Inflation-Adjusted: Dollar figures change from year-to-year due to inflation. Correcting for these price changes allows reasonable comparisons to prior years. In this report, to adjust dollar figures for inflation, the actual numbers are multiplied by a deflator (fraction) derived from the February 2009 *Economic Report of the President* measuring inflationary effects on state and local expenditures to convert dollar figures to their FY2009 equivalents. In other words, the FY1990 budget of \$552 million had the same purchasing power as \$1,097 million in FY2009.

The total budget numbers tell only part of the story. Local, State, and Federal actions and circumstances have also impacted Jacksonville's current financial situation.

Local Actions:

Over the past 30 years, successive Mayors and City Councils made decisions that impact the City's current and future budgets. Of particular significance are the following:

Capital Improvement and "Legacy" Projects: In 1982 Mayor Godbold began converting the railway terminal into the Prime Osborn Convention Center, funded by bonds secured by a two-cent tax on overnight stays in local hotels (the "bed tax"). Mayor Godbold also dedicated one millage point of the property tax to Capital Improvement Projects (CIPs). Mayor Hazouri kept the policy of one mill dedicated to CIPs, electing to convert major elements of the value of one mill to a debt service payment in support of a seven-year CIP Bond Program. In 1993 Mayor Austin financed the River City Renaissance by bonding out the CIP millage for 30 years to build a performing arts center, city hall, and homeless shelter. In addition, two more cents were added to the bed tax and bonded out to improve the football stadium to NFL standards. Mayor Delaney, with the dedicated CIP millage rate already committed for 30 years for debt service, created the Better Jacksonville Plan, funded by a half-cent sales tax increase (approved by referendum).

Each of these actions created long-term debt for future administrations and reduced the availability of revenue sources for future administrations (see page 30). Also, each of these projects created additional operations and maintenance requirements not paid for through the debt service, which further increased operational obligations on future administrations.

Tolls and Fees: In 1989 Mayor Hazouri and the City Council removed the tolls on downtown bridges, which were not only unpopular, but contributed to traffic congestion and air pollution. He replaced the revenues from the tolls with a half-cent sales tax (approved by referendum) dedicated to transportation. He also added a \$96 garbage fee to the property tax bill, which was removed a year later by Mayor Austin. Mayor Austin also financed port expansion and improvements with an excise telecommunications tax. In 2007, when State action lowered millage rates, the City of Jacksonville had been relying on property taxes for nearly half of its General Fund revenues. To partially make up for the difference, Mayor Peyton added three new fees – a stormwater fee, a solid waste fee, and a three percent utility franchise fee.

Underfunding City Pensions: Currently, the City has three separate pension funds: General Employee Pension Fund, Corrections Pension Fund, and Police and Fire Pension Fund. This is a statutory and contractual obligation of the City, and the City must put money into the pension funds to ensure that the money will be there when its employees retire. The level of that contribution is set by actuarial calculations. The City pays into Medicare but does not pay into Social Security for its employees, so the pension replaces Social Security benefits. In addition, the City bills retirees for the full cost of their participation in the City's group health insurance program.

In 1977 and in 1992, when JCCI previously looked at City financing, a primary concern had been underfunding of the pension plans. The pressures of meeting current-year budgets have generally led administrations to push debt obligations forward to future administrations, using excess pension earnings as one time monies to cover budget shortfalls, allowing the City to take "pension holidays" and decrease (or avoid) City General Fund contributions to the pension funds. For Jacksonville, underfunded pension liabilities, combined with sharply dropping investment returns in 2008 and early 2009 due to the national economic and market situations, will dramatically increase the amount of money required to meet pension obligations (see page 23).

Use of One-Time Revenues: In times of tight budgets, the Mayor or City Council has sometimes turned to one-time revenues (such as rainy-day funds or trust funds) to balance the budget, depleting these resources for future administrations.

Millage Rates: The City/County government of Jacksonville has the ability to levy (charge) up to 20 mills as property taxes. A 1991 non-binding referendum capped property tax increases at three percent per year on homesteaded property. Beginning in 1994, when the millage rate was 11.3 mills, each year mayors have lowered the millage rate, reducing the amount of money that could be collected as revenue (see page 8). By 2006, the millage rate was down to 9.6 mills. The collective impact of the City's millage reduction program from 1994 to 2006 currently reduces annual revenues to the City's General Fund by \$95 Million. (See also *State actions to lower the millage rate further, to 8.48 mills, on page 7.*)

State and Federal Actions:

State and Federal actions have also impacted local government budgets by encroaching on the principle of Home Rule. Two primary ways the State has added to the difficulties of local budgets are:

Property tax restructuring: In 2007, State legislative action lowered the millage rate in Jacksonville down to 8.48 mills, as part of a statewide effort to lower property taxes by 12 percent. The Jacksonville City Council opted not to exercise their ability to overturn this property tax rate reduction. For the 2007-08 budget, the impact of this mandate was a \$62 million loss.

In 2008, a state constitutional amendment (“Amendment One”) increased the value of homestead exemptions from \$25,000 to \$50,000, also reducing available local government revenues through property taxes. For the 2008-09 budget, the impact of this amendment on Jacksonville was an additional \$36 million loss. (Duval County voters rejected Amendment One, but were outvoted by the rest of the state).

Amendment One also allowed for “portability” of the tax savings that exist for homesteaded properties under an earlier constitutional amendment called “Save Our Homes”, but the effect of that portion of the amendment has not been able to be quantified to date.

Unfunded mandates: The federal government has been pushing responsibilities to state governments, and state governments have in turn moved responsibilities to county and municipal governments. The Florida Constitution prohibits the State from imposing burdens on local governments without sending the revenues necessary for compliance; however, a two-thirds legislative vote can override the funding requirement, which has made the provision effectively meaningless. Unfunded (or underfunded) state mandates include Medicaid costs, juvenile justice programs, court facilities, solid waste recycling, mental health treatment in jails, health departments, and environmental and growth management compliance. The Florida Association of Counties estimates the annual impact of unfunded mandates on Florida counties exceeds \$1 billion.

Chart 3: Millage Rate, FYs 1978-2008

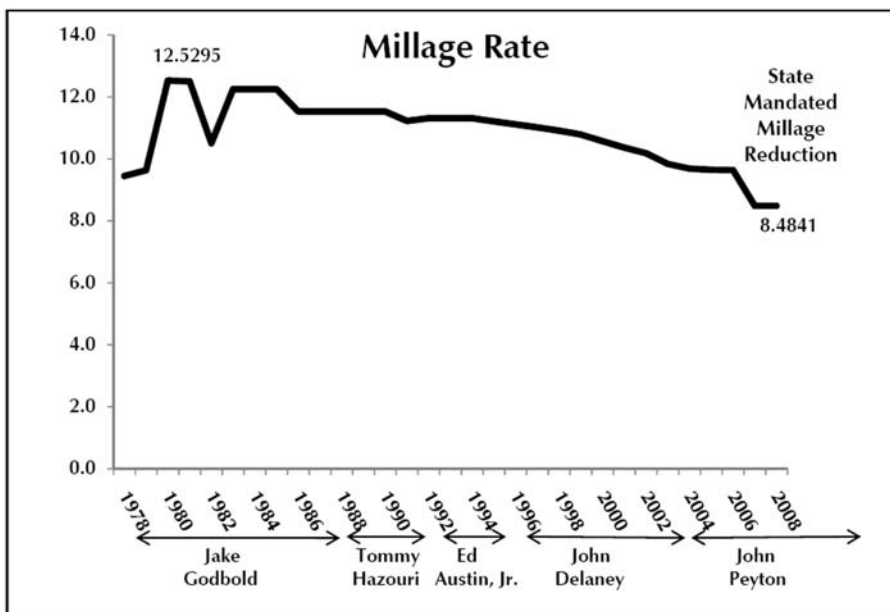


Table 2: Millage Rates by Year and Mayor

MAYORS	YEAR	MILLAGE	CHANGE FROM PREVIOUS YEAR
Jake Godbold 1979-1987	1979	9.6350	+ 0.19
	1980	12.5295	+ 2.89
	1981	12.5067	- 0.02
	1982	10.5067	- 2.00
	1983	12.2567	+ 1.75
	1984	12.2567	0
	1985	12.2567	0
	1986	11.5317	- 0.73
Tommy Hazouri 1987-1991	1987	11.5317	0
	1988	11.5317	0
	1989	11.5317	0
	1990	11.5317	0
Ed Austin, Jr. 1991-1995	1991	11.2276	- 0.30
	1992	11.3158	+ 0.09
	1993	11.3158	0
	1994	11.3158	0
John Delaney 1995-2003	1995	11.2158	- 0.10
	1996	11.1158	- 0.10
	1997	11.0158	- 0.10
	1998	10.9158	- 0.10
	1999	10.7861	- 0.13
	2000	10.5723	- 0.21
	2001	10.3675	- 0.20
	2002	10.1842	- 0.18
John Peyton 2003-present	2003	9.8398	- 0.34
	2004	9.6879	- 0.15
	2005	9.6500	- 0.04
	2006	9.6400	- 0.01
	2007	8.4841	- 1.16
	2008	8.4841	0

Definition—Millage Rate: The way property taxes are calculated. One mill is one-tenth of one percent of the assessed value of a home, after any homestead and other exemptions have been applied.

Federal regulations on environmental issues, voter regulations, and welfare issues also add to the costs. Compliance with new air quality standards and Total Maximum Daily Load (TMDL) standards in the St. Johns River and new standards which will be applied to the River's tributaries will create additional costs for Jacksonville.

National economic downturn: The City of Jacksonville's budget has also been affected by the national economic downturn. Lower retail sales mean lower sales tax collections, which the City relies on both for the General Fund and for funding transportation and paying the debt service on the Better Jacksonville Plan projects. Increased foreclosures and reduced home values reduce the assessed value of homes and decrease property tax collections.

Decreased economic activity means more people out of work and more people needing public assistance and related services. Fewer tourists to Florida reduce sales tax, bed tax, and gas tax revenues, which are traditional ways to supplement local revenues from non-residents. Slower economic growth is also reducing the number of people moving to Jacksonville, which means less new construction and slower revenue growth.

The crisis in the nation's banking industry and financial markets also reduces the availability of credit and makes financing Jacksonville's debt more expensive.



Timeline of Significant Events in City Finances

- 1968** Consolidation increases tax base to the entire county, including bedroom communities

Went from 29% to 70% paying property taxes

Homestead exemption was \$5,000
- 1980** Homestead exemption raised to \$25,000
- 1983** Florida legislature made 1/2 cent of sales tax available to local governments
- 1984** Two-cent bed tax passed for tourist development
- 1987** Six-cent local-option gas tax approved by referendum. Initially adopted for 10 years, it was extended to 30 years in 1991.

Bed tax raised by two cents and bonded for 30 years for convention center development
- 1989** Tolls removed from bridges

1/2 cent sales tax for JTA (approved by referendum)
- 1990** \$96 solid waste fee added (revoked within one year)
- 1991** Non-binding City referendum to cap property tax increases to 3 percent
- 1993** River City Renaissance plan bonds one mill for 30 years for capital improvement projects

Bed tax raised by two cents, bonded to rebuild football stadium
- 1995** State "Save Our Homes" constitutional amendment limits annual increase in assessed value of home-steaded properties to 3%
- 2001** Better Jacksonville Plan funded through 1/2 cent sales tax (approved by referendum), bonded 30-year debt
- 2007** State rolls back property tax rates

City adds stormwater fee, solid waste fee, and utility franchise fee
- 2008** Homestead exemption raised to \$50,000

Functions of Local Government

Against the backdrop of revenue concerns and increasing unfunded obligations, the City of Jacksonville must provide the core functions of government and do so with a balanced budget. While the City Charter outlines a set of services for the government, the City has largely unlimited discretion in determining its activities, especially as functions not named in the charter also demand government attention. In addition, policy changes through executive or legislative action shift government roles and add or subtract functions of city government, making discussion of which functions are core services difficult.

The **City Charter** defines the core services of government as follows:

Charter of Jacksonville, Article 2. General and Urban Services Districts, Section 2.04. Services in general services district.

Throughout the entire general services district **the consolidated government shall furnish the following governmental services; airports, agricultural agent, child care, courts, electricity, fire protection, health, hospitals, library, police protection, recreation and parks, schools, streets and highways, traffic engineering, and welfare services.** The foregoing enumeration is intended as a list of those governmental services which shall be performed by the consolidated government within the general services district (except when any of such services is being performed by the second, third, fourth, or fifth urban services district) and **is not intended to limit the right of the consolidated government to perform other governmental services** within the general services district. In the second, third, fourth, and fifth urban services districts, the consolidated government shall provide only those governmental services that are normally provided by counties to municipalities and are normally considered to be county public functions. *[emphasis added]*

(*Laws of Fla., Ch. 67-1535; Laws of Fla., Ch. 78-536, § 2; Laws of Fla., Ch. 92-341, § 1*)

This list does not include all aspects of current governmental activities of the City of Jacksonville, which the City groups into the categories of:

General Government, which includes:

- *Executive:* Comprehensive Planning; Finance and Administration; and the Mayor's Office.
- *Judicial:* The majority of costs have been transferred to the State of Florida but the City provides partial funding for Clerk of the Courts; Court Administration, civil and criminal; Circuit and County; Drug Court; Guardian ad Litem; Judicial Support; Public Defender; State Attorney; Traffic Court by providing facilities and equipment.
- *Legislative:* City Council

Culture and Recreation: Libraries; Parks and Recreation; Special Events, including major venue contract management; and Special Recreation Facilities.

Economic Environment: Business Development through the Jacksonville Economic Development Commission (JEDC); Veterans' Affairs.

