

JEFF ATWATER
President



LARRY CRETUL
Speaker



Joint Legislative Auditing Committee

Representative Greg Evers, Chair
Senator Alex Diaz de la Portilla, Vice Chair

Meeting Packet
Monday, March 8, 2010
4:00 P.M. to 6:00 P.M.
309 Capitol

AGENDA
JOINT LEGISLATIVE AUDITING COMMITTEE

DATE: Monday, March 8, 2010

TIME: 4:00 p.m. to 6:00 p.m.

PLACE: Room 309, The Capitol

MEMBERS: Representative Greg Evers, Chair
Senator Alex Diaz de la Portilla, Vice Chair

Senator Andy Gardiner
Senator Charlie Justice
Senator Jeremy Ring
Senator Stephen R. Wise

Representative Betty Reed
Representative Dwayne L. Taylor
Representative John Tobia
Representative Charles E. Van Zant

Presentation by OPPAGA on a series of reports on the Florida Retirement System and state employee benefits

Local Government Financial Reporting

Presentation by the Auditor General on significant findings and financial trends identified in local governmental entity audit reports and annual financial reports

Discussion of the state's involvement with Financial Emergencies

Discussion of the difficulties faced by community development districts

Update on entities the Committee took action against in 2009 for failing to file required financial reports

The Committee is expected to take action against certain local governments that have failed to file an annual financial report and annual financial audit (if required) due September 30, 2009, or earlier pursuant to s. 11.40(5), F.S.

Presentation by OPPAGA on consolidation of fire and EMS services in Pinellas County; Report No. 10-25

Discussion of Committee decisions during the interim

OPPAGA:

Retirement and State Employee Benefits



Changes to the FRS and Other Employee Benefits Could Reduce Costs

A Presentation to the Joint Legislative Auditing Committee

March 8, 2010

Overview

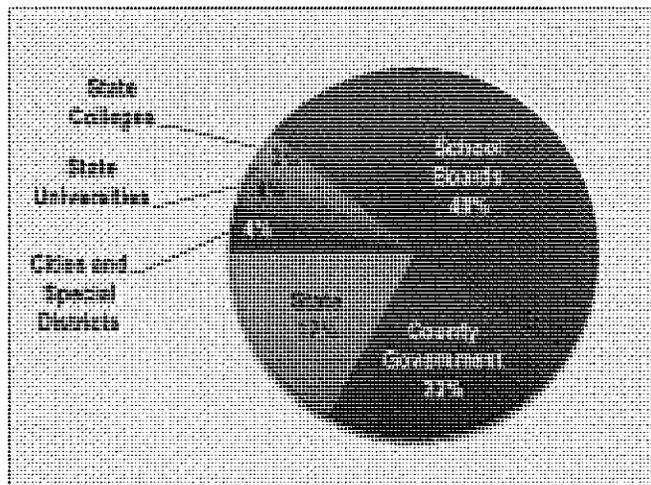
- FRS includes both state and local government employees
- System costs will substantially increase
- FRS's two plans have differing advantages
- There are options to reduce FRS costs
 - Changing membership classes
 - Changing contribution levels
 - Shifting to defined contribution plan
 - Modifying DROP

Overview

(continued)

- The Legislature could reduce state costs by modifying other state employee compensation
 - Reduce state employee wages
 - Amend current leave practices
 - Modify health insurance options and premiums
 - Eliminate health, life, and/or disability insurance benefits

Most FRS Members Are Local Government Employees



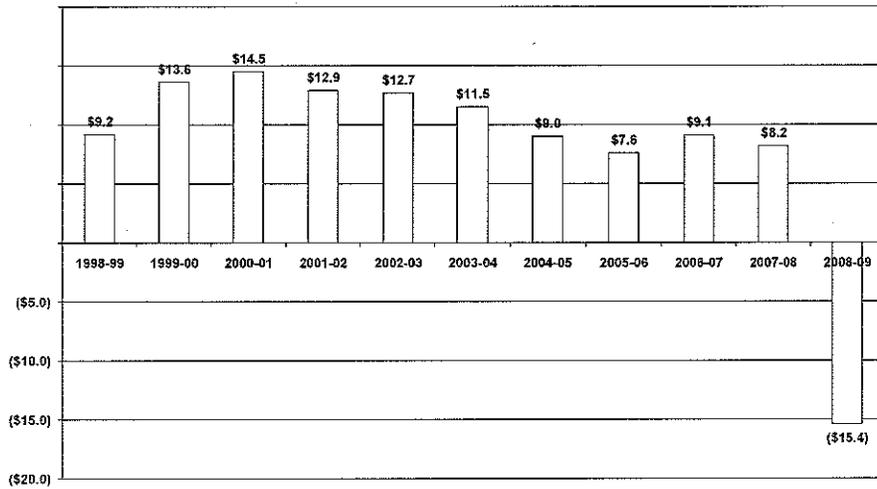
FRS Has Two Plans

- Pension Plan – provides a defined benefit payment to retirees
- Investment Plan – provides a defined contribution to employees' individual investment account; payments to retirees will vary based on investment performance

FRS Pension Plan as of 6/30/09

- 572,887 participants, 288,216 annuitants
- \$99 billion in net assets
- Major investment loss in FY 2008-09 (-19%)
- Some losses have been recovered – assets now \$113 billion
- \$15.3 billion actuarial deficit as of June 30, 2009 – 88.5% funding ratio

Pension Plan Had a Surplus but Now Has a Deficit



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FRS Investment Plan as of 6/30/09

- 95,529 participants -- 21,139 retirees
- \$4 billion in net assets – (down \$297 million for year)

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FRS Benefit Formula Has Not Changed Since System Was Established in 1970

$$\text{Years of Service} \times \text{Accrual Rate} \times \text{Average Final Compensation} = \text{Annual Pension Benefit}$$

Accrual rate is the percentage value awarded for each year of creditable service

Average Final Compensation was the average of the five best years of the last ten years of service

FRS Class Structure Has Changed Initial (1970) Structure

	Regular	Special Risk
Vesting	10 Years	10 Years
Normal Retirement	Age 62 with 10 Years of Service or 35 Years of Service	Age 55 with 10 Years of Service or 25 Years of Service
Accrual Rate	1.6% - 1.68%	2%
Employee Contribution Rate	4%	6%

FRS Has Evolved Significantly

- 1970: Created as Contributory System with 2 Classes
- 1972: Elected State Officers' Class added
- 1975: Employee contributions eliminated for Regular and Special Risk Class employees
- 1981: Non-contributory for all classes
- 1982: Special Risk Administrative Support added

FRS Has Evolved Significantly

(continued)

- 1986: Senior Management Service Class added
- 1998: Deferred Retirement Option Program (DROP)
- 2002: Investment Plan created
- Other benefits enhanced over time
 - Vesting periods reduced
 - Expanded classes, increased accrual rates, added in-line of duty disability benefits

Current Accrual Rates Vary

- Regular: 1.6% - 1.68%
- Special Risk: 3%
- Special Risk Administrative Support: 1.6% - 1.68%
- Senior Management: 2%
- Elected Officers'
 - Judicial: 3.3%
 - Legislature/Cabinet/Attorneys: 3%
 - County: 3%

Average Benefits Vary By Class

Class	Average Initial Benefit for Retirees in Fiscal Year 2007-08
Regular	\$9,248
Special Risk	\$24,230
Special Risk Administrative Support	\$26,274
Elected Officers	\$21,027
Senior Management	\$28,993

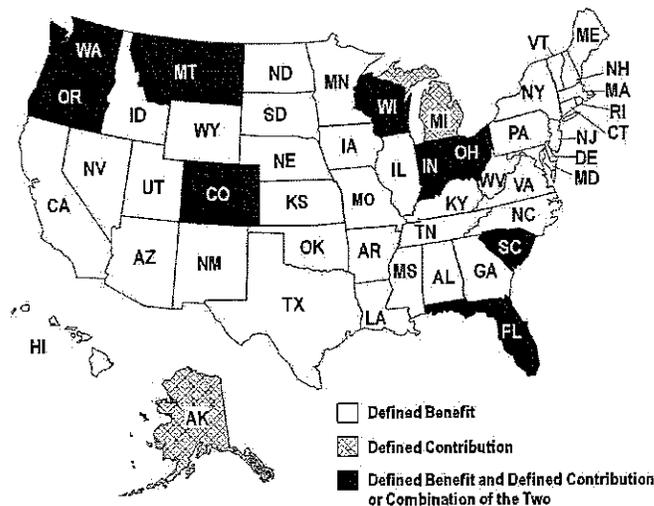
FRS Is Similar to Systems Offered by Other States