Human Services: Health; Hospitals, including a contribution to Shands Jacksonville (see p. 20); Mental Health; and Public Assistance.

Physical Environment: Conservation and Resource Management; Garbage and Solid Waste.

Public Safety: Ambulance and Rescue; Consumer Affairs; Detention/Corrections; Emergency and Disasters; Fire Control; Law Enforcement; Medical Examiner; Protective Inspections.

Transportation: Road and Street Facilities

In addition to these categories, a third approach to determining the essential functions of government is found in the statement of the Mayor's Guiding Principles, found in the front of each budget document. For the 2003-08 Budgets, these priorities were:

1. Increase economic opportunity and jobs, including full support for our military and minority business ownership.
2. Increase public safety, including homeland security and emergency preparedness.
3. Increase early literacy.
4. Enhance quality of life, including transportation, planning, and parks.
5. Increase infill housing.
6. Streamline government to facilitate business growth.

In his FY2009 budget, Mayor Peyton retained the above Guiding Principles but focused on three priorities for long-term benefit to the City:

1. Improving and safeguarding the St. Johns River.
2. Providing economic opportunity through job creation and capital investment.
3. Enhancing the safety of residents.

Lastly, the scope of government is influenced by administrative policy. Jacksonville has a Strong Mayor form of government, and the budget is the key expression of the priorities and policies of each administration. The front of each budget for at least the last 15 years has included this sentence: "The budget also provides one of the most concise presentations of governmental policy, especially the implementation of policy changes."

The statement continues: "To a very real extent, the budget clearly quantifies executive and legislative policy..." As policies change, so do budgets, to reflect the current functions of government – which may not always be the functions envisioned by the City Charter.

The Budget Process

The City budget process takes nine months. From January to July, the Executive Branch prepares a proposed budget. The second Tuesday of July, the budget is submitted to City Council for discussion. The City Council Finance Committee reviews it in August, and the full Council reviews, amends as needed, and adopts the budget in September. Public comment is allowed during the City Council meetings in September and may be allowed during the Finance Committee meetings in August, at the discretion of the Chair. (See *section on Citizen Access and Transparency*, page 29).

January	Departments submit Capital Improvement Projects (CIPs) to the City Budget Office. City Council provides its budget priorities to the Mayor.
February	CIP Scoring Committee prepares priority list of projects.
March	Departments prepare their proposed budgets.
April	Departments submit their proposed budgets to the Budget Office.
May	Draft budget is distributed to departments with Budget Office recommendations. In mayoral election years, the new mayor-elect can become engaged in the budget development process.
June	Mayor's Budget Review Committee analyzes the budget and sends it to the Mayor for final decisions.
July	Mayor presents the Proposed Budget and millage levy to the City Council in a public meeting. New mayors take office July 1 and must submit a balanced budget by July 15.
August	The City Council Finance Committee reviews the budget. The public may observe, and sometimes (at the discretion of the Committee chair) is allowed to comment. Council sets proposed millage rates.
September	City must advertise proposed millage rates and tentative budget. City Council holds public hearings on the millage rate and the budget. By the end of September the City Council must adopt the budget and millage levy ordinance.
October	The new fiscal year begins October 1, and the budget goes into effect.

Revenues

Revenues give the City the ability to deliver government services to maintain and improve the quality of life for its citizens. The Net City Budget includes a number of funds that receive revenues. All of these funds, except the General Fund-GSD (General Services District) have restricted uses and cannot be used for general purposes.

The General Fund is the City of Jacksonville's main operating fund. In FY2009, it represented 56.3 percent of the Net City Budget. It is made up of locally collected taxes and fees as well as shared State collected taxes and fees, with the major source of funding coming from property taxes.

Table 3. FY2009 Net City Budget Revenue Summary (excluding fund to fund transfers)

	FY2009 Budget Revenues	Percent of Total Budget
General Fund-General Services District	\$912,445,684	56.33%
General Fund – Mosquito Control	\$380,460	0.02%
General Fund – Clerk of the Court	\$4,291,444	0.26%
Capital Project Fund	\$115,631,336	7.14%
Special Revenue Funds	\$279,920,233	17.28%
Enterprise Funds	\$162,710,701	10.04%
Internal Service Funds	\$130,474,781	8.05%
General Trust and Agency Funds	\$965,000	0.06%
Component Unit	\$13,333,538	0.82%
Total City of Jacksonville	\$1,620,153,177	100%

Source: City of Jacksonville

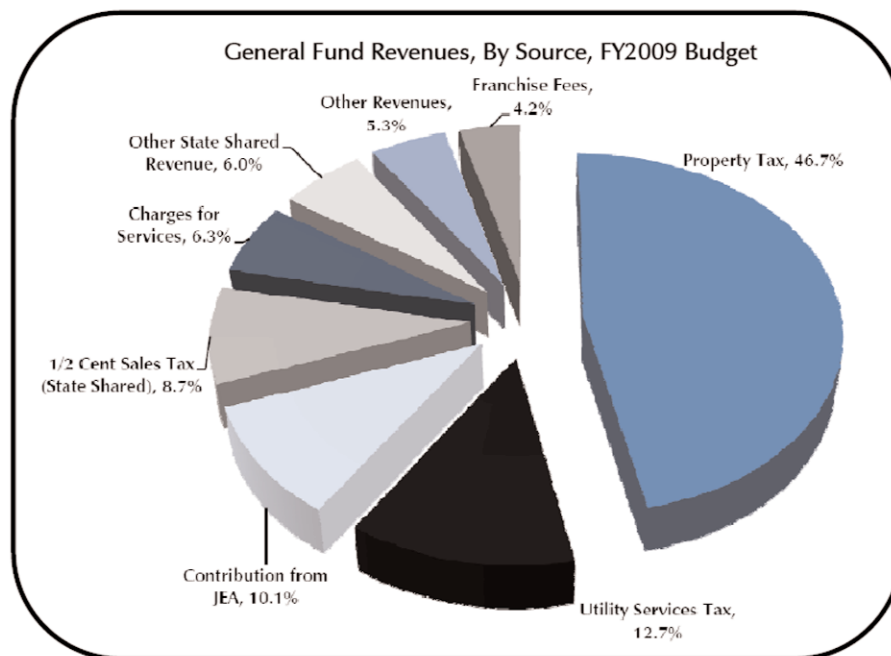


Table 4. FY2009 General Fund Revenue Sources

Revenue Sources	FY2009 Revenues	Percent of Total Revenues
Property Taxes: In FY2009, based on a millage rate of 8.4841 with \$50,000 now available in homestead exemptions.	\$454.0 million	46.7%
Utility Service Tax: This includes the 10 percent collected on electric, water and natural gas bills and the 5.22 percent on communication services, such as telephone, cable, and satellite television.	\$123.3 million	12.7%
Contribution from JEA: Based on a formula developed by the City Council, this amount is set to increase at a minimum of \$2.5 million per year.	\$98.1 million	10.1%
Half Cent State Sales Tax: This tax, collected by the State, is redistributed to the county according to a set formula based on population.	\$79.4 million	8.7%
Charges for Services: This includes any fee assessed for using City services, from ambulance or 911 charges to entry fees at parks or tennis courts.	\$60.7 million	6.3%
Other State Shared Revenue: The State shares a portion of revenues collected from cigarette, sales, and gas taxes according to a formula based on population and other factors.	\$54.7 million	6.0%
Other Revenues: A combination of multiple small revenue sources including fines and forfeitures, licenses, and permits.	\$48.4 million	5.3%
Franchise Fees: These fees are collected by JEA and other utilities and passed through to the City government, at a rate of 3 percent of the utility bill in FY2009. The City Council can increase this fee up to a maximum of 6 percent.	\$40.8 million	4.2%

Source: City of Jacksonville

In addition, a stormwater fee averaging \$5 per month was instituted in July 2008 and was budgeted to provide \$26 million in revenue for the 2008-09 fiscal year. This is a dedicated source of funding and is not included in the General Fund; however, it provides resources for projects that were formerly paid out of the General Fund, providing some revenue relief.

Similarly, the City implemented a solid waste fee in 2008. At \$3 per month when first passed, this rose to \$4 per month in October 2008 and is scheduled to increase at the rate of \$1 per month each October until it reaches \$10 per month in October 2014. In 2008-09, this fee was expected to generate \$10.6 million. While it is not included in the General Fund, it too replaces General Fund expenditures by reducing the amount of money transferred to Solid Waste from the General Fund. The cost of solid waste collection is about \$14 per household per month, so in 2008-09 the General Fund subsidized the Solid Waste Fund for the actual cost of solid waste collection by \$20 million annually.

Property Taxes

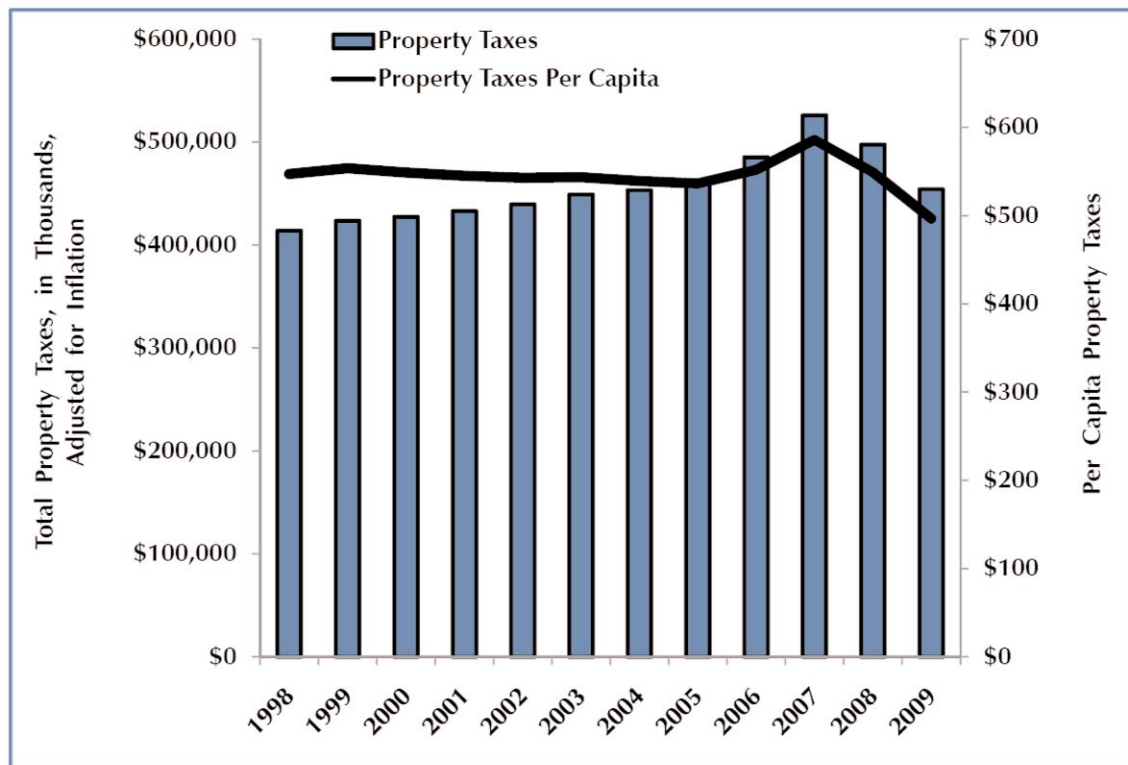
The City of Jacksonville historically has relied primarily on property tax revenue to fund City services. Despite millage rate reductions, this strategy was successful in the past, due to steady population growth and increasing property values, in part because of the growth in construction of new homes and businesses which contribute to the tax base. Assessed property values had been growing by an average of 6.8 percent annually, and the rate of new construction had been increasing by an average of 2.2 percent annually. This meant that even when the millage rate was lowered, each mill produced more revenue. This is no longer true for Jacksonville.

The State-mandated decline in the millage rate, coupled with the simultaneous collapse of the housing market (sharply reducing both new construction and property values), meant that property tax collections declined in FY2008 and FY2009, and per capita property taxes, adjusted for inflation, are lower than at any point in the past decade. One mill was worth roughly \$60 million in FY2008 and \$55 million in FY2009. The millage rate in FY2009 was 8.48 mills, out of a maximum of 20 mills the City/County is allowed to levy.

The 1995 Save Our Homes amendment to the Florida Constitution capped the growth in assessed property values to three percent or the percentage change in the Consumer Price Index (CPI), whichever is less. For those longtime homeowners whose assessed property values had been significantly lower than the market value due to Save Our Homes, the assessed taxable value will continue to rise at the CPI even if their home's market value decreases. This will persist on an individual homesteaded property until the assessed value approaches the market value. This will offset some, but not all, of the tax revenue impacts of housing price declines in Jacksonville.

The increase in the homestead exemption in 2008 from \$25,000 to \$50,000 will also impact property tax revenues in Jacksonville. Total property taxes are expected to continue to fall.

Chart 4. Changes in Property Tax Revenues



Sources: City of Jacksonville Comprehensive Annual Financial Report. FY2008 and FY2009 data are provisional and come from the Annual Budget documents.

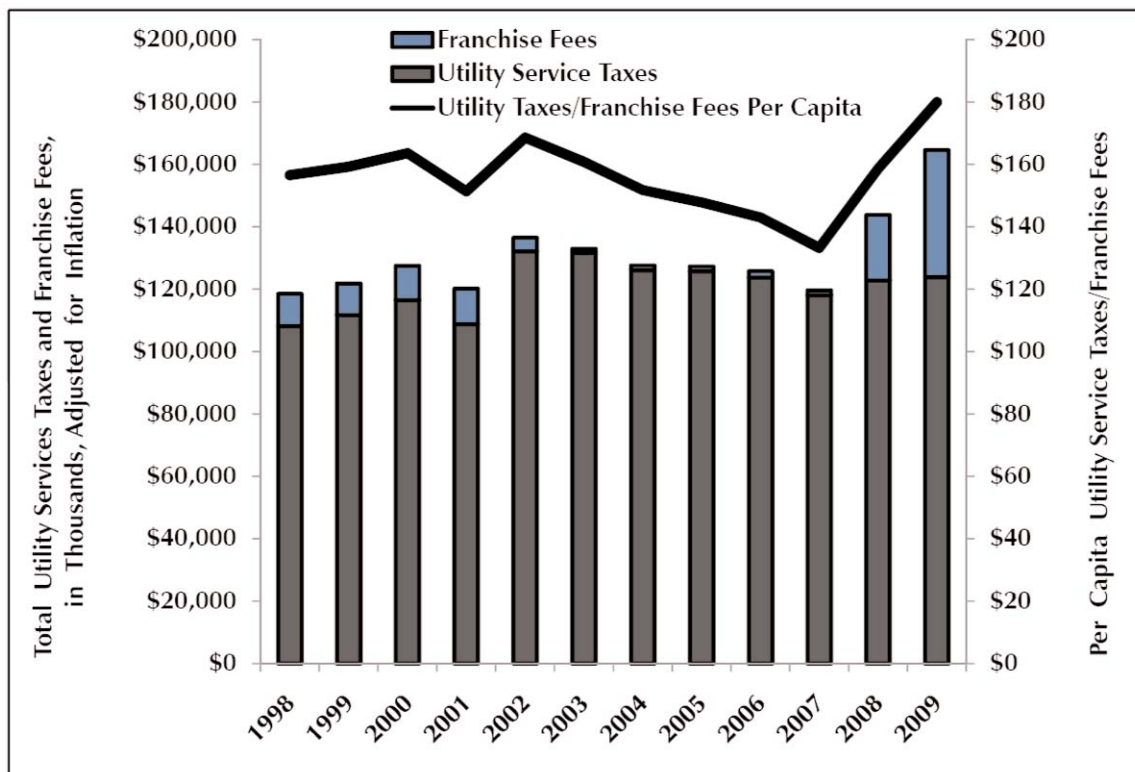
Utility Service Taxes and Franchise Fees

The Utility Service Tax is assessed at 10 percent of the utility bill (electric, water, and natural gas) and 5.22 percent of communications bills (telephone, cable, satellite television). Rising utility rates, including increased electricity rates, have led to increases in the Utility Service Tax collected. Total Utility Service Tax collections have grown from \$64 million (unadjusted) in FY1998 to \$123 million in FY2009.

In 2008, the City implemented a franchise fee, which starts at a rate of 3 percent of the utility bill in FY2009. In FY2009, the franchise fee was expected to produce \$40.7 million. Florida law permits City Councils to approve franchise fee rates up to a maximum of 6 percent.

JEA has been increasing its electricity rates for homeowners since 2004, after holding rates constant for the previous eight years. Further rate increases are scheduled to occur in October 2009 and October 2010. With the rise in fuel costs in 2008, JEA increased their fuel rate surcharge. At the time of this study, JEA was examining possible water rate increases. Each of these rate increases has the potential to raise additional revenue through the Utility Service Tax and franchise fee.

Chart 5. Changes in Utility Service Taxes and Franchise Fees



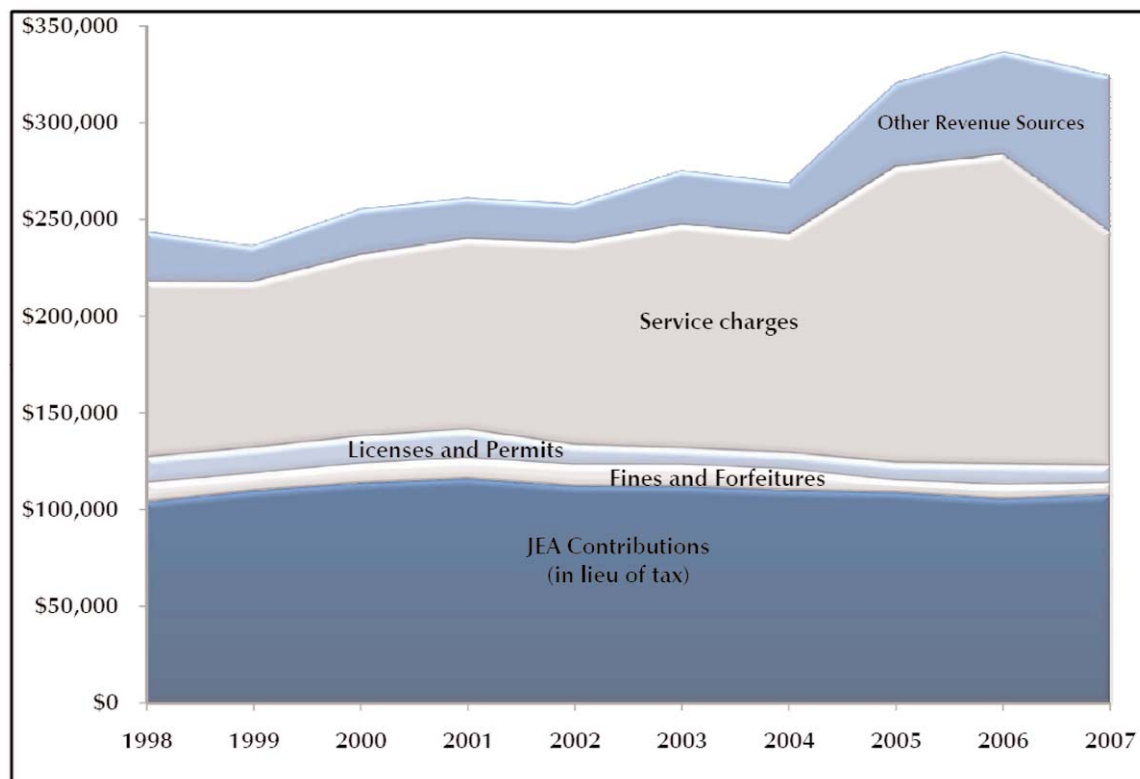
Sources: City of Jacksonville Comprehensive Annual Financial Report. FY2008 and FY2009 data are provisional and come from the Annual Budget documents.

Year	Utility Service Taxes (in Thousands)	Franchise Fees (in Thousands)	Utility Service Taxes/ Franchise Fees Per Capita
FY1998	\$108,101	\$10,359	\$157
FY1999	\$111,739	\$10,065	\$159
FY2000	\$116,545	\$10,881	\$164
FY2001	\$108,812	\$11,345	\$151
FY2002	\$132,101	\$ 4,353	\$169
FY2003	\$131,625	\$ 1,267	\$161
FY2004	\$126,036	\$ 1,518	\$152
FY2005	\$125,683	\$ 1,612	\$148
FY2006	\$123,710	\$ 2,028	\$143
FY2007	\$118,101	\$ 1,507	\$133
FY2008	\$122,823	\$20,914	\$159
FY2009	\$123,846	\$40,714	\$180

Other Revenue Sources

The other sources of revenue for the City's General Fund, including State shared revenues, charges for services, and the contribution from JEA, have remained relatively constant, after adjusting for inflation. Charges for services increased in 2005 and 2006 before returning to same level they had been at previously. The category of Other Revenue Sources shows a one-year increase in FY2007.

**Chart 6. Changes in City of Jacksonville General Fund Revenues
In Thousands, Adjusted for Inflation**



Source: City of Jacksonville Comprehensive Annual Financial Report

Comparison of Tax and Fee Burdens

In 2008, Florida ranked 47th out of the 50 states for the highest tax burden per resident, with a tax burden of 7.4 percent of income, below the U.S. average of 9.7 percent. (The state with the highest tax burden is New Jersey at 11.8 percent, and the lowest is Alaska at 6.4 percent.)

In comparing tax burdens of other consolidated cities, including income, property, sales, and auto taxes, Philadelphia, Indianapolis, Louisville, New Orleans, Honolulu, and Denver all rank higher than Jacksonville.

Only Anchorage has a lower tax burden on its citizens. In comparison with the largest cities in each state, plus the District of Columbia, Jacksonville ranked at the bottom (46th out of 51 cities) in household tax burdens, based on 2007 tax rates.

Duval County residents' tax burden, including millage rates, taxes, and fees, is also lower than other Florida metropolitan areas.

Table 5. Comparative Millage Rates, City + County, in Florida

	Orlando Orange County	Tampa Hillsborough Co.	St. Petersburg Pinellas Co.	Miami Dade County	Jacksonville Duval County
City/County Operations	10.0847	11.5849	10.7855	12.5473	8.4841
School	7.1500	7.7770	8.0610	7.5330	7.5610
Water Management	0.4158	0.6413	3.3148	0.5346	0.4158
Library	0.3748	0.5583	0	0.3842	0
Debt Service	0	0	0	1.1293	0
F.I.N.D. (Florida Inland Navigation District)	0	0	0	0.0345	0.0345
Transit	0	0.5000	0.5601	0	0
Children	0	0.5000	0.7915	0.4212	0
Planning	0	0	0.0710	0.0894	0
Port	0	0.1950	0	0	0
Rescue	0	0	0.5832	0	0
Total	18.0253	21.7565	24.1131	22.6735	16.4954

Table 6. Comparative Taxes and Fees, City + County, in Florida

	Orlando Orange County	Tampa Hillsborough Co.	St. Petersburg Pinellas Co.	Miami Dade County	Jacksonville Duval County
Sales Tax	6.5%	7.0%	7.0%	7.0%	7.0%
Gas Tax (cents per gallon)	\$0.06	\$0.06	\$0.06	\$0.06	\$0.06
Solid Waste Fee (monthly)	\$15	\$25	\$22	\$37	\$4
Electric Rates (1,000 Kwh monthly)	\$98	\$146	\$108	\$144	\$114
Water/Sewer Rates (7,000 gallons monthly)	\$73	\$46	\$89	\$67	\$51
Stormwater Fee (monthly)	\$9 (average)	\$3 (average)	\$6 (average)	\$4 (average)	\$5 (average)
Franchise Fee	6%	4.6%	6%	7%	3.0%
Utility Service Tax	10%	10%	10%	10%	10%
Impact Fees	\$16,061	\$5,193	\$1,529	\$4,806	\$0 *

Source: Budget in Brief, 2009

Definitions—Impact Fees: Costs imposed on new residential, industrial or commercial development projects to compensate for the added costs of infrastructure generated by the new construction.

* The City of Jacksonville has a "fair share agreement" through which developers can obtain permission to build if they pay for infrastructure improvements in proportion to the additional impacts the development will generate. Unlike impact fees, which are imposed on all developments based on size, fair-share payments are assessed by a formula of road capacity impacts within 2 miles of the development.

Independent Authorities

The City of Jacksonville's independent authorities also have an impact on the budget. Their relationships with the City's budget differ: JEA is a revenue source, JAA contracts for services from the City, the City contracts for services from JTA, and the City provides revenue to JaxPort.

Jacksonville Transportation Authority (JTA):

The JTA receives no General Fund subsidies from the City.

Jacksonville Port Authority (JaxPort/JPA):

The Jacksonville Port Authority receives \$13 million a year—received in monthly installments—from the City: \$10 million to pay off bond issues (from 1986 and 1990) on the City's books, and \$3 million to JaxPort's net revenues. (The Port of Tampa receives \$15 million in ad valorem taxes). JPA does not contribute any funds to the city budget; any net income goes to debt service for capital expansion.

Jacksonville Airport Authority (JAA):

The four airports—Cecil, Herlong, and Craig Fields and Jacksonville International Airport—and the JAA are self-sustaining on user fees and land lease rents. No City funds directly support the airports. JAA is operated like a business and made a profit last year, although probably not in 2009. JAA purchases services from the City of Jacksonville, including Fire and Rescue services, General Counsel services, risk management (insurance), police services, and Employees Assistance Program. (JAA has its own police force, but contracts for some police services).

JEA (was Jacksonville Electric Authority):

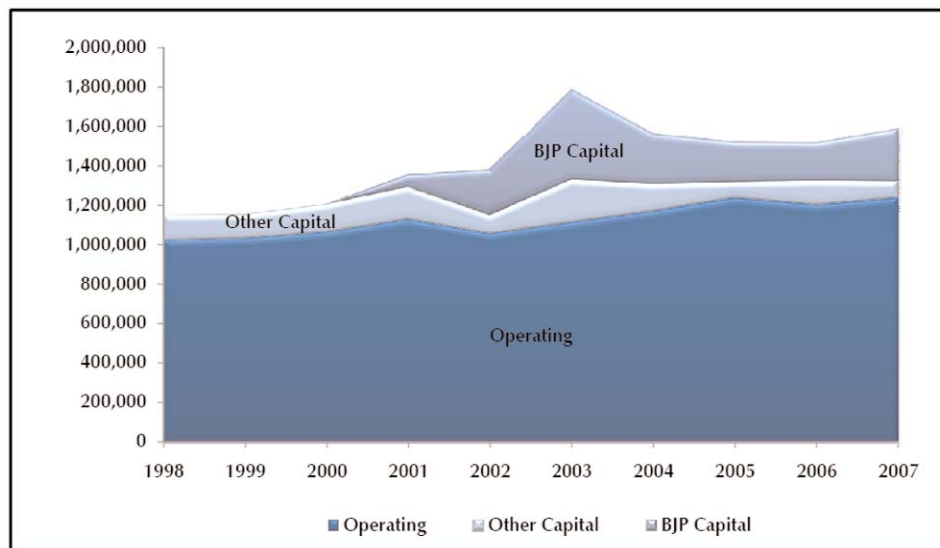
JEA is the eighth-largest publicly owned electric utility in the U.S. JEA receives no subsidies from the city. In 2008, in lieu of taxes or shareholder dividends, JEA contributed five percent of its Electric System Operating Expenses and seven percent of its Water and Sewer System Operating Expenses to the City's budget. These contributions are embedded in the utility bills sent to customers, based on electricity and water use. JEA also provides a 10 percent reduction in utility rates to a large user class of customers, including the City of Jacksonville, Duval County Public Schools, and the Navy.