- All have multiple classes
- 45 require Regular Class contributions
 - 5% contribution rate
 - 2% accrual rate
- 43 require Special Risk contributions
 - 7.5% contribution rate
 - 2.5% accrual rate
 - 10 states have accrual rates of 3% or higher; 9 are contributory
- Senior Management Service Class is Rare

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Most States Offer Only One Plan



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The Two Plans Have Differing Advantages

- **Defined Contribution Plans**
 - Predictable costs
 - No need for actuarial studies
 - Shifts investment risk to employee, who may attain higher (or lower) benefits
 - Benefits are portable and have shorter vesting period
 - Favored by non-career employees

The Two Plans Have Differing Advantages

- **Defined Benefit Plans**
 - Typically have higher investment returns
 - Typically have lower investment costs
 - May achieve surpluses that can defray costs
 - Favored by career employees

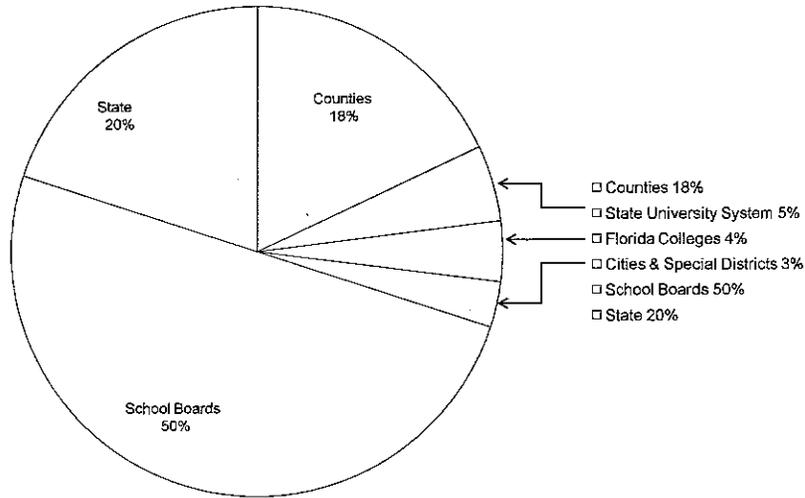
DROP Was Created in 1998

- **Purpose not articulated; two schools of thought:**
 - Encourage higher paid employees to retire
 - Retain skilled employees
- **Allows members to retire and continue working**
 - 5 Years: Most members
 - 8 Years: K-12 Instructional Personnel
- **Pension benefits accumulate in the FRS Trust fund**
 - Earn 6.5% interest + 3% COLA
- **Members must terminate FRS employment after completing DROP**

Recent Legislation Changed DROP

- **Members who retire or exit DROP after July 1, 2010**
 - Cannot be reemployed by an FRS employer within 6 months
 - Are ineligible to earn additional pension benefits
 - Elected officials may only earn interest on their accounts for the specified DROP period, even if their term of office extends beyond the expiration date.

Most DROP Participants Are Local Government Employees



Cost Reduction Options

Option – Offer Only the Defined Contribution Plan

- If all new employees are required to join the Investment Plan, employer contribution rates will initially increase
- However, employers may have more predictable rates
- An actuarial study is underway to estimate the overall fiscal impact of closing the Pension Plan

Option - Revisit Special Risk Class Membership

- Number of employee classes in Special Risk Class has substantially increased overtime
- For example, could restrict Special Risk membership to only law enforcement officers, Firefighters, and Corrections officers
- Would save \$83 million

Option – Modify Accrual Rates

- For example, could reinstate accrual rates that were used when FRS was created in 1970

Class	Current Accrual Rate	Original Accrual Rate
Regular	1.6% - 1.68%	1.6% - 1.68%
Elected Officers'	3% – 3.3%	1.6% - 1.68%
Senior Management	2%	1.6% - 1.68%
Special Risk	3%	2%
Special Risk Administrative	1.6% - 1.68%	1.6% - 1.68%

- Would saves \$327 million

Option – Require Employees to Contribute to System

- Each 1% contribution would generate \$275 million
- Would not reduce employer contributions on a dollar-for dollar basis
 - Employee contributions are refundable
 - 70% of FRS employees leave prior to meeting the 6-year vesting requirement

Option – Modify DROP

- In 2009, the FRS paid approximately \$71.4 million more to fund DROP than it would have paid if the program did not exist
- Costs vary by membership class
- Has been funded through blended rate that shifts costs among employers

Many States Implement Drop Differently

- At least 12 other states offer DROP
 - Four offer DROP to all members
 - Six limit to Special Risk only
 - Six provide a guaranteed interest rate (typically lower)
 - Four provide COLAs
 - Six allow members to defer enrollment after meeting eligibility requirements

Options for Modifying DROP

- Define purpose
- Fund by membership class
- Standardize requirements
- Base interest rate on current economic conditions
- Eliminate DROP – potential annual savings of **\$71.4 million**

Option – Modify Other State Employee Compensation

- All active, full-time state employees receive compensation including both wages and benefits such as leave, insurance and retirement
- In Fiscal Year 2008-09, Florida's total compensation costs for its nearly 122,000 non-university employees totaled \$6.5 billion
 - 76% for wages, 24% was for benefits
 - Health insurance is the most costly employee benefit, followed by retirement and leave

Option – Modify Other State Employee Compensation

- Many states are considering actions to reduce employee compensation costs as a means of addressing budget shortfalls
- Florida could consider similar actions, including reducing employee wages and benefits

Options for Modifying State Employee Compensation

- Wages
 - Reduce wages of salaried state employees
 - Furlough state employees
- Leave
 - Adopt a 'use it or lose it' leave policy for annual and sick leave
 - Reduce the amount of annual and sick leave employees can carry over from year to year

Options for Modifying State Employee Compensation

- Insurance
 - Implement a flexible benefits program
 - Require all employees to pay health insurance premiums
 - Eliminate all health, life, and disability insurance benefits

Keep in Mind

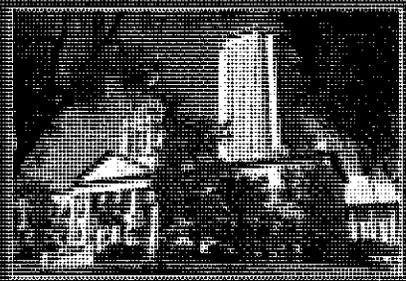
- Changes to FRS would effect both the state and local governments
- Decisions on retirement and benefit programs should consider effects on total employee compensation
- Many options would reduce costs, but also could have secondary effects

For Additional Information

Kara Collins-Gomez
Staff Director: 487-4257

Reports Available online at:
www.oppaga.state.fl.us/reports/pdf/1015rpt.pdf
www.oppaga.state.fl.us/reports/pdf/1019rpt.pdf

Florida Legislature Office of Program Policy Analysis & Government Accountability



Florida Retirement System Funds and Investment Returns Declined with the Economy; the SBA Reports That Its Investment Strategy Is Designed to Withstand Losses

at a glance

Membership in the Florida Retirement System (FRS) is open to all public employers in the state, with school districts (48%) and counties (23%) currently comprising nearly three-quarters of the membership. Members can choose between three retirement plans: the Pension Plan, the Investment Plan, and the Hybrid Plan. The FRS is managed by the Department of Management Services' Division of Retirement and the State Board of Administration.

FRS Pension Plan investment returns declined with the economy during the past fiscal year. At the end of Fiscal Year 2008-09, the Pension Plan's rate of return was a negative 19.03%, and the fund decreased by \$27 billion from the previous year. Results for the Investment Plan were similar, with a rate of return of negative 15.16% and a decrease in fund assets of \$293 million. As of June 30, 2009, the FRS Pension Plan had 88.5% of the monies needed to pay all current and future expected benefits for existing participants and their beneficiaries. However, State Board of Administration managers report that the board's investing horizon is 15 to 30 years and its investment strategy is designed to withstand short-term losses and economic turndowns.