JEA collects for the City (and State) other taxes and pass-through fees. These include a Utility Service Tax, which can be a maximum of 10 percent of the electric and water charge; a Franchise Fee, which is three percent of the utility bill (\$36 million in FY2009) but could be raised to six percent by a two-thirds vote of City Council; and a General Receipts Tax that goes directly to the State of Florida.

Expenditures

The City's budget can be divided in two parts – capital expenses and operating expenses. Capital expenditures are used for constructing and improving long-term assets such as roads, buildings, or other infrastructure. Operating expenses are those used to fund programs and services, and include items such as salaries and administrative costs. Growth in the City's budget, after adjusting for inflation, has occurred primarily in capital expenses, with a sharp rise due to the Better Jacksonville Plan (BJP).

**Chart 7. Changes in City of Jacksonville General Government Expenditures
Operating Expenses v. Capital Expenses (BJP and Other Capital Expenses)
In Thousands, Adjusted for Inflation**



Sources: *City of Jacksonville Comprehensive Annual Financial Report and Budget Office*

Definition—Outsourcing (Privatization): Privatization of a department, division, or essential public function is regulated by local ordinance. The Mayor and/or the City Council proposes the privatization and the City Council reviews and approves such action. The proposal must contain a time-line, financial analysis with a five-year projection of savings, impact on existing employees, and a list of advantages and disadvantages associated with privatization.

The City has privatized over the last several years, like many other cities, more of its services. Currently outsourced services include much of the public works maintenance, building security, solid waste collection (except the core city—about 275,000 residents), landfill management, fleet oil changes, administration of public venues (through SMG), and BJP design and construction management.

Definition—Better Jacksonville Plan: In 2001, through county-wide referendum, the City of Jacksonville adopted a half-cent sales tax designated to fund a series of capital projects. The sales tax revenue allowed the City to issue 30-year bonds for \$2.25 billion to pay for road and infrastructure improvements, environmental preservation, targeted economic development, and new and improved public facilities, including a new Main Library, arena, baseball stadium, and county courthouse.

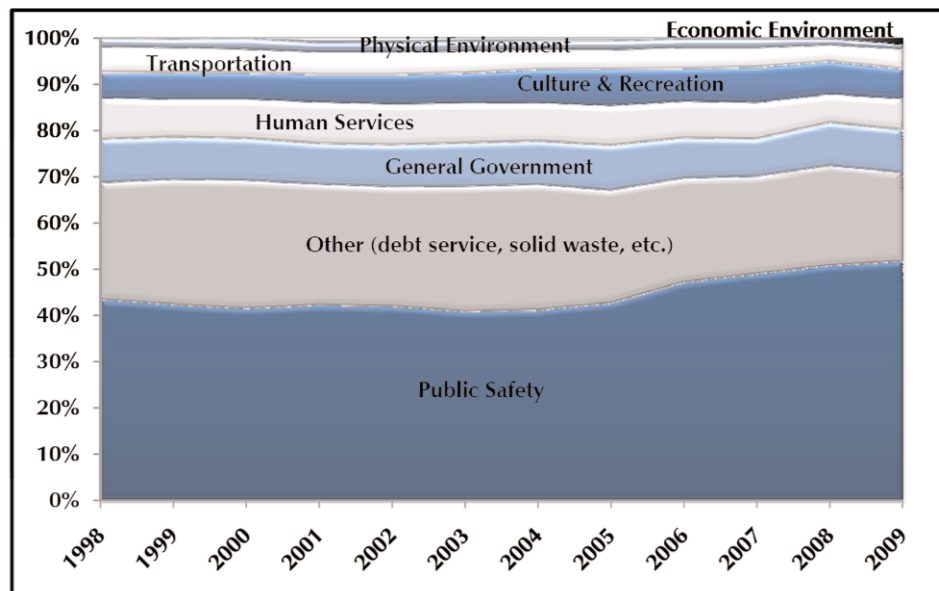
The BJP provided funds for facilities construction, but not for ongoing facilities maintenance. \$750 million of the \$1.5 billion for roadway improvements came from restructuring the JTA's local option sales tax and the City's local option gas tax revenues. The BJP sales tax increase is due to end in 2030.

Changes in General Fund Expenditure Categories

The General Fund budget of the City of Jacksonville has grown with the revenue growth experienced over the past 12 years. The allocation of those resources has been shifting, with an increasing proportion of the General Fund budget going to public safety, which in 2009 made up 51.6 percent of the General Fund budget.

Transportation, Human Services, Culture and Recreation, the Physical Environment, and the "Other" category all have lost ground, while the proportion of spending going to the Economic Environment has increased and the General Government category has remained proportionately the same.

**Chart 8. Changes in City of Jacksonville General Government Expenditures
By Category, Percentage of Total Budget**



	Public Safety	Other	General Government	Human Services	Culture & Recreation	Transportation	Physical Environment	Economic Environment
FY1998	43.4%	25.3%	9.4%	9.0%	5.5%	5.5%	1.8%	0.2%
FY1999	42.3%	27.1%	9.2%	8.2%	5.7%	5.4%	1.9%	0.2%
FY2000	41.4%	27.8%	9.1%	8.5%	5.6%	5.2%	2.4%	0.1%
FY2001	42.2%	26.2%	8.8%	9.0%	5.9%	4.9%	2.0%	1.0%
FY2002	41.9%	25.9%	9.1%	8.9%	6.3%	4.9%	2.1%	0.9%
FY2003	40.8%	27.1%	9.4%	8.7%	6.4%	4.8%	2.1%	0.7%
FY2004	41.1%	27.2%	9.4%	8.4%	7.1%	4.3%	1.9%	0.6%
FY2005	42.6%	24.5%	9.7%	8.6%	7.9%	4.2%	1.9%	0.6%
FY2006	47.1%	22.6%	8.7%	8.0%	7.0%	4.5%	1.9%	0.2%
FY2007	48.9%	21.2%	8.1%	7.9%	7.6%	4.2%	1.9%	0.2%
FY2008	50.7%	21.7%	9.3%	6.2%	7.0%	3.6%	1.3%	0.2%
FY2009	51.6%	19.3%	9.2%	6.8%	6.4%	4.3%	1.1%	1.3%

Source: City of Jacksonville Annual Budgets

Funding for Arts and Human Services

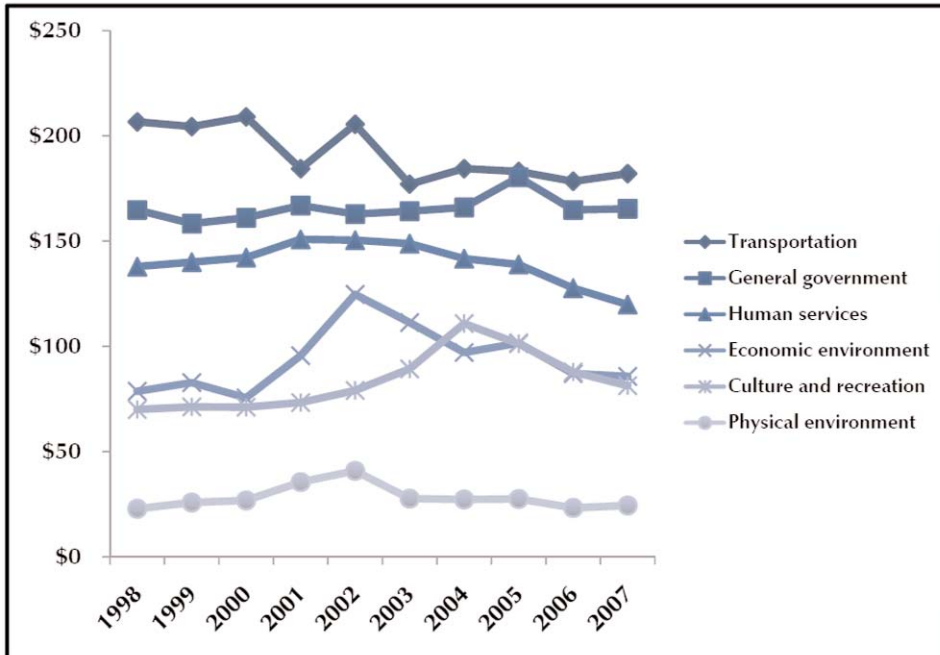
Two areas of expenditures within the Culture and Recreation and Human Services categories that have separate allocation processes are the Cultural Services Grant Program, distributed by the Cultural Council of Greater Jacksonville, and the Public Services Grant Program, distributed through the Public Services Grant Council. Each distributes funds to non-profit organizations who match City money with other funds, leveraging City money at a minimum of 3:1. Both funds have been cut significantly in the last three years – by 27 percent and 66 percent, respectively.

Cultural Services Grant Program funding in FY2009 was \$3 million, or \$3.28 per capita. These funds support an arts sector with an estimated economic impact of \$105 million. Public Service Grant Council funding was \$2.5 million, or \$2.73 per capita. These funds support efforts to address human needs in the community. Together, both funds represent 0.3 percent of the Net City Budget.

Comparison of Expenditures Per Capita

Per capita spending in the functional areas of government, adjusted for inflation, was essentially flat from FY1998 through FY2007, with some increase in Public Safety and steady declines in both Human Services and Culture and Recreation. Because public safety spending per capita is significantly larger than the other categories, it is shown on a separate graph.

**Chart 9. General Fund Expenditures Per Capita
By Category, Adjusted for Inflation**



Transportation includes Road and Street Facilities. The FY2007 amount was \$182 per capita.

General Government includes the operations of the Executive, Judicial, and Legislative branches of government. The FY2007 spending was \$165 per capita.

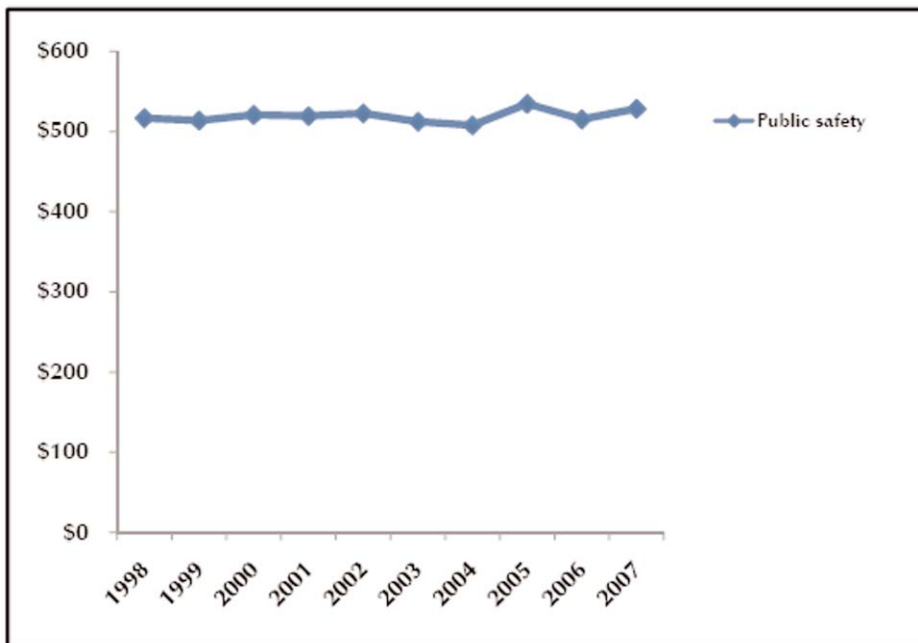
Human Services includes Health; Hospitals, including the annual contribution to Shands Jacksonville (\$23.7 million); Mental Health; and Public Assistance. In FY2007, \$120 per capita was spent in this area; in the FY2009 budget, the total was \$72 per person.

Economic Environment includes Industry Development through the Jacksonville Economic Development Council (JEDC) and Veterans' Affairs. For FY2007, the per capita amount was \$86.

Culture and Recreation includes Libraries; Parks and Recreation; Special Events, including major venue contract management; and Special Recreation Facilities. The FY2007 expenditures were \$81 per capita, compared to a FY2009 budget of \$68 per capita.

Physical Environment includes both Conservation and Resource Management, and Garbage and Solid Waste. The total in FY2007 was \$24 per capita.

Public Safety includes Ambulance and Rescue; Consumer Affairs; Detention/Corrections; Emergency and Disasters; Fire Control; Law Enforcement; Medical Examiner; and Protective Inspections. In FY2007 the City spent \$528 per resident on public safety; in FY2009 the budgeted amount was \$548.