Scope

As directed by the Legislature, this is the first of a series of reports that evaluates the Florida Retirement System (FRS). This report assesses the financial condition of the system as of June 30, 2009 and answers three questions.¹

1. Are FRS Pension Plan funds sufficient to pay retiree benefits?
2. How have recent economic events affected the financial performance of the FRS Pension and Investment Plans?
3. What has been the investment performance of the Pension and Investment Plans' asset classes?

Background

The Legislature established the Florida Retirement System (FRS) in 1970. The system provides retirement, disability, and death benefits to retirees or their designated beneficiaries and offers a wide range of information services to non-retired members. The plan is funded through employer contributions and investment earnings, and serves a wide variety of government employees.

¹The remaining three reports will examine the FRS retirement class structure; the Deferred Retirement Option Program; and defined benefit versus defined contribution plans.

Two state agencies administer the FRS. Two state entities manage the FRS: the Department of Management Services and the State Board of Administration (SBA).

The Department of Management Services' **Division of Retirement** administers the FRS Pension Plan. The Pension Plan is a defined benefit plan that provides vested members lifetime pension payments based on a percentage of their salary, years of service, and their age at retirement. The division also handles the administrative portion of the FRS, including tracking enrollment, receiving employer contributions, calculating retirement benefits, and disbursing retirement checks. In addition, it administers eight smaller retirement programs as well as the Retiree Health Insurance Subsidy Program, the Florida Retirement System Preservation of Benefits Plan, and the Deferred Retirement Option Program. The division also oversees and monitors the actuarial soundness of local government retirement systems that are not part of the FRS, as well as pension plans for municipal police and firefighters.

In Fiscal Year 2009, the Legislature appropriated \$35.0 million to the division, with \$15.8 million coming from general revenue and \$19.2 million from the FRS trust fund. The division has 194 authorized positions.

The second state entity that has FRS-related duties and responsibilities is the **State Board of Administration**.² The SBA is responsible for investing FRS monies to help ensure that investment returns are sufficient to fund current and future pensioners. It actively oversees investments made for the Pension Plan, with the plan members having no say in how the funds are invested. It also administers the FRS Investment Plan, a

² The board is composed of the Governor, the Chief Financial Officer, and the Attorney General, who serve as trustees to the retirement fund. The trustees appoint an executive director who directs a staff that oversees the financial management of the FRS and 34 other government funds.

defined contribution plan that does not provide guaranteed lifetime retirement benefits. Employees enrolled in the Investment Plan direct how their retirement funds are invested and choose from a group of 20 investment options selected by the SBA. Modeled after the private sector's 401(k) plans, retirement benefits are based on the employee's investment choices, how well the investments perform, and the strength of the financial markets when the plan member retires. Additionally, to help public employees make informed financial decisions regarding their pensions, the board coordinates with the Division of Retirement to operate the MyFRS Financial Guidance Program, which provides FRS members information and guidance through several methods, including a website and toll-free telephone number.³ The board has a budget of \$50.6 million and 182 authorized positions.⁴

FRS offers three plan options. The Florida Retirement System comprises three primary retirement plans.

- The FRS Pension Plan
- The FRS Investment Plan
- The Hybrid Plan, which is a combination of the Pension Plan and the Investment Plan. The Hybrid Plan allows employees to freeze their Pension Plan participation and direct all future employer contributions to the Investment Plan.

Employer contributions and investment income fund the FRS. The Pension, Investment, and Hybrid plans are all funded primarily from employer contributions made

³ The program includes print and video educational materials; a toll-free guidance line staffed by division counselors and private financial counselors; a website that contains plan choice information and retirement planning applications; and plan choice and retirement planning workshops.

⁴ The Legislature does not appropriate the board funds. The board is funded by management fees it charges for overseeing 35 funds and by employer contributions that are used to cover the costs of administering the Investment Plan and the costs of providing educational services to participants in both the Pension Plan and the Investment Plan.

on behalf of employees, as well as from the State Board of Administration's investment of these contributions in various asset classes, including real estate, stocks, bonds, and alternative investments like venture capital and private equity.⁵

While the SBA determines the investment options offered by the Investment Plan, state law specifies how the board can invest Pension Plan assets. Specifically, for Pension Plan funds, Florida statutes permit the board to invest up to

- 25% of any fund in bonds, foreign currency, notes, and notes secured by first mortgages, mortgage securities, group annuity contracts, real property, and U.S. government obligations;
- 80% of any common stock, preferred stock, and interest-bearing obligations of a corporation having an option to convert into common stock;
- 10% of the entire portfolio in alternative investments defined as investment in private equity, venture, hedge, or distress funds; and
- 1.5% of the entire portfolio in economically targeted investments designed to provide superior returns to the portfolio while also economically benefitting the state.⁶

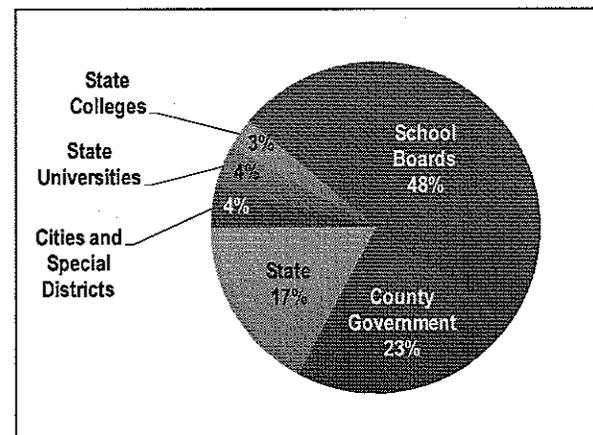
As of June 30, 2009, the net asset value for the Pension Plan was \$99.6 billion while the net asset value for the Investment Plan was \$4.1 billion.

Most FRS members are employed by local government entities. Membership in the Florida Retirement System is compulsory for all full- and part-time employees working in a regularly established position for a state agency, county government, district school

board, state university, state college, or participating city or special district.⁷ Elected officials and certain local government managers may elect not to participate in the system. Individuals who work for a government agency in a temporary or independent contractor position are not eligible for FRS membership.

As of June 30, 2009, 572,887 participants and 288,216 retiree annuitants were in the Pension Plan (see Exhibit 1). As of this date, 95,529 active employees and 21,139 retirees were in the Investment Plan, and 463 were in the Hybrid Plan. As shown in the exhibit, school district employees composed nearly half of the FRS's active members followed by counties, and the state of Florida. State colleges, cities, and special districts employees each composed less than 5% of the FRS's active membership.

**Exhibit 1
School Districts Comprise the Largest Portion of FRS Members**



Source: Division of Retirement.

⁵ Private equity is stock from companies that are not publicly traded on a stock exchange.

⁶ A 2008 OPPAGA report reviewed the SBA's efforts to implement a targeted investment program. See *Economically Targeted Investment Program Under Development*, OPPAGA Report No. 08-72, December 2008.

⁷ The Florida College System (formerly the Community College System) comprises public postsecondary educational institutions that grant two- and four-year academic degrees.

Questions and Answers –

Are FRS Pension Plan funds sufficient to pay retiree benefits?

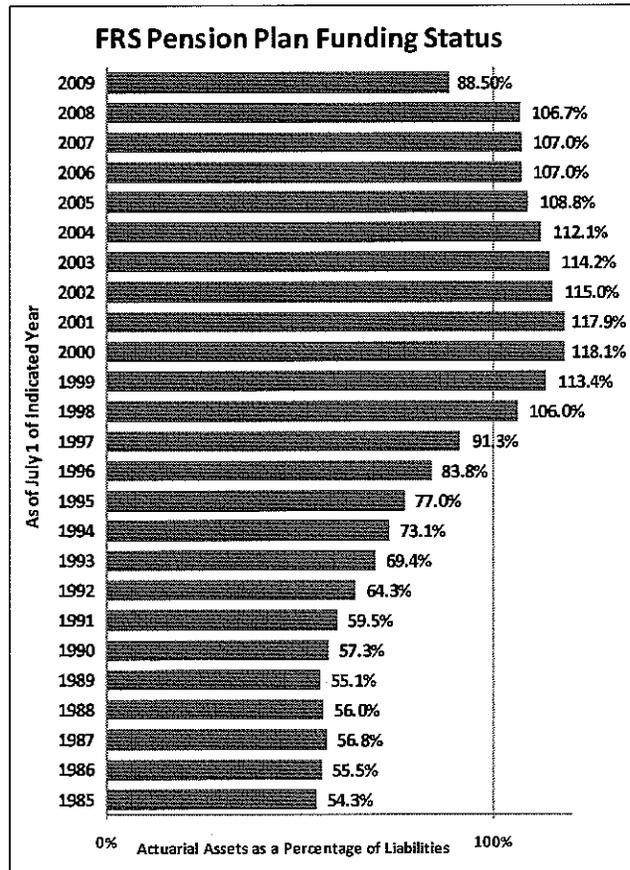
For the first time in 11 years, the FRS Pension Plan’s trust fund will not have a surplus, as its liabilities (i.e., obligated benefits payments) exceeded the value of its assets as of July 1, 2009 (see Exhibit 2). The Division of Retirement’s contracted actuary reported that as of that date, the fund had 88.5% of the monies needed to pay all current and future expected benefits for existing participants and their beneficiaries. In addition, the fund was reported to have an actuarial deficit of \$15.4 billion. In contrast, it had an actuarial surplus of \$8.2 billion at the end of the prior year.⁸ The actuary attributed these results to declining asset values caused by the economic recession as well as participants working longer and retirees living longer than expected. State legislatures typically address such shortfalls by increasing employer contributions, transferring resources from other state programs, or issuing bonds. If Florida’s plan continues to remain underfunded, the Legislature may want to consider taking similar actions.

However, it should be noted that the Pension Plan’s funding status (the ratio of a pension plan’s assets to its liabilities) exceeded most other states’ public pension plans in recent years. In its 2009 national ranking of public pension plans, Standard & Poor’s ranked Florida third in financial strength as measured by its funding ratio.⁹ Standard & Poor’s ranked the FRS as being first and third in its 2007 and 2008 reports.

⁸ From Fiscal Years 1998-99 through 2007-08, the Pension Plan had surplus assets ranging from \$7.6 billion to \$14.5 billion. These surpluses were used in part to reduce employer contributions and increase employee benefits.

⁹ These rankings are based on 2007 data, the most current data available for all 50 states.

Exhibit 2
FRS Pension Plan Liabilities Exceeded Assets in Fiscal Year 2008-09



Source: State Board of Administration.

How have recent economic events affected the financial performance of the FRS Pension and Investment Plans?

The U.S. recession that began in December 2007 and the global economic declines that followed significantly affected investment returns for the 14,000 worldwide securities comprising the Florida Retirement System Pension and Investment Plans. As shown in Exhibit 3, the Pension Plan’s one-year rate of return for June 30, 2009 was negative 19.03%. The value of fund assets as of June 30, 2009, (\$99.6 billion) was \$27 billion lower than the value as of June 30, 2008. State Board of

Administration officials report that investment results for the last four years represent short-term results and that SBA's investing horizon is for 15 to 30 years and its investment strategy is designed to withstand short-term losses and economic downturns.

SBA managers routinely set investment performance goals, or benchmarks, with the goal of achieving an overall fund rate of return of 5% above inflation averaged over a 15-to 30-year period. Benchmarks are based on economic conditions, actuarial projections, and market indices.¹⁰ As shown in Exhibit 3, until Fiscal Year 2008-09, the board generally met its benchmarks. Board officials report that these short-term losses will likely continue until the economy rebounds.

Similar to the FRS Pension Plan's performance, the Investment Plan's returns increased in Fiscal Year 2005-06 and 2006-07, but began declining in Fiscal Years 2007-08 and 2008-09. Exhibit 3 shows that by the end of Fiscal Year 2008-09, the Investment Plan's one-year rate of return was negative 15.16%. The value of the Investment Fund's assets as of June 30, 3009 was \$293 million lower than the value as of June 30, 2008.

¹⁰ A market index tracks and measures changes in the performance of a specific group of stocks, bonds, or other investments from a specific starting point—generally July 1 of each fiscal year for FRS investments. As an example, the SBA domestic equities portfolio's performance is assessed against the Russell 3000 index, which contains 98% of all U.S. stocks.

Exhibit 3 FRS Pension and Investment Plan Returns Declined with the Economy but Frequently Exceeded Benchmarks

Pension Plan Returns	Fiscal Year			
	2005-06	2006-07	2007-08	2008-09
1-Year Return	10.56%	18.07%	-4.42%	-19.03%
Target return benchmark ²	10.03%	17.85%	-4.32%	-17.89%
Met or exceeded benchmark	Yes	Yes	No	No
3-Year Return	12.42%	12.88%	7.66%	-2.96%
Target return benchmark ²	11.87%	12.32%	7.44%	-2.55%
Met or exceeded benchmark	Yes	Yes	Yes	No
5-Year Return	6.08%	11.52%	9.91%	2.17%
Target return benchmark ²	5.84%	11.30%	9.56%	2.16%
Met or exceeded benchmark	Yes	Yes	Yes	Yes
10-Year Return	8.74%	8.46%	5.85%	2.29%
Target return benchmark ²	8.42%	7.98%	5.39%	2.01%
Met or exceeded benchmark	Yes	Yes	Yes	Yes
Investment Plan Returns	Fiscal Year			
	2005-06	2006-07	2007-08	2008-09
1-Year Return	10.18%	16.01%	-4.69%	-15.16%
Benchmark return	9.35%	16.29%	-5.99%	-15.45%
Met or exceeded benchmark?	Yes	No	Yes	Yes
3-Year Return	10.98%	11.50%	6.80%	-2.11%
Benchmark return	10.90%	11.38%	6.12%	-2.59%
Met or exceeded benchmark?	Yes	Yes	Yes	Yes
5-Year Return	na ³	na ³	8.61%	2.31%
Benchmark return	na ³	na ³	8.32%	-1.90%
Met or exceeded benchmark?	na ³	na ³	Yes	Yes

¹ The SBA's performance goal, called target benchmark, is based on actuarial projections and economic conditions. Over the long term (i.e., 15 to 30 years), the board strives to achieve an overall fund benchmark of 5% above inflation.

² The Legislature established the Investment Plan in Fiscal Year 2002-03, so there are no five-year returns for these two fiscal years.

Source: OPPAGA analysis of State Board of Administration data.

What has been the investment performance of the Pension and Investment Plans' asset classes?

Similar to the overall fund results, return rates for Pension Plan and Investment Plan asset classes generally were lower in Fiscal Year 2008-09 than in the three preceding years. Exhibit 4 shows that for the Pension Plan, all asset classes had lower returns than previous years, with the largest negative return for the strategic investments (negative 34.58%), followed by the foreign equities (negative 29.49%), and the domestic equities (negative 26.34%).¹¹ Returns within the asset

¹¹ Strategic investments include real estate debt city, county, and state infrastructure projects; timberland; and corporate governance activist funds designed to improve returns on undervalued companies.

classes for the Investment Plan also showed losses, with the largest decreases in the foreign equities (negative 28.50%) and domestic equities (negative 26.54%) (see Exhibit 5). Most of the market indices associated with both plans' asset classes experienced negative returns as well, reflecting the general state of the economy at end of Fiscal Year-2008-09.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the executive director of the State Board of Administration and the secretary of the Department of Management Services for review and response. The executive director's written response is included in Appendix A. The Secretary's written response is included in Appendix B.