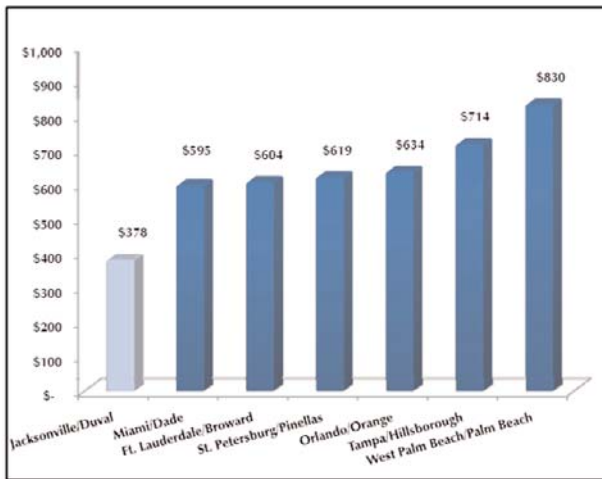


Source: City of Jacksonville Annual Financial Reports

Comparison of Expenditures

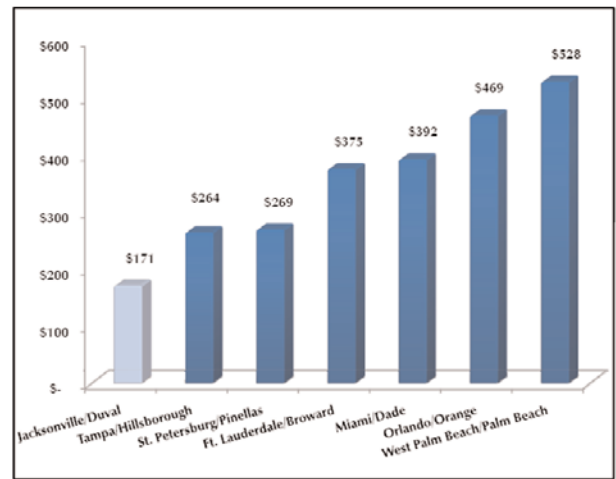
In many areas, Jacksonville's spending per capita is much lower than other cities/counties in Florida or across the country.

Chart 10. Police Spending Per Capita, FY2009



Jacksonville's per capita funding for public safety is the lowest among large cities in Florida. Jacksonville's police spending per capita is 40 percent lower than the average among large cities in Florida, and 36 percent lower than the next-lowest.

Chart 11. Fire Spending Per Capita, FY2009



Jacksonville's per capita expenditures on fire services are also lowest among the peer group, 51 percent lower than the average of the other cities and 35 percent less than the next-lowest city.

Jacksonville's spending on public works per capita again is lowest among the peer group, 68 percent lower than the average of the other cities and 59 percent less than the next-lowest city.

Jacksonville's spending on recreation per capita is lowest among its peer group, 66 percent lower than the average of the other cities and 54 percent less than the next-lowest city.

Chart 12. Public Works Spending Per Capita, FY2009

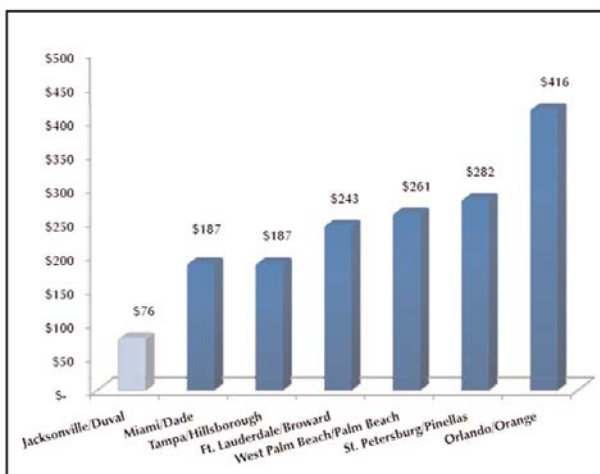
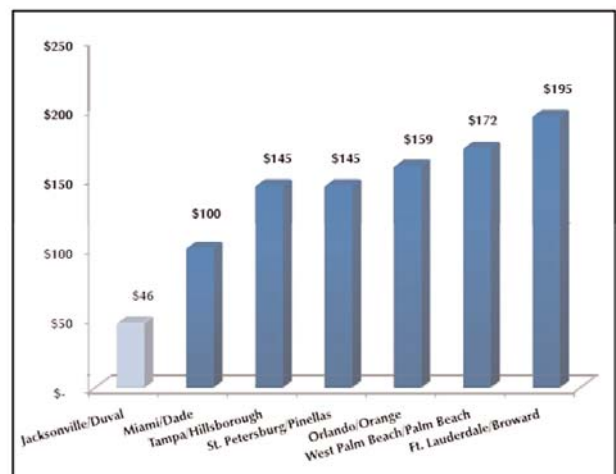


Chart 13. Recreation Spending Per Capita, FY2009

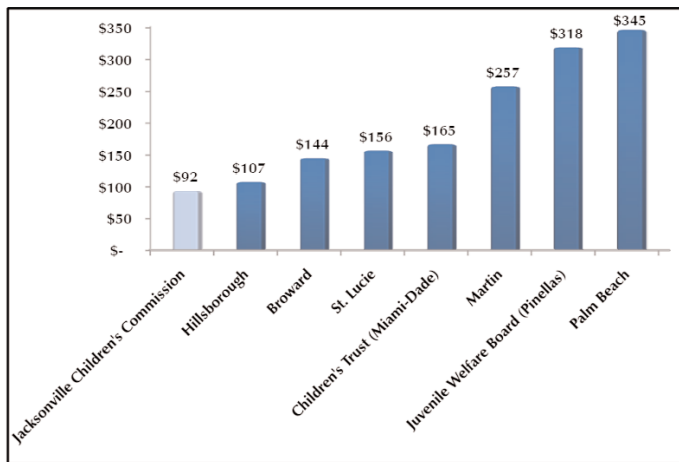


Source: Office of the Mayor, City of Jacksonville. The figures represent a good-faith effort to capture comparable per capita spending based on combined principal city/county budgets and adjusted for cost of living.

In 1986, the State of Florida authorized the creation of Children's Services Councils (CSC), which are countywide special taxing districts created by ordinance to fund programs and services that improve the lives of children and their families. Examples of programs and services funded by CSCs include school readiness, after school care, prenatal care, youth development, and foster care review. The City of Jacksonville decided to create the Jacksonville Children's Commission, not as a special taxing district, but as a quasi-independent commission funded through General Revenues.

In comparison with the other CSCs, Jacksonville's tax revenues dedicated to children, per child 0-17 in the county population, are the lowest among its peer group, 54 percent lower than the average of the other counties and 14 percent less than the next-lowest county.

Chart 14. Local Tax Dollars Dedicated to Children, Per Child, FY2008



Source: CSC Annual Reports. These figures represent a good-faith effort to capture comparable revenues allocated for Children's Services Councils across the State of Florida. All figures are FY2008, except for Palm Beach and Martin counties, where the FY2007 data were used. All of the CSCs are supported by dedicated millage rates (property taxes) except for the Jacksonville Children's Commission. This data only includes the property tax revenues (or general fund revenues, in the case of Jacksonville), and not any grants, state, or federal funding received. The amount received is divided by the total number of children 0-17 in the county, and not by the number of children served.

National comparison data on city expenditures is not easily available. However, one area that is available for comparison is park expenditures. Jacksonville has one of the largest urban park systems in America, largely due to the acres of conservation land purchased through the Preservation Project. However, its spending on park maintenance and activities in the parks has been cut back, and Jacksonville ranks much lower on park spending per capita (\$57 in FY2006) than other cities across the country.

Chart 15. Parkland per 1,000 Residents, in Acres

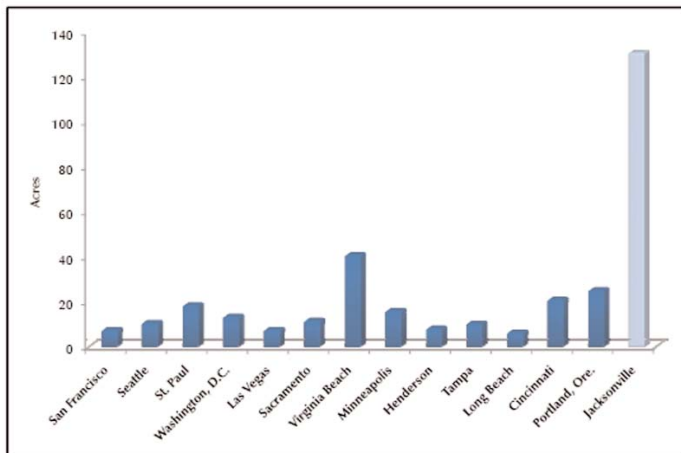
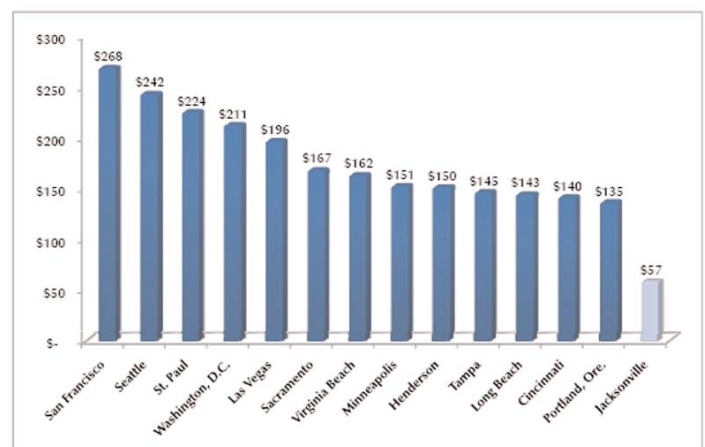


Chart 16. Park Expenditures per Resident



Source: Center for City Park Excellence, Trust for Public Lands. FY2006 expenditures.

Reducing Expenditures

In 2008, Florida TaxWatch completed a review of potential cost savings and recommendations to enhance efficiencies within the City of Jacksonville. This study was informed by the Florida TaxWatch report and chose not to repeat the same work. For the full list of their recommendations, see www.FloridaTaxWatch.org/CLGS.

Pensions

Employees of the city, after a certain number of years of service, retire with a pension. This is a **defined benefit** retirement plan that guarantees a specified amount of money received each month for the life of the employee. The City of Jacksonville has three separate pension funds: the **General Employee Pension Plan**, the **Corrections Officers Pension Plan**, and the **Police and Fire Pension Fund**.

For the FY2010 budget, pension obligations will likely exceed 10 percent of the City's General Fund Budget. On October 1, 2008, the total unfunded liability was estimated to exceed \$1.4 billion – when the Dow Jones stock market measure was at 10,850. After October, the market declined 40 percent before beginning to climb back, further impacting pension funds and increasing the unfunded liability. The projected pension costs are expected to rise rapidly for at least the next 20 years as the current unfunded liabilities are paid down.

How the Pension Plans Work:

All three pension plans operate in much the same way. Under the City's defined benefit plans, retired employees receive a guaranteed specific amount of retired pay based on salary history and years of service. The funding model is simple but the assumptions required to forecast the cost of future benefits are not. Both employees and the City contribute to the plans based on a percentage of a person's salary. However, the employee's contribution rate is fixed, while the City is required to contribute the amount necessary to maintain the plan, as determined periodically by an independent actuary. In the case of the Police and Firefighters pension, the State of Florida also contributes a small fixed share for benefit enhancements (currently four percent of payroll).

Once contributions are in the plan, the money is invested. Investment income is a key component since it provides a major part of the final pension benefit. While growth of the plan depends on investment income, individual benefits are not exposed to investment fluctuations nor are current retiree pensions affected.

Definition—Defined Benefit: A retirement plan where the benefit is determined based on a formula, rather than depending on investment returns.

Definition—Defined Contribution: A retirement plan in which contributions go into individual accounts, are invested, and the returns (positive or negative) impact that account. The individual account is then used to provide retirement benefits.

The three plans share the following similarities:

- Each is a "defined benefit" plan.
- Employees pay a portion of their salary into the plan, and the City also pays into the plan.
- Employees are not eligible for Social Security nor do they pay Social Security taxes, except for Medicare taxes for all City employees hired after 1986.
- The City does not pay into Social Security for the employees (which would otherwise be 6.2 percent of payroll).
- Employees in all three plans can be vested in the plan after five years of service.

Table 7: Pension Plan Descriptions

	General Employee Pension Plan	Corrections Officers Pension Plan	Police and Fire Pension Fund
<i>Employee Contributions</i>	8 percent of salary	8 percent of salary	7 percent of salary
<i>Chapter Fund Contributions for Employee Participation *</i>			1 percent of salary
<i>Chapter Fund Contributions for Enhanced Benefits *</i>			3 percent of salary
<i>Term of Service Requirement</i>	Any age with 30 years of service, at age 55 with 20 years of service, or at age 65 with five years of service	Any age with 20 years of service, or at age 65 with five years of service	20 years of service, regardless of age
<i>Pension Calculations</i>	Average monthly salary multiplied by years of pension service multiplied by an annual accrual rate	Average monthly salary multiplied by years of pension service multiplied by an annual accrual rate	Minimum benefit of sixty percent of the average salary received for the 52 pay periods (two years) preceding retirement
<i>Maximum Pension Benefit</i>	80 percent of salary (requires 32 years of service)	80 percent of salary (requires 30 years of service)	80 percent of salary (requires 30 years of service)

*Pension plan descriptions as of March 2009. * Chapter fund contributions are monies received from a fee on property casualty insurance, as established in Florida Statute Chapters 175/185. These funds are earmarked for enhanced pension benefits.*

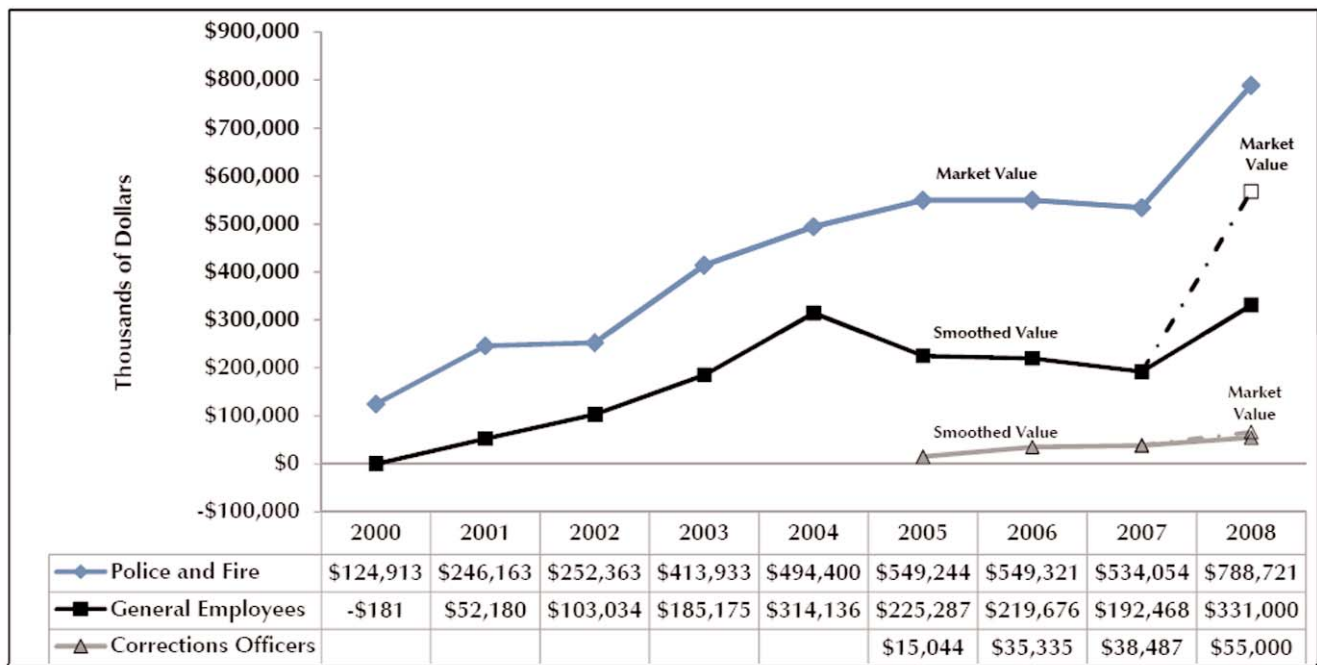
The Pension Problem: Unfunded Liability

The **Unfunded Actuarial Accrued Liability** – the total amount of money estimated to be required over the retirement lifetimes of the people currently in the plan, minus the total amount currently invested in the plan – was \$1.4 billion at the end of FY2008, calculated at the pension plans' market value. By plan, the unfunded liabilities were:

General Employees Pension Plan (GEPP):	\$568 million
Corrections Officers Pension Plan (COPP):	\$ 66 million
Police and Fire Pension Fund (PFPF):	\$789 million

Market value is only one way to calculate unfunded liabilities. The City uses a **smoothing** methodology for the GEPP and COPP calculations, which spreads changes (positive and negative) in market value over a five-year period. Using the smoothed values, the unfunded liabilities for the GEPP was \$331 million and for the COPP \$55 million. The Police and Fire Pension Fund is moving to a smoothed value system, which is the industry norm.

Chart 17: Unfunded Pension Fund Liability, FYs 2000-2008



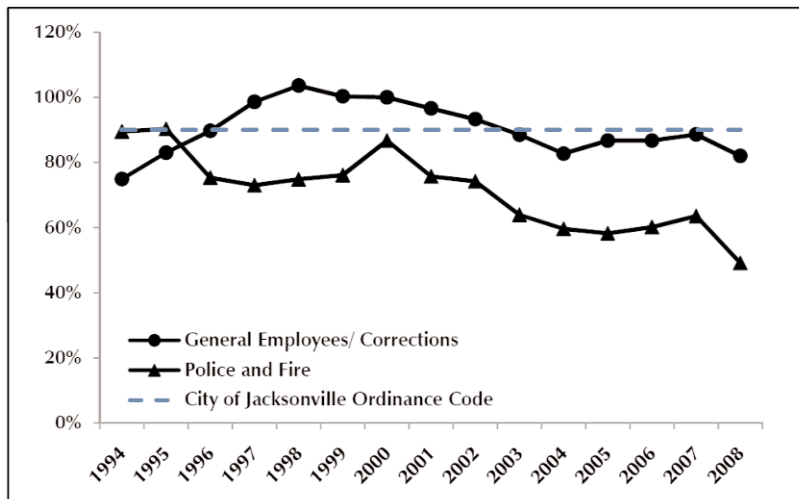
Source: Florida TaxWatch, using City of Jacksonville data

Future projections of unfunded pension liabilities vary. If the markets rebound strongly and the investments perform well, the future liabilities will decline. However, even before the 2008-09 market declines, the unfunded liabilities combined were over \$750 million; the past strong markets did not, by themselves, eliminate the unfunded liabilities.

A key measure of the health of a pension fund is its funded percentage – the ratio of the assets of a fund to its financial obligations. Jacksonville City Ordinance calls for the pension funds to be at least 90 percent funded before a pension can add new benefits. State law requires that all pension obligations be met.

Among Florida's 10 largest cities, Jacksonville's pension funds are among the worst funded.

Chart 18: Percent Funded of Jacksonville Pension Plans



Source: Police and Fire Pension Fund. For comparison purposes, the Corrections pension plan data are included within the General Employees Pension Plan.

Table 8: Funded Percentages

Year	General Employees/ Corrections	Police and Fire
1994	74.9%	89.5%
1995	83.0%	90.3%
1996	89.7%	75.3%
1997	98.6%	73.0%
1998	103.6%	74.8%
1999	100.3%	76.1%
2000	100.0%	86.7%
2001	96.6%	75.7%
2002	93.3%	74.2%
2003	88.5%	63.9%
2004	82.7%	59.6%
2005	86.7%	58.2%
2006	86.7%	60.1%
2007	88.6%	63.5%
2008	82.0%	49.1%

If the GEPP were restated at market value, the funded percentage would be 70.4 percent.

Funded Percentages, Pension Funds of 10 Largest Florida Cities

Below 80 percent is critically unhealthy * – 90 percent meets Jacksonville ordinance code thresholds – over 100 percent means the fund has enough to meet its obligations.

City	Funded Ratio	City	Funded Ratio
Jacksonville		Orlando	
General employees	82%	General employees	82%
Police and Fire	49%	Police	92%
		Fire	92%
Miami		Tallahassee	
General employees and sanitation	86%	General employees	111%
Police and Fire	107%	Police	104%
		Fire	101%
Tampa		Fort Lauderdale	
General employees	98%	General	76%
Police and Fire	109%	Police and fire	82%
St. Petersburg		Cape Coral	
General employees	98%	Police	80%
Police	87%	Fire	77%
Fire	78%		
Hialeah		Port St. Lucie	
All employees	99%	Police	70%

Source: Florida Trend, March 2009. Most funded ratios are from Sept. 30 or Oct. 1, 2007. Jacksonville's General Employees Pension Plan was added to Florida Trend's list for comparison purposes. Funded ratios as represented are before the 2008-09 market declines.

* See The Pew Center on the States, Promises with a Price: Public Sector Retirement Benefits, December 2007

How Pension Plans Are Funded

Each year the City, out of General Revenues, pays into each fund a **Normal Cost**, which is the standard percentage of total payroll required to fund one additional year of the plan, plus an **Amortization of Actuarial Accrued Liability Cost**, which takes the total unfunded plan liability and spreads the cost out over time (up to 30 years). For the Police and Fire Pension Plan in the FY2009 budget, for example, the Normal Cost is 8.18 percent of the combined Police and Fire payroll of plan participants, while the Unfunded Actuarial Accrued Liability cost is 23.93 percent of payroll.

By statute, the City bears the burden of risk associated with maintaining the soundness of the city pension plans. The independent actuary analyzes the plan's funding compared to promised benefits to estimate how much the plan needs to receive in contributions and forecast investment income to pay out to all eligible plan members. Key assumptions include employee attrition, benefit eligibility and levels, how long those who receive pensions will live, and investment income.

Why Unfunded Liabilities Exist

Funding decisions:

Some of the differences in the unfunded liabilities of the different pension plans can be seen in how they were funded by the City of Jacksonville over time. When the investments outperform expectations, a portion of the resulting funds are allocated to that pension fund's reserve accounts. During periods of tight budgets, the City at times elected to provide little or no funding to one or the other of the pension programs, relying on each pension's reserve accounts to make up some of the difference. This left the reserves unable to provide a buffer during bad financial markets. (See *next page* for details.)

Market declines:

Money paid into pension funds is invested to earn money. The declines in both the stock market and the real estate markets, especially in 2008 and 2009, have been severe.

Investment policy:

The State of Florida currently restricts how and where pension funds may be invested, which may impact returns.

Changes in actuarial assumptions:

The formula for anticipating the amount of money needed to pay future benefits makes assumptions about how long people are going to live. As lifespans increase, so do the cost of future benefits.

Increased benefits:

While a City of Jacksonville ordinance states that pension plans cannot have benefit increases when the plan is less than 90 percent funded, the City Council can override this provision. In 2009, the unfunded liabilities of the Correction Officers Pension Plan rose as the City Council approved additional benefits. Cost of living adjustments can also increase the size of the unfunded liability.

Changes in payroll:

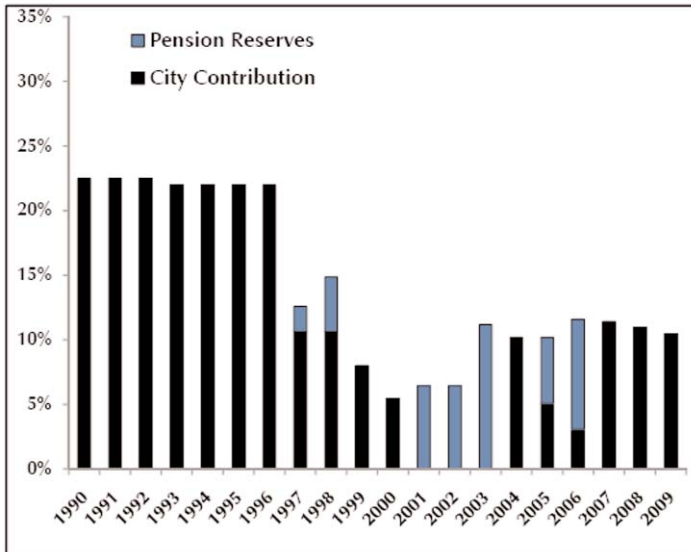
Each new employee hired increases the future benefit costs. Each raise given to employees now increases the future cost of pensions.

In response to the problem of unfunded pension liabilities, the Jacksonville City Council created a special committee in 2009 to examine options. The Committee on Pension Reform (since changed to Committee on Pension Sustainability) is charged to "review the structure, funding mechanism and current and future obligations of the City's General Employees, Correctional Officers and Police and Fire pension funds, and shall consider options and alternatives to ensure both the reasonable and long-term financial security of current and future City retirees and the City's fiscal health and sustainability. The review shall consider the purposes for which the pension plan exists (employee recruitment and retention mechanism, compensation mechanism, etc.) and the history of the plans' structure and funding policies (i.e. changing employer and employee contribution rates, use of pension contribution holidays, investment policies, non-participation in Social Security, etc.)."

General Employees Pension Plan

Recommendations in the 1977 JCCI Study to address the underfunding of the General Employees Pension Plan (GEPP) led to funding percentages between 22 and 31 percent of payroll per year from 1978 through 1996. Then the City cut back on its funding, including a three-year time span when the City provided no direct dollars into the pension fund (between 2001 and 2003.)

Chart 19: Contributions to the GEPP



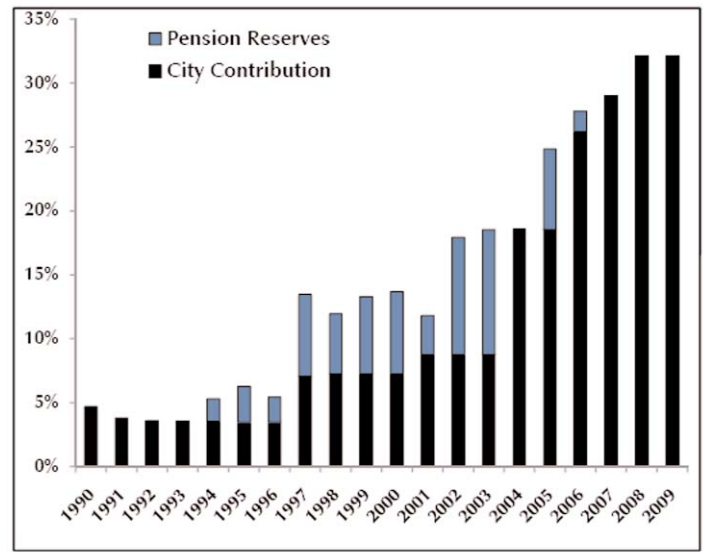
Source: Police and Fire Pension Fund. For comparison purposes, the Corrections pension plan data are included within the General Employees Pension Plan.

General Employees Plan			
Year	City Contribution	Pension Reserves	Combined Rate
1990	22.5%	.00%	22.5%
1991	22.5%	.00%	22.5%
1992	22.5%	.00%	22.5%
1993	22.0%	.00%	22.0%
1994	22.0%	.00%	22.0%
1995	22.0%	.13%	22.1%
1996	22.0%	.04%	22.0%
1997	10.6%	2.0%	12.6%
1998	10.6%	4.2%	14.9%
1999	8.0%	.31%	8.3%
2000	5.4%	.00%	5.4%
2001	0.0%	6.4%	6.4%
2002	0.0%	6.4%	6.4%
2003	0.0%	11.2%	11.2%
2004	10.2%	.00%	10.2%
2005	5.1%	5.1%	10.2%
2006	3.1%	8.5%	11.6%
2007	11.4%	.00%	11.4%
2008	11.0%	.00%	11.0%
2009	10.4%	.00%	10.4%

Police and Fire Pension Fund

City funding for the Police and Fire Pension Plan (PFPF) was between 20 and 22 percent of payroll from 1978 through 1986, after which the contributions declined to between three and four percent from 1991 through 1996. The City did not return to funding the PFPF at more than 8.75 percent until 2004, when the need to meet unfunded actuarial liabilities increased rapidly.