Exhibit 4

Financial Performance Declined for All Pension Plan Asset Classes in Fiscal Year 2008-09

Asset Class	2008 Pension Plan Returns by Asset Class			
	FY 2004-06	FY 2006-07 ¹	FY 2007-08	FY 2008-09
Domestic Equities – Stocks exclusively from U.S. companies	9.61%	19.61%	-12.68%	-26.56%
Benchmark return	9.55%	20.07%	-12.68%	-26.56%
Met or exceeded benchmark?	No	No	Yes	Yes
Percentage of fund	50.40%	42.9%	35.50%	35.29%
Foreign Equities – Stocks exclusively from countries outside of the U.S.	26.43%	29.82%	-6.52%	-29.49%
Benchmark return	27.90%	29.62%	-7.62%	-30.20%
Met or exceeded benchmark?	No	Yes	Yes	Yes
Percentage of fund	15.20%	16.4%	18.70%	20.46%
Fixed Income – Investments that yield a regular (or fixed) return, e.g., bonds	0.02%	6.32%	5.10%	2.05%
Benchmark return	-0.50%	6.53%	7.12%	6.05%
Met or exceeded benchmark?	Yes	No	No	No
Percentage of fund	21.30%	22.9%	27.6%	26.10%
Real Estate – Office, retail, industrial, and apartment buildings as well as real estate investment trusts, which are publicly traded real estate securities	23.48%	16.11%	8.69%	-21.16%
Benchmark return	9.09%	6.41%	10.12%	-24.47%
Met or exceeded benchmark?	Yes	Yes	No	Yes
Percentage of fund	4.90%	6.0%	7.70%	7.81%
Cash and Short-term Securities – High quality securities that can be sold within less than one year without a loss of value	4.31%	5.43%	0.86%	-5.37%
Benchmark return	4.35%	5.30%	4.44%	1.72%
Met or exceeded benchmark?	No	Yes	No	No
Percentage of fund	0.80%	2.9%	0.90%	0.86%
Private Equity – Stocks in companies that are not publicly traded on a stock exchange	13.15%	12.90%	7.52%	-25.41%
Benchmark return	14.06%	24.60%	-8.19%	-22.06%
Met or exceeded benchmark?	No	No	Yes	No
Percentage of fund	3.10%	3.20%	3.40%	3.60%
High Yield – Bonds that have a high potential of return to compensate for their higher risk	NA²	NA²	0.99%	-2.44%
Benchmark return	NA ²	NA ²	0.09%	-1.77%
Met or exceeded benchmark?	NA ²	NA ²	Yes	No
Percentage of fund	NA ²	NA ²	2.20%	2.51%
Strategic Investments – Real estate debt, city, county, and state infrastructure projects, timberland, and corporate governance activist funds designed to improve returns on undervalued companies	NA³	NA³	-8.86%	-34.58%
Benchmark Return	NA ³	NA ³	-8.51%	-22.00%
Met or exceeded benchmark?	NA ³	NA ³	No	No
Percentage of fund	NA ³	NA ³	4.10%	3.37%

¹ The SBA's 2006-07 and 2007-08 Investment Report lists returns that are both higher and lower than reported here, stating in footnotes that certain trades were included while others excluded from their calculations. The numbers presented here reflect all trades executed by the SBA.

² These funds were not in existence during this period.

³ This is a new asset class that received initial funding in June 2007.

Source: OPPAGA analysis of State Board of Administration data.

Exhibit 5

Financial Performance Declined for Most Investment Plan Asset Classes In Fiscal Year 2008-09

Asset Class	PIS Investment Plan Returns by Asset Class			
	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Domestic Equities – Stocks exclusively from U.S. companies	12.05%	13.54%	-11.97%	-29.14%
Benchmark Return	10.81%	11.57%	-11.24%	-28.10%
Met or exceeded benchmark?	Yes	No	Yes	Yes
Percentage of Fund	35.50%	31.90%	26.10%	22.28%
Foreign/Global Equities – Stocks from both the U.S. and foreign countries	25.2%	26.67%	-6.46%	-28.50%
Benchmark Return	23.78%	26.16%	-9.59%	-30.97%
Met or exceeded benchmark?	Yes	Yes	Yes	Yes
Percentage of Fund	8.80%	12.10%	11.20%	7.71%
Fixed Income – Investments that yield a regular (or fixed) return, e.g., bonds	-0.31%	6.41%	6.98%	5.18%
Benchmark Return	-0.32%	6.61%	6.21%	4.76%
Met or exceeded benchmark?	Yes	No	Yes	Yes
Percentage of Fund	9.10%	8.10%	9.00%	10.19%
Treasury Inflation-Protected Securities – Inflation-indexed bonds issued by the U.S. Treasury whose interest rate is linked to inflation	-1.63%	3.94%	15.30%	-0.93%
Benchmark Return	-1.64%	3.99%	15.09%	-1.12%
Met or exceeded benchmark?	Yes	No	Yes	Yes
Percentage of Fund	3.00%	2.10%	4.00%	4.10%
Cash Equivalents – Cash and high quality securities that that can be sold in less than one year with little loss of value	4.42%	5.49%	4.13%	1.11%
Benchmark Return	4.34%	5.48%	4.45%	1.72%
Met or exceeded benchmark?	Yes	Yes	No	No
Percentage of Fund	9.60%	8.80%	11.80%	18.60%
Balanced Fund – Stocks, bonds, and money market funds	10.35%	16.68%	-4.68%	15.15%
Benchmark Return	9.81%	16.84%	-4.98%	-15.97%
Met or exceeded benchmark?	Yes	No	Yes	Yes
Percentage of Fund	34.10%	37.00%	37.90%	37.12%

Source: OPPAGA analysis of State Board of Administration data.

Appendix A



STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
TALLAHASSEE, FLORIDA 32308
(850) 488-4406

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32317-3300

CHARLES CRIST
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AS CHAIRMAN
ALEX SINK
CHIEF FINANCIAL OFFICER
AS TREASURER
BILL MCCOLLUM
ATTORNEY GENERAL
AS SECRETARY
ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO

January 27, 2010

Mr. Gary R. VanLandingham
Director
OPPAGA
Claude Pepper Building, Room 312
111 West Madison Street
Tallahassee, FL 32399

Dear Mr. VanLandingham:

We reviewed OPPAGA's preliminary and tentative report entitled, *Florida Retirement System Funds and Investment Returns Declined with the Economy; SBA Reports That Investment Strategy Is Designed to Withstand Losses*. We have no objection or questions in regard to the information presented in the report.

We welcome OPPAGA's efforts and, as always, we appreciate your diligence and professionalism.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ashbel C. Williams".

Ashbel C. Williams
Executive Director & CIO

cc: Ms. Florida Rivera-Alsing, Chief of Internal Audit, State Board of Administration
Ms. Sarabeth Snuggs, Director, Florida Division of Retirement
Mr. Steve Rumph, Inspector General, Department of Management Services
Ms. Kim Mills, Director of Auditing, Chief Inspector General's Office

Appendix B



Governor Charlie Crist

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4050 Esplanade Way
Tallahassee, Florida 32399-0950
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www.dms.MyFlorida.com

Secretary Linda H. South

February 2, 2010

Mr. Gary R. VanLandingham, Director
Office of Program Policy Analysis and
Government Accountability
111 West Madison St., Room 312
Tallahassee, FL 32399-1450

Dear Mr. VanLandingham:

We have reviewed your preliminary and tentative reports, ***Several Options are Available for Modifying the Florida Retirement System's Class Structure to Reduce System Costs and Florida Retirement System Funds and Investment Returns Declined with the Economy; SBA Reports that Investment Strategy Designed to Withstand Losses.***

The department will implement or assist other entities in implementing any options the Legislature should choose to designate.

We appreciate your staff's efforts and cordial working relationship over the past few months. If you need additional information, please contact Steve Rumph, Inspector General, at 488-5285.

Sincerely,

A handwritten signature in black ink, appearing to read "L. South".

Linda H. South
Secretary

cc: Ken Granger, Chief of Staff
David Faulkenberry, Deputy Secretary
Sarabeth Snuggs, Director of Retirement
Elizabeth Irvin, Legislative Affairs Director
Linda McDonald, Communications Director

We serve those who serve Florida.

The Florida Legislature
Office of Program Policy Analysis
and Government Accountability



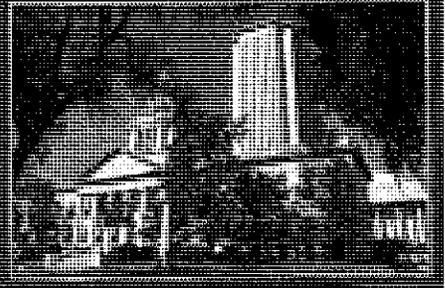
OPPAGA provides performance and accountability information about Florida government in several ways.

- Reports deliver program evaluation, policy analysis, and Sunset reviews of state programs to assist the Legislature in overseeing government operations, developing policy choices, and making Florida government better, faster, and cheaper.
- PolicyCasts, short narrated slide presentations, provide bottom-line briefings of findings and recommendations for select reports.
- Government Program Summaries (GPS), an online encyclopedia, www.oppaga.state.fl.us/government, provides descriptive, evaluative, and performance information on more than 200 Florida state government programs.
- The Florida Monitor Weekly, an electronic newsletter, delivers brief announcements of research reports, conferences, and other resources of interest for Florida's policy research and program evaluation community.
- Visit OPPAGA's website at www.oppaga.state.fl.us

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). Cover photo by Mark Foley.

OPPAGA Website: www.oppaga.state.fl.us

Project supervised by Kara Collins-Gomez (850/487-4257)
Project conducted by Linda Vaughn (850/487-9216) and Ed Madden
Gary R. VanLandingham, Ph.D., OPPAGA Director



Several Options Are Available for Modifying the Florida Retirement System's Class Structure to Reduce System Costs

at a glance

The Florida Retirement System has evolved since its creation, which has increased state and local government costs. The Legislature could consider several options for modifying the system's retirement class structure to reduce system costs, including consolidating employee retirement classes, restricting class membership, modifying benefits for some classes, and requiring employees to contribute to the retirement system. These options would generally shift FRS back to the model that existed when the system was established in 1970, move the system closer to the model used by most other states, and recognize the longer life expectancy of current employees. By doing so, the options would reduce benefits for affected employees. Therefore, when considering these options, the Legislature should consider the overall system of employee compensation and how changing the Pension Plan and the Investment Plan would affect that system.

Scope

As directed by the Legislature, this is the second of a series of reports that reviews components of the Florida Retirement System (FRS). This report focuses on the system's retirement class structure and answers four questions.

1. What membership class structure did the Legislature establish when it created the FRS?

2. How has the FRS class structure evolved over time and what are the effects of these changes?
3. What class structures do other state and federal government retirement programs use?
4. How could the Legislature revise the FRS to reduce costs?

Background

The Legislature established the Florida Retirement System (FRS) in 1970 to serve a wide variety of government employees. The system provides retirement, disability, and death benefits to retirees or their designated beneficiaries, and offers a wide range of information services to non-retired members. Plan members may participate in a traditional defined benefit pension plan (the FRS Pension Plan) or a defined contribution plan (the FRS Investment Plan).¹

Membership in the FRS is compulsory for all full-time and part-time employees working in a regularly established position for a state agency, county government, district school board, state

¹ The FRS Pension Plan provides vested members a defined monthly benefit upon retirement. Retirement benefits are computed based on age and/or years of service, average final compensation, and service credit. The FRS Investment Plan has no guaranteed retirement benefit. Employer contributions are directed to the employee's account and distributed to various investment funds based on the employee's chosen allocation of the contribution. Employee benefits are based on the performance of investment funds, and benefits cease when account balances are depleted, regardless of retiree age or circumstances.

university, community college, or participating city or special district. Elected officials and certain local government managers may elect not to participate in the system. Individuals who work for a government agency in a temporary or independent contractor position are not eligible for FRS membership.

Two state agencies administer the FRS - the Department of Management Services' Division of Retirement and the State Board of Administration (SBA). The division handles the administrative portion of the FRS, including enrolling employers and employees; receiving employer contributions; calculating retirement benefits; and disbursing retirement checks. The SBA is responsible for administering the Investment Plan and investing FRS monies to help ensure that the retirement plans have sufficient assets to fund current and future retiree pensions.

Currently, the FRS consists of five retirement classes.

- **Regular Class:** Includes all employees not assigned to any other class. It is the largest class with 582,568 members in 2009. Its members have the lowest average annual compensation at \$38,915.
- **Special Risk Class:** Includes employees who are law enforcement officers, firefighters, correctional officers, emergency medical technicians, paramedics, and others who meet membership criteria (see Appendix A for a detailed description of membership criteria). The class had 75,640 members in 2009 with an average annual compensation of \$53,220.
- **Special Risk Administrative Support Class:** Includes former Special Risk Class members who are reassigned to support positions that are not classified as special risk (e.g., an instructor or career development specialist). It is the smallest class with 76 members in 2009 with an average annual compensation of \$44,974.
- **Senior Management Service Class:** Includes employees who fill management positions assigned by law to the Senior Management Service Class or authorized by law as eligible

for Senior Management Service Class designation. This class had 7,725 members in 2009 with an average annual compensation of \$80,290.

- **Elected Officers' Class:** Includes elected state and county officers, and municipal or special district officers whose governing body has chosen that its elected officers participate in the class. The class is divided into three groups — judges; legislators, Governor, Lieutenant Governor, Cabinet members, state attorneys, and public defenders; and county elected officials. The class had 2,304 members in 2009 with an average annual compensation of \$78,089.

Employers pay all required contributions to fund the FRS. The contribution, which varies by class, is based on a percentage of an employee's salary, as shown in Exhibit 1.

**Exhibit 1
Fiscal Year 2009-10 Employer Contribution Rates
Differ Significantly Across Retirement Classes**

Retirement Class	Uniform Employer Contribution
Regular Class	8.00%
Special Risk	10.10%
Special Risk Administrative Support	11.39%
Senior Management Service	11.96%
Elected Officers:	
Judges	18.40%
Legislators, Governor, Cabinet Members, State Attorneys, Public Defenders	13.32%
County	15.37%

¹The uniform contribution rate is the rate necessary to fund the benefit obligations of the FRS Pension Plan and Investment Plan.

Source: Section 121.71, Florida Statutes.

The basic formula for calculating a member's unreduced annual retirement benefit under the FRS Pension Plan is the same for all classes:

$$\text{Years of Service} \times \text{Accrual Rate} \times \text{Average Final Compensation} = \text{Annual Pension Benefit}$$

Average final compensation is the average of an employee's five highest fiscal years of compensation. The accrual rate, which varies by class, is the percentage of the average final compensation that is awarded for each year

of service. (Appendix B shows the normal retirement age, required years of service, and accrual rates for each class.) As shown in Exhibit 2, Regular Class members who retired between 1970 and 2009 received an average initial annual retirement payment of \$11,174, while Senior Management Service Class members had the highest average initial annual payment of \$33,593.

Exhibit 2

Average Annual Initial Retirement Payment to Employees in Various Membership Classes Retiring Between 1970 and 2009 Ranged from \$11,174 to \$33,593

Class	Number of Members Retiring	Average Years of Service	Average Initial Annual Retirement Payment
Regular	253,872	20.94	\$11,174
Special Risk	23,896	20.40	\$22,885
Special Risk Administrative Support	164	25.34	\$23,133
Senior Management	2,007	24.18	\$33,593
Elected Officers	2,048	20.83	\$31,090

¹ Does not include active DROP participants.

Source: Division of Retirement.

Questions and Answers —

What membership class structure did the Legislature establish when it created the FRS?

When the Legislature created the Florida Retirement System in 1970, it established a contributory system that consisted of two membership classes—the Special Risk Class and the Regular Class. Special Risk Class membership included law enforcement officers, corrections officers, and firefighters. All other FRS members were assigned to the Regular Class. Special Risk Class members and employers each contributed 6% of gross compensation to the pension fund (for a total of 12%), and Regular Class members and employers each contributed 4% (for a total of 8%). Members of both classes were required to complete 10 years of service to vest (i.e., qualify for a retirement benefit). Vested special risk

members were eligible for normal retirement at age 55 or at any age after completing 25 continuous years of special risk service.² Vested Regular Class members were eligible for normal retirement at age 62 or at any age after completing 35 continuous years of service.³

In creating the Special Risk Class, the Legislature recognized that the duties performed by class members were arduous and physically demanding and that class members may not be able to work until age 62 and perform their duties without endangering themselves, their co-workers, or the public. Anticipating that special risk members would likely retire at a younger age and with fewer years of service, the Legislature chose to award this class more retirement credit (i.e., accrual rate) to ensure that they did not suffer ‘economic deprivation’ when compared to Regular Class members. Thus, the accrual rate for Special Risk Class members was set at 2% for each year of service, while the accrual rate for Regular Class members was set at 1.6% per year of service.⁴ Using this approach, members of both classes would receive approximately 50% of their final average salary after completing a normal career.

How has the FRS class structure evolved over time, and what are the effects of these changes?

Between 1970 and 2009, the Florida Retirement System changed considerably. These changes have resulted in significant differences between and within membership classes and increased FRS costs.