Chart 20: Contributions to the PFPF



Source: Police and Fire Pension Fund.

Police and Fire Plan			
Year	City Contribution	Pension Reserves	Combined Rate
1990	4.7%	.00%	4.7%
1991	3.8%	.00%	3.8%
1992	3.6%	.00%	3.6%
1993	3.5%	.34%	3.9%
1994	3.5%	1.8%	5.3%
1995	3.5%	2.8%	6.3%
1996	3.5%	1.9%	5.4%
1997	7.1%	6.4%	13.5%
1998	7.3%	4.7%	11.9%
1999	7.3%	6.0%	13.3%
2000	7.3%	6.4%	13.7%
2001	8.8%	3.1%	11.8%
2002	8.8%	9.2%	17.9%
2003	8.8%	9.8%	18.5%
2004	18.6%	.65%	19.2%
2005	18.6%	6.3%	24.8%
2006	26.2%	1.6%	27.8%
2007	29.0%	.00%	29.0%
2008	32.1%	.00%	32.1%
2009	32.1%	.00%	32.1%

Debt

Another area of expenditures is debt service. Like all governments, the City of Jacksonville has debt obligations.

One category of debt comes from the Better Jacksonville Plan (BJP). The BJP was approved by referendum to address \$1.5 billion in roadway system improvements and \$750 million in building construction and other improvements. It uses excess capacity in a previously approved ½ cent sales tax to eliminate tolls and provide for mass transit to fund \$750 million in road projects, plus an additional ½ cent sales tax for road projects and new buildings. The sales tax revenue is restricted and is used for debt servicing associated with the BJP.

Another category of debt is General Government debt. The City debt pledges specific General Fund revenues for debt service. In this area, money to pay off debt competes with other operating costs met by the General Fund.

Debt Obligations

At the time of this study, the City of Jacksonville had \$2.6 billion in debt obligations. Approximately half of the debt was used to finance the Better Jacksonville Plan, and the other half to finance other capital improvements (such as River City Renaissance.)

The City of Jacksonville is careful to maintain a high bond rating in the Aa/AA range with all three of the rating agencies—Moody's, Standard & Poor's, and Fitch. High ratings signal to investors that their loan to a government will be paid as agreed, and high bond ratings lower the City of Jacksonville's costs of borrowing.

Most of the debt is bonded for 25 to 30 years. This means that a capital project financed through bonded debt, such as the construction of a performing arts center, convention center, football stadium, or resurfacing roadways, will likely not be paid off for 30 years. This limits the ability of the City government to use those resources until the debt is retired, even if (as was the case with roadway resurfacing in the BJP) the capital improvements will need to be redone before the debt is paid off.

Capital improvements such as buildings have a longer-term cost that is greater than the initial cost of construction. Buildings require both management and maintenance. Past capital projects have bonded out revenues for only the initial cost of construction, creating additional pressure for General Fund revenues to meet management and maintenance needs.

The City of Jacksonville uses a debt affordability model to determine maximum debt thresholds. The model takes into account debt per capita, debt service as percent of General Fund expenditures, debt as percent of market value, percent of debt amortized in 10 years, and General Fund reserves as a percent of General Fund revenues. Using this model, the City is near its limit on the amount of new debt it can take on.

The City has both fixed and variable rate debt with variable rate debt coming online in the 1990s and early 2000s. At the time of this study, 20 percent of the City's debt was variable rate.

Table 9. Projected Change in City of Jacksonville Outstanding Debt (includes both BJP and General Government Debt) in Thousands

	Beginning Outstanding Debt	Current Authorizations and Future Borrowings	Debt Retirement	Ending Outstanding Debt
2008	\$2,326,286	\$403,810	(\$92,851)	\$2,637,245
2009	\$2,637,245	\$312,724	(\$112,656)	\$2,837,313
2010	\$2,837,313	\$154,941	(\$127,663)	\$2,864,591
2011	\$2,864,591	\$137,768	(\$103,773)	\$2,898,586
2012	\$2,898,586	\$70,182	(\$122,372)	\$2,846,396
2013	\$2,846,396	\$76,272	(\$110,039)	\$2,812,629

Source: City of Jacksonville

The TRUE (Taxation, Revenue, and Utilization of Expenditures) Commission

The TRUE Commission was established in 1994 by ordinance as a permanent fiscal policy advisory body for the City. The ordinance (Chapter 57) states: "The purpose of the Commission is to improve the City's long-range financial soundness, planning, budgeting and management and to keep the public better informed about important issues related to City financing and budgeting. The Commission may choose to review any aspect of fiscal policy within the consolidated government..."

In particular, the Commission is charged with examining the City's long-range financial soundness; the City's budgetary process; the appropriateness of each of the City's revenue sources; potential new revenue sources; and benefit structures and pensions for City employees.

The 18 volunteer Commissioners (6 appointed by the Mayor, 6 appointed by the Council President, and one nominated by each of the 6 CPACs [Citizen Planning Advisory Committees]) are empowered only to gather and report information and make recommendations. They are supported as a part-time responsibility of a City Council staff person.

Citizen Access and Transparency

In 1992, JCCI's *Long-Term Financial Health of the City of Jacksonville* study observed that "Jacksonville's government has never had a formalized, citizen-oriented process for developing and maintaining a long-term, public-policy consensus." Citizen engagement in the budget process is limited; after the budget is presented to City Council, citizens may witness the discussions of the City Council Finance Committee and, if the committee chair desires and allocates time, may comment. Public comment is available in the September City Council meetings for the adoption of the budget and millage rate, but as resource speakers observed, that point in the process is too late for making substantive changes.

Citizen participation in the budget process is limited by more than just time allocated to speak in public meetings. Budget documents and the Comprehensive Annual Financial Report (CAFR) are technical, specialized, and difficult for the average citizen to understand, while the Budget in Brief document provided by the City is limited in the information it provides. Outside of a few "operating indicators" in the back of the Annual Budget or CAFR (such as library gate counts or tons of solid waste collected), the City of Jacksonville lacks a formalized performance benchmarking process to allow citizens to understand the effectiveness and efficiency of government expenditures.

Citizen Input and Access:

The budget process is a continuing cycle, with work on the upcoming budget beginning almost immediately following the passage of the previous budget. (See *Budget Process*, p. 10). For the average citizen, the process occurs behind closed doors; the first time someone in the community will see the budget is when the Mayor delivers the proposed budget to City Council in July.

In 1992, to build community trust, Mayor Austin convened the community in a priority-setting process called Jacksonville Insight. In 2005, a large-scale community conversation was held under Mayor Peyton as part of Blueprint for Prosperity, to determine priorities for increasing per capita income. Another convening process, though smaller, was held in 2007-08 for Jacksonville Journey, an anti-crime initiative.

However, since 1992, no large-scale community conversations have been held to build consensus on community priorities for local government.

Transparency and Performance Benchmarks:

In January 2009, immediately upon assuming his office, President Obama declared that "a democracy requires accountability, and accountability requires transparency." A follow-up memorandum in February 2009 said:

"We cannot overstate the importance of this effort. We are asking the American people to trust their government with an unprecedented level of funding to address the economic emergency. In return, we must prove to them that their dollars are being invested in initiatives and strategies that make a difference in their communities and across the country. Following through on our commitments for accountability and openness will create a foundation upon which we can build as we continue to tackle the economic crisis and the many other challenges facing our nation."

In Florida, Governor Crist has launched a website, FloridaPerforms.com, to provide greater accountability and transparency. He observed, "The taxpayers of Florida should expect [performance] from the government they fund. The money that government spends should make a difference. These performance measures will not only provide you with a window into your government, it will also provide our managers with important tools to build upon successes and address shortcomings. This Web site provides a running scorecard of a broad range of measures reflecting trends in key areas important to all Floridians. You can also access any measure at a Governor's agency from this site."

Jacksonville does not currently have a similar website to report performance benchmarks and allocation of resources.

Florida TaxWatch released its report, *Enhancing Efficiencies in the City of Jacksonville*, in August 2008. In the report, they called on the City to "establish a formal strategic plan and implement strategic performance measures" as a way to better manage for results.

Nationally, city governments are utilizing performance reporting and benchmarking as a means of improving accountability and demonstrating good stewardship of taxpayer funds. The Association of Government Accountants (AGA) now issues a Certificate of Excellence in Citizen-Centric Reporting to those governments whose reports meet national criteria for providing clear, understandable information to the citizens.

Within the state, the Florida Benchmarking Consortium (FBC) brings together local governments seeking to improve service delivery efficiency through performance measurement and benchmarking. Jacksonville was a founding member of the FBC, but no longer participates with the 48 other Florida city governments who are collecting and sharing performance measures.

Alternative Revenue Sources

To increase revenues, the City of Jacksonville has the following options:

- **Increase the Millage Rate:** The City of Jacksonville can adjust the property tax rate to the Rolled-Back rate plus the change in per capita income from its current 8.4841 mills up to 20 mills, if desired. The following limitations are in place:
 - o With a simple majority vote (10 out of 19 Council members), the Jacksonville City Council can adjust the millage rate to the rolled-back rate (“no tax increase”), plus changes in per capita Florida income.
 - o With a two-thirds majority (13 out of 19 Council members), the Jacksonville City Council can raise the millage rate to 10 percent above the majority vote maximum rate.
 - o With a three-quarters majority vote (15 out of 19 Council members), the Jacksonville City Council can raise the millage rate up to its statutory cap – 20 mills.
- **Voted Public Safety Millage:** The City of Jacksonville can establish an additional dedicated property tax revenue stream for police and fire expenses. However, this millage can only be in place for two years or less.
- **Increase Utility Franchise Fees:** An increase of one percent in the franchise fee would produce roughly \$12 million in additional revenues. The franchise fee in Jacksonville is at 3 percent and has the capacity to go to 6 percent, or an additional \$36 million per year. Any increase in the franchise fee would require a two-thirds vote of City Council.
- **Increase Stormwater Fees:** An increase of \$1 per Equivalent Residential Unit (ERU) would produce approximately \$5.2 million in additional net revenues; however, this would only help the deficit to the extent there were stormwater costs moved from the General Fund to the Stormwater Fund.
- **Increase the Solid Waste Fee:** The solid waste fee is scheduled to increase by \$1 on October 1, 2009. Every additional \$1 increase in the rate will provide \$2.6 million of net relief to the General Fund.
- **Increase Charges for Services:** The City could review fees for service and determine whether these fees need to be increased to cover the cost of providing the related service. The City could also explore the suitability of fees for services where none now are charged, especially services provided principally to particular users rather than the general citizenry.
- **Increase the Business Tax (formerly Occupational Licenses Tax):** Florida State Statutes provide that cities and counties can increase the Occupational License tax on each occupation by no more than five percent every two years after completing a Tax Equity Study. The City of Jacksonville has not raised these fees since 1995. An across-the-board increase of five percent in business tax rates would yield an additional \$374,000 in revenues.
- **Green Utility Fees:** Counties over 500,000 population and cities over 200,000 population may create one or more green utilities or adopt fees sufficient to plan, restore and manage urban forest resources, greenways, forest preserves, wetlands and other aquatic zones.
- **Increase the Local Option Gas Tax:** The City of Jacksonville can add up to an additional five cents per gallon local option gas tax. This would have to be designated to maintain streets and roads as well as sidewalk and drainage needs within rights-of-way, and could not be used for the General Fund.
- **Add Impact Fees:** Common municipal/county impact fees are for police, fire, parks, and roads. The expenditure of these collected revenues is restricted to capital expenditures.
- **Increase the Charter County Transit System Sales Surtax:** This can be increased by ½ cent to provide more funds for mass transit or maintenance and construction of roads.
- **Increase JEA Payment to the City:** JEA’s operating revenue, including both its electric utilities and water and sewer utilities, was \$1.8 billion in FY2009, of which JEA paid \$98 million (or just over 5 percent) to the City of Jacksonville in lieu of dividends or taxes. This amount is currently scheduled to increase by \$2.5 million per year.

Conclusions

Conclusions express the value judgments of the committee, based on the findings.