Since the FRS was created, the class structure has changed substantially. In 1972, two years after creating the FRS, the Legislature established the Elected State Officers’ Class and merged it with

² Vested members who retired before their normal retirement dates would have their benefits reduced by five-twelfths of 1% for each month by which their early retirement dates preceded their normal retirement dates.

³ Chapter 77-466, *Laws of Florida*, made vested Regular Class members eligible for normal retirement at 30 years.

⁴ The Regular Class accrual rate increases to a maximum of 1.68% when a vested employee completes 33 years of service or reaches age 65.

the Judicial Retirement System.⁵ Membership was compulsory for any Governor, Lieutenant Governor, cabinet officer, legislator, Supreme Court justice, district court of appeal judge, circuit judge, or public service commissioner on or after July 1, 1972, who was not already a member of an existing system or FRS class when elected or appointed to office. In 1974, county court judges were added to this class. Elected class members and their employers each initially contributed 8% of the members' gross compensation to the pension fund; the accrual rate for non-judicial members was 3% while the accrual rate for judges and justices was 3.3% of their average final salaries. Placing these elected officials in this class had the effect of increasing FRS system costs by approximately \$142 million between 1973 and 2009.

In 1975, the Legislature converted both the Regular Class and Special Risk Class to non-contributory status, with employers assuming full responsibility for funding the retirement system. Similarly, between 1979 and 1981 the Elected Officers' Class was converted to non-contributory status. The Division of Retirement reported that the Legislature eliminated automatic pay raises and longevity increases for state employees to offset the cost of converting the FRS to a non-contributory system.⁶

The Regular Class remained relatively unchanged until 2001 when the Legislature reduced the vesting requirement for all classes to six years.^{7,8} The vesting requirement prior to 2001 varied from 7 to 10 years, depending on membership class.⁹ The change will have a total fiscal impact of

⁵ The Elected State and County Officers' Class was renamed the Elected Officers' Class in 1998 by Ch. 98-413, *Laws of Florida*.

⁶ The decision to eliminate automatic pay raises applied only to state employees and did not affect the pay provisions of other FRS employers, such as county governments and school boards.

⁷ Vesting refers to the age and length of service requirement to be eligible for a retirement benefit.

⁸ The national average to vest in a state retirement plan is 6.16 years.

⁹ The Senior Management Service Class vesting requirement was 7 years; the Elected Officers' Class vesting requirement was 8 years; and the Regular Class and the Special Risk Class vesting requirement was 10 years.

approximately \$4.6 billion when amortized over 30 years.¹⁰

While the Regular Class has remained relatively unchanged, the Special Risk Class has been modified several times to increase benefits and expand membership criteria, with an associated estimated cost of more than \$2 billion. The most significant changes occurred in 2000 when retirees with special risk service between 1978 and 1992 who retired prior to July 1, 2000 were provided a one-time 12% benefit increase. This change will have a fiscal impact of more than \$1 billion when amortized over 30 years. During 2000, Special Risk Class accrual rates were increased from 2% to 3% for all years between 1978 and 1993 for all members retiring on or after July 1, 2000; the Legislature funded this \$696.8 million change from an actuarial surplus in the FRS trust fund over a three-year period. Also, in 2000, the minimum special risk in-line of duty disability benefit was increased from 42% to 65% of average final compensation (the minimum in-line-of-duty disability benefit for all other classes remained at 42%). This change generated a recurring annual cost of approximately \$2.9 million. Other significant Special Risk Class changes are detailed in Appendix C.

In 1982, the Special Risk Administrative Support Class was created to allow special risk members who were reassigned to administrative support positions to accrue pension benefits at the Regular Class rate, but retain the right to retire at age 55 after completing at least 10 years of creditable special risk service.¹¹

In 1987, the Legislature created the Senior Management Service Class for state employees who served in executive-level positions.¹² To

¹⁰ Milliman and Robertson, Inc. May 2000 analysis of House Bill 2393 and 2003 *FRS Experience Study*.

¹¹ Establishing this class increased the Florida Retirement System's actuarial accrued liability by \$4.2 million. Contribution rates were increased to amortize this cost over 30 years.

¹² The State Personnel System is composed of state employees in the Career Service, Selected Exempt Service, and Senior Management pay plans. FRS members employed by state universities, the Judicial Administration System, the State Court System, the Legislature, the Florida Lottery, the Governor's Office, the School for the Deaf and the Blind, and the Florida National Guard are not members of the State Personnel System.

control class size, the Legislature initially limited membership to no more than 500 members. Since then, the Senior Management Service Class has increased to more than 8,300 members due to several expansions of its membership criteria.

- 1990 – Local senior managers, including community college presidents, school district superintendents, city and county managers, and selected legislative managers were added to the class.
- 1991 – State University System managers and State Board of Administration managers were added.
- 1994, 1999, 2001, 2002 – Judicial branch employees were added to the class.¹³

Since 1987, the cost to create and expand the Senior Management Service Class has totaled approximately \$157 million.

Changes to the FRS system have resulted in significant differences between and within classes. In 1978, the Legislature changed the normal career requirements for Regular Class members from 35 years of continuous service to 30 years of service, but did not change the 25-year normal career requirement for Special Risk Class members. The legislative intent for the difference in the career lengths was the physically demanding duties performed by Special Risk Class members (e.g., law enforcement officers, firefighters, and corrections officers) rather than the inherent risks associated with the duties.

In addition, the Legislature has extended Special Risk Class membership to some former Regular Class members who do not perform as physically demanding duties but have other risk factors associated with their jobs (e.g., polygraph examiners, fingerprint technicians, and workers employed by medical examiners). However, this expansion has been piecemeal and has not included other FRS members who work in environments with similar risks. For example, the Department of Corrections' registered nurses are classified as being in the Special Risk Class while

the department's licensed practical nurses are Regular Class members. Similarly, Department of Health medical personnel who work in the county jails are not Special Risk Class members, nor are unit treatment rehabilitation specialists who work directly with patients in forensic facilities.

What class structures do other state and federal government retirement programs use?

Similar to Florida, other states and the federal government have established multiple retirement classes. For example, all states have a class equivalent to Florida's Regular Class. However, most states (44) and the federal government require employees in the regular class to contribute a portion of their pay to the retirement system. The median employee contribution rate for all states and the federal government is 5.00%, ranging from .8% for federal employees to 11.25% for Nevada employees (Florida is non-contributory). The median regular class accrual rate for a 30-year career for all states and the federal government is 2.00% compared to 1.6% in Florida.¹⁴

The federal government and all other states also have a class equivalent to Florida's Special Risk Class. However, in many states this class is restricted to law enforcement and corrections officers and firefighters. The federal government and 42 states require special risk employees to contribute a portion of their salaries to the retirement plan (median contribution for all members of 7.5%), ranging from 1% to 19%, and the median accrual rate for all members who serve at least 25 years is 2.5%. Ten states, including Florida, have a special risk accrual rate that averages 3% or more for a 25-year career. However, unlike Florida, each of these states requires employees to contribute to the pension system.

Few other states offer a pension class similar to Florida's Senior Management Service Class, and those that do restrict it to relatively few employees. For example, the federal government,

¹³ Changes in the judicial employee class occurred over eight years and included the addition of 14 employee groups, including public defenders and state attorneys in each of the 20 judicial districts.

¹⁴ This figure includes defined benefit and hybrid plans, but does not include Alaska, Michigan, and Nebraska, which offer defined contribution and cash balance plans to their regular class members.

the Georgia Employees' Retirement System, the New York State and Local Employees' Retirement System, and the Texas Employees' Retirement System do not have a unique class for senior managers. Pennsylvania and California have such classes but membership is very restricted—Pennsylvania has only 380 members in its Senior Management Service, while California has only 1,448 Career Executive Assignment positions. In comparison, Florida had 8,353 persons in the Florida Retirement System's Senior Management Service Class in 2008.¹⁵

Like Florida, the federal government and other states have separate retirement classes for elected officials, with these programs varying significantly by government entity. For example, members of the Pennsylvania Assembly and Texas Legislature are required to contribute to their retirement system, while Florida and New York legislators do not make such contributions. Retirement accrual values also vary substantially among states. Members of the Georgia Assembly are awarded \$36 per month for each year of service while members of the California Assembly are only eligible for Social Security benefits. Exhibit 3 displays the contribution rates and accrual rates for elected officials in the federal government and selected states.