1. Jacksonville is experiencing a financial crisis, fueled by: delaying payment of financial obligations, pension debt, and long term capital debt; costly unfunded federal and state mandates; and State restrictions on local revenue; all aggravated by the national recession. Consequently, the City of Jacksonville faces a difficult choice: cut services or raise revenues.
2. Deciding how to manage these problems is particularly difficult because the City of Jacksonville has not clearly defined the core services of government, but leaves the decision of what role the government should play in funding essential services, improving the quality of life, and enhancing the economic future of the community to the Mayor and City Council as each annual budget is developed. Residents of Jacksonville are divided on what the “proper” role of government should be.
3. Without a shared vision for the future, consensus on community priorities, and leadership to follow through, Jacksonville will not comprehensively resolve its financial problems. Both residents and elected officials can look to past examples of cooperative efforts between the citizenry and the government (e.g., the Amelia Island Conference, Jacksonville Insight, the Better Jacksonville Plan, and the Jacksonville Journey) to create a long term shared fiscal vision for the community.
4. Jacksonville lacks the kind of transparent performance management measurement and benchmarking systems necessary to demonstrate efficiency and effectiveness in government, and to build confidence in government’s stewardship of taxpayer money. Therefore, many residents of Jacksonville do not trust government to spend their tax money wisely. The perception of mismanagement has been exacerbated by years of poorly handled City projects, such as the Shipyards and the Courthouse, as well as a history of finding money for City projects deemed politically important (e.g. Jacksonville Journey) when the community has been told that revenues are limited.
5. The fear of increasing taxes held by elected officials in the State is also prevalent locally. Jacksonville prides itself on its low taxes and fees, yet these low taxes and fees have resulted in underfunding services across the board, and raiding trust funds and rainy-day funds rather than preparing for bad financial times. In a state consistently ranked near the bottom nationally on its funding of services, Jacksonville spends less than the state average, worrying more about providing government “on the cheap” rather than funding acceptable levels of service.
6. The political process neither encourages public participation nor invites public involvement early enough in the budget setting process to make a difference. The illusion of participation is worse than no participation at all.
7. The City of Jacksonville has not exercised many of the available revenue options, such as increasing the property tax millage rate or opting to increase JEA contributions to the general fund. Yet when the residents of Jacksonville were provided a choice, in the past decade they have consistently voted to pay for needed capital expenditures, such as those in the Better Jacksonville Plan. Jacksonville voters also voted against the statewide referendum mandating lower property taxes in 2008 because the community understood the negative consequences.
8. The three City pension funds are underfunded, and their current financial situation is not sustainable. Pension fund contributions are claiming an ever-increasing share of the City’s budget, aggravated by recent stock market losses, and Jacksonville legally must meet those pension fund obligations. If not addressed, the pensions will continue to divert funds that could be used to meet the City’s core functions and advance the quality of life. The pension situation must be addressed to keep the City solvent.
9. The TRUE (Taxation, Revenue, and Utilization of Expenditures) Commission is not equipped, with either staff or financial support, to serve as the City’s financial watchdog. This leaves Jacksonville without meaningful citizen oversight of the budgetary process.
10. Jacksonville does not currently have recurring revenue set aside for or dedicated to capital maintenance and new construction. As a result, the City is not able to properly take care of and improve its capital assets.
11. Jacksonville is difficult to compare to other Florida cities and counties because of the unique structure of its consolidated government. Because of the differences between states, Jacksonville is similarly not always comparable to other consolidated governments. Jacksonville lacks solid benchmarks to understand how its current funding levels compare to other local governments. However, in all available comparisons, Jacksonville appears to spend less per person on government services than other local governments. Residents lack the information necessary to determine from year-to-year whether lower funding levels represent efficiency or inadequate funding of needed services.

Recommendations

Recommendations are the committee's specific suggestions for change, based on the findings and conclusions.

Part I

Jacksonville's Financial Crisis

The City of Jacksonville is facing significant financial issues which threaten its future financial sustainability. Elected officials and citizens must reach consensus on a new vision for funding core services. Taxes and fees, spending efficiencies and controls, funds for capital needs and funding city employee pension benefits are all part of this picture.

"Business as usual" cannot continue. This is defined as inappropriately financing operating needs using debt, raiding trust funds for one-time revenue uses, ignoring properly funding already huge pension liabilities, reducing the millage rate without regard for service needs and increasing fees to supplant lost taxes. This community must make difficult decisions now instead of chronically pushing problems forward to our children.

Recommendations for correcting our financial crisis include:

INCREASE REVENUE AND/OR REDUCE EXPENDITURES

1. If the City is to provide services in accordance with local community expectations and at levels compatible with similar communities nationally, Jacksonville's City Council must raise revenues, by increasing the millage rate and/or examining the untapped sources of revenue listed on page 30 of this report. At this time, the City is near its limit on the amount of new debt it can take on while maintaining favorable bond ratings. The alternative, if the community and City Council are unwilling to increase revenues, is to cut services and benefits in a city that already ranks near the bottom state-wide on the funding of services. The Mayor and City Council should not finance an operating budget, including capital maintenance, by increasing debt and future financial obligations.

FUND INFRASTRUCTURE REQUIREMENTS

2. To sufficiently fund new and existing infrastructure requirements, the City of Jacksonville should return to its historical policy of dedicating at least 1 Mill of property tax revenues to capital maintenance.

ELIMINATE UNFUNDED PENSION LIABILITY & SHARE RISKS

3. With more than \$1.3 billion in combined unfunded liabilities among three city employee pension plans, the City Council must act to appropriately fund each plan according to nationally accepted standards and implement policies that promote long term sustainability, such as:
 - Exploring expanded funding opportunities to pay down existing funding liabilities, such as Pension Obligation Bonds (which would restructure existing liabilities rather than accrue new debt), dedicated millage increases, transfer of City-owned real estate, or allocation of windfall (one-time) revenues to lower pension debt;
 - Eliminating the future use of pension reserves as an alternative source for funding for annually required City pension contributions (no more "pension holidays");
 - Placing a moratorium on all pension benefit enhancements until the pension funds are appropriately funded; and
 - Establishing a different retirement plan for new hires (creating a two-tier pension system) to allow for greater sharing of risk in pension investments, exploring a mix of both Defined Contribution and Defined Benefit plans.

Recommendations

Recommendations are the committee's specific suggestions for change, based on the findings and conclusions.

Part II The Public Trust

To resolve Jacksonville's critical financial issues, citizens of Jacksonville must have much higher trust in the governing process, which transcends changes in administrations. Indeed, establishing this trust may be the very first essential step. This requires citizen participation in government, transparent processes that measure performance and communicate progress, and ongoing communications between City officials and the People.

Recommendations for promoting greater citizen involvement and understanding of budget processes:

DEVELOP LONG-TERM COMMUNITY VISION AND DEFINE CORE FUNCTIONS

1. To develop a shared process that defines City functions and priorities, in addition to a long-term financial vision for Jacksonville, the Mayor and City Council should:
 - Outline their vision for the City's roles, responsibilities, and priorities for public review and discussion on a continuing basis.
 - Convene citizens in a broad community engagement process, similar to that used for Jacksonville Insight, that invites wide-spread citizen participation to discuss the role of government as outlined by the Mayor and City Council, and reach consensus on community expectations for City services and the willingness of citizens to pay for those services.
 - Periodically reconvene the community to review and revise the long-term vision of the role of government, expectations for services, and the financial sustainability of the City.

ESTABLISH BENCHMARKS AND WEIGH OUTCOMES

2. Based on a clearly stated set of roles and priorities for City government, the Mayor and City Council should establish and make publicly available explicit financial and operating goals together with appropriate performance standards (i.e. "benchmarks") for use in evaluating actual performance. This level of accountability is critical for providing citizens with a tool to help determine the effectiveness of local government as well as the efficient use of taxpayer dollars. As part of developing this performance measurement system, the City of Jacksonville should participate in state and national organizations, such as the Florida Benchmarking Consortium, which allow cities to compare performance in key areas with other cities known for delivering high levels of service with high efficiency.

INVITE GREATER TRANSPARENCY AND PUBLIC INVOLVEMENT

3. The City of Jacksonville should revise its budget processes to allow for meaningful citizen input. Specifically:
 - The Mayor and City Council should solicit input on budget priorities early in the budget development process through budget workshops, public forums and interactive media, such as the internet; and
 - The Jacksonville City Council should hold its committee meetings at times that are more accessible to the public and ensure opportunities for participation and adequate time for public comment.

IMPROVE ACCOUNTABILITY AND OVERSIGHT

4. To encourage the responsible stewardship of taxpayer dollars, the Jacksonville City Council should strengthen the TRUE Commission by allocating additional staff and resources to reinforce its role as the community's tax use overseer.

Resource Speakers

John Becker

Chair, Florida Benchmarking Consortium
Senior Financial Management and Budget Analyst,
Pinellas County

Michael Blaylock

Jacksonville Transportation Authority

Mary Borg

Professor, Political Science and Public Administration,
University of North Florida

Joan Carver

Coordinator, 1977 JCCI Local Government Finance Study

Richard Cohee

Former Treasurer and Principal Internal Auditor,
City of Jacksonville
Executive Deputy Director, Police and Fire Pension Fund

Matthew Corrigan

Professor, Political Science, University of North Florida

Rena Coughlin

Nonprofit Center of Northeast Florida

Jim Dickenson

JEA (Jacksonville Electric Authority)

Joey Duncan

Public Works, City of Jacksonville

Mike Gleason

Shands Jacksonville

Alberta Hipps

Public Service Grants Council

Connie Hodges

United Way of Northeast Florida

Adam Hollingsworth

Chief of Staff, Mayor John Peyton

Jeff Hunt

Concerned Taxpayers of Duval County
Libertarian Party

Bob Johnson

Special Advisor to the Mayor and former City Council Auditor

Kaye Kendrick

Florida TaxWatch

Linda Lanier

Jacksonville Children's Commission

Cindy Laquidara

Office of General Counsel, City of Jacksonville

Brian Martin

Fishkind and Associates

Don McClure

Former Chief Administrative Officer, City of Jacksonville

Mickey Miller

Director of Finance and Chief Financial Officer,
City of Jacksonville

Audrey McKibbin Moran

Chief of Staff, Mayor John Delaney
Director of Legislative Affairs, Mayor Ed Austin

Alan Mosley

Chief Administrative Officer, City of Jacksonville

Kent Olson

Budget Officer, City of Jacksonville

Jim Overton

Property Appraiser

John Peyton

Mayor, City of Jacksonville

Mary Alice Phelan

Chair, 1992 JCCI Long-Term Financial Health of the City Study

Michael Poole

Jacksonville Port Authority (JaxPort)

John Rutherford

Sheriff

Michael Stewart

Jacksonville Airport Authority

David Swain

Staff, 1992 JCCI Long-Term Financial Health of the City Study

Penny Thompson

Shands Jacksonville

Michael Tierney

Actuarial Concepts

Nina Waters

Jacksonville Community Foundation

Robert White

Cultural Council of Greater Jacksonville

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Committee members met together 25 times at noon on Tuesdays, from October through May. In addition, the management team met several times to provide guidance and direction to this study. The committee received information from 35 knowledgeable resource people and additional written materials researched by JCCI staff.

About JCCI

Jacksonville Community Council Inc. (JCCI) was created in 1975 with the goal of improving the quality of life in Jacksonville through informed citizen participation in public affairs. JCCI is a nonprofit, nonpartisan, broad-based civic organization. It involves citizens in community issues through open dialogue, impartial research, consensus building, advocacy, and leadership development.

Each year, JCCI produces an annual report on the quality of life in Jacksonville. It also selects issues for in-depth community study. Diverse study committees meet weekly for about six months, gaining a thorough understanding of the problem and reaching consensus on key findings as well as recommended solutions. Following completion of the study and publication of a report, an implementation task force of citizens takes the report to the community and seeks to place the issues on the community agenda. The goal is to seek further deliberation, increased public awareness, and finally, action by appropriate officials.

In addition to its annual studies and the *Quality of Life Progress Report*, JCCI provides research services for United Way of Northeast Florida. JCCI *Forward*, an initiative that seeks to involve community-minded people with important issues facing the community, provides a venue for up-and-coming leadership to be involved, engaged and connected with government and business leaders. Upon request, JCCI's consulting services division, Community Works, provides a variety of planning, research, consultation and facilitation services.

JCCI receives funding from United Way of Northeast Florida, the City of Jacksonville, corporations, and individual members. JCCI membership is open to all interested in building a better community.

More information about JCCI and its projects is available at www.jcci.org.

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 1977 Public Education (K-12)
 1978 Public Authorities
 1978 Strengthening the Family
 1979 Citizen Participation in the Schools
 1979 Youth Unemployment
 1979 Theatre Jacksonville
 1979 Civil Service
 1979 Planning in Local Government
 1980 Capital Improvements for Recreation
 1980 But Not In My Neighborhood
 1980 The Energy Efficient City
 1981 Coordination of Human Services
 1981 Higher Education
 1982 Disaster Preparedness
 1982 Teenage Pregnancy
 1982 Downtown Derelicts
 1983 Mass Transit
 1983 Indigent Health
 1984 Jacksonville s Jail
 1984 Growth Management
 1985 Visual Pollution
 1985 Minority Business
 1986 Private Delivery of Public Services
 1986 Mental Health and Drug Abuse
 Services for Children and Youth
 1987 Child Day-Care Services
 1987 Infrastructure
 1988 Local Election Process
 1988 School Dropout Prevention
 1989 Reducing the Garbage Burden

 1989 Independent Living for the Elderly
 1990 Future Workforce Needs
 1990 Philanthropy in Jacksonville
 1991 Adequate Water Supply
 1991 Positive Development of
 Jacksonville s Children
 1992 Long-Term Financial
 Health of the City of Jacksonville
 1992 Young Black Males

 1993 Planning for Northeast Florida s
 Uncertain Military Future
 1993 Public Education:
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 1994 Reducing Violence in
 Jacksonville Schools
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 1995 Teenage Single Parents
 and their Families
 1995 JAXPORT: Improvement
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 1996 Leadership: Meeting Community Needs
 1997 Improving Public Dialogue
 1997 Transportation for the Disadvantaged
 1997 Children with Special Needs
 1998 The Role of Nonprofit Organizations
 1998 Incentives for Economic Development
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JCCI studies may be downloaded at www.jcci.org

About JCCI

Like every city, Jacksonville has its challenges and determining how to face those challenges is the role of JCCI. Every day, JCCI brings people together to learn about pressing issues in our community and to find solutions, with the goal of making Jacksonville a great place to live. JCCI...citizens building a better community.

JCCI Studies

Each year, citizen volunteers and JCCI committees identify problems facing our city. With their input, issues are selected to become the subject of in-depth study. Committees, made up of ordinary citizens, meet weekly for six months to unravel the causes of a problem and make recommendations to resolve it. When the study is published, a JCCI volunteer task force presents it to the community at large, to government, to businesses and others advocating for the changes the study recommends. Since 1975, decision-makers have given these studies the consideration they deserve and taken action to make our area a better place for all residents.

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