Exhibit 3
Elected Officer Employee Contribution and Accrual Rates Vary Significantly by Government Entity

Retirement System	Employee Contribution	Non-Judicial Accrual Rate
Florida State and Local Elected Officials	0%	3%
U.S. Congress	1.3%	1.7% (first 20 years) and 1% (each year after 20 years)
California Assembly	0%	Social Security only
Georgia Assembly	4%	\$36 per year of service
New York Legislature	0%	2.5%
Pennsylvania Assembly	7.5%	3%
Texas Legislature	8%	2.3%

Source: Retirement system handbooks for selected states and the federal government.

How could the Legislature revise the FRS to reduce costs?

The Legislature could consider several options to modify the Florida Retirement System Investment Plan and Pension Plan structures to reduce system costs. These options include consolidating employee retirement classes (Option 1); limiting the Special Risk Class to only law enforcement, firefighter, and correctional officers (Option 2); modifying accrual values for employee classes (Option 3); and requiring FRS members to contribute to the system (Option 4). These options would generally shift FRS back to the model that existed when the system was established in 1970, move the system closer to the model used by most other states, and recognize the longer life expectancy of current employees. By doing so, the options would reduce benefits for affected employees. Therefore, when contemplating these options, the Legislature should consider the overall system of employee compensation and how changes to the Pension Plan and the Investment Plan would affect that system.

Option 1: Consolidate employee retirement classes based on ability to work a normal 30-year career. Under this option, the Legislature would amend the law to consolidate the current five retirement classes into two classes. It would essentially return FRS to the structure that existed in 1970 when the Legislature established the system. Implementing this option could reduce annual employer costs by approximately \$359 million.¹⁶

Class 1 would be identical to the current Regular Class and would include all FRS members who could be expected to reach normal retirement age (e.g., 30 years of service at any age or 6 years of service at age 62). The base accrual rate for the class would be 1.6% - 1.68%.

Class 2 would include all members whose duties preclude them from working more than 25 years or beyond age 55 without endangering themselves, the public, or their coworkers (i.e.,

¹⁵ Includes DROP participants.

¹⁶ OPPAGA analysis of data provided by the Division of Retirement.

law enforcement officers, firefighters, and corrections officers). Current Special Risk Class members who would be expected to work a normal 30-year career would not be eligible for Class 2 membership. This class would be eligible for retirement after completing 25 years of Class 2 service or completing 6 years of Class 2 service at age 55. The accrual rate for the class would be 2%.¹⁷

The advantages of this option are that

- it would yield significant cost savings;
- all employees could retire at the end of a normal career with approximately 50% of their final average compensation; and
- since a reduced accrual rate will generate a reduced pension benefit, employees may choose to defer retirement, allowing employers to retain trained employees for a longer period.

This option would reduce benefits for employees in the Special Risk, Elected Official, and Senior Management Service Classes who currently earn higher pension credits; these employees would have to work longer to earn the same retirement benefit.

Option 2: Limit the Special Risk Class to law enforcement, firefighters, and correctional officers. Under this option, the Legislature would limit the Special Risk Class to law enforcement, firefighters, and corrections officers, the original employee groups covered by the class when the FRS was established in 1970. This option recognizes the physical demands faced by these employees and provides for their earlier retirement, but excludes other employees who may face greater risks than typical employees (e.g., medical personnel who work in correctional facilities).

The potential savings from this option depends on how many employees would be transferred from the Special Risk Class to the Regular class. If 20% of the Special Risk Class members transferred to the Regular Class and the remaining members

¹⁷ The in-line-of duty disability retirement benefits would be 42% for both classes.

continued to accrue pension benefits at 3% per year, the annual savings would be approximately \$83 million.¹⁸ Persons transferred out of the Special Risk Class would no longer receive retirement compensation for their higher employment risks and would be required to work longer to receive the same benefits provided by the current system.

Option 3: Reduce accrual rates for employee classes. By implementing this option, the Legislature would establish comparable pension benefits for all FRS members, regardless of class, similar to that offered by most other states. Specifically, the Legislature could reduce the Special Risk Class accrual value to 2% and all other class accrual values to the current Regular Class base accrual rate of 1.6% - 1.68%. Implementing this option would reduce annual employer contributions by \$327.5 million.¹⁹ Exhibit 4 shows the cost reduction by class.

Affected employees would need to work longer to earn the same retirement income due to the reduced accrual value of their pension benefit.

**Exhibit 4
Reducing Accrual Values Would Reduce Annual Employer Costs**

Class	Annual Savings (in millions)
Special Risk	\$295.61
Senior Management	16.57
Elected Officers	15.33
Judicial	6.92
Legislators/Attorneys/Cabinet	.94
County	7.47
Total	\$327.51

Source: OPPAGA analysis of Division of Retirement data.

Option 4: Require employees to contribute a percentage of their salary to the retirement system. Under this option, the Legislature would convert the FRS to an employee contributory system as is used in most states and existed in Florida when the system was created in 1970. Requiring all members to contribute 1% of their salaries to the system would generate \$275 million annually and would also produce a reduction in

¹⁸ OPPAGA analysis of data provided by the Division of Retirement.

¹⁹ Ibid.

employer contributions.²⁰ Employer contributions will not be reduced on a dollar-for-dollar basis because employees who leave the FRS before vesting are entitled to withdraw their contributions and funds must be available to support this option. An actuarial study would be required to estimate the effect of implementing the option on employer contributions. Exhibit 5 shows the contribution amount, by class, if employees were required to contribute 1%, 3%, or 5% of their salaries.

The major disadvantage of this option is that it would reduce employee compensation unless salary rates were increased to match the level of required pension contributions, which would negate employer savings. To minimize such effects, employee contributions could be phased in over time. Moreover, if this option were implemented, the Division of Retirement would require additional personnel to provide the services associated with calculating and distributing refunds.

²⁰ *Ibid.*

**Exhibit 5
Requiring Employees to Contribute to the Retirement System Would Reduce Employer Contributions¹**

Class	1% Employee Contribution (in millions)	3% Employee Contribution (in millions)	5% Employee Contribution (in millions)
Regular	\$226.71	\$680.13	\$1,133.54
Special Risk	40.26	120.77	201.28
Special Risk Administrative	0.03	0.10	0.171
Senior Management	6.20	18.61	31.01
Elected Officers	1.80	5.40	9.00
Total	\$275	\$825	\$1,375

¹ Employer contributions are not reduced on a dollar-for-dollar basis.
Source: OPPAGA analysis.

Agency Response _____

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the secretary of the Department of Management Services for review and response. The Secretary did not provide a written response to this report.

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). Cover photo by Mark Foley.

OPPAGA website: www.oppaga.state.fl.us

Project supervised by Kara Colins-Gomez (850/487-9257)

Project conducted by Ed Madden (850/487-9273) and Linda Vaughn

Gary R. VanLandingham, Ph. D., OPPAGA Director

Appendix A

Special Risk Class Has Many Membership Criteria

Membership in the Florida Retirement System Special Risk Class is dependent upon a number of criteria. The table below describes those criteria for all positions eligible for Special Risk Class designation, including law enforcement officers, firefighters, correctional officers, and others.

Table A-1
Criteria Members of the Special Risk Class Must Meet

Members of the Special Risk Class Must Meet the Criteria Shown Below

1. Employment in one of the positions below

a. Law Enforcement Officer

- A sheriff or elected police chief
- A law enforcement officer whose duties require the pursuit, apprehension, and arrest of law violators or suspected law violators
- An active member of a bomb disposal unit whose primary responsibility is the location, handling, and disposal of explosive devices
- A command officer or supervisor of Special Risk Class members whose duties require the pursuit, apprehension, and arrest of law violators or suspected law violators, or the location, handling, and disposal of explosive devices

b. Firefighter

- A firefighter whose duties and responsibilities include on-the-scene fighting of fires, fire prevention or firefighter training responsibilities, or aerial firefighting surveillance as a fixed-wing pilot employed by the Department of Agriculture and Consumer Services' Division of Forestry
- A firefighter whose duties and responsibilities include direct supervision of firefighting units, fire prevention, or firefighter training
- A command officer or supervisor of Special Risk Class members whose duties include on-the-scene fighting of fires, fire prevention, or firefighter training

c. Correctional Officer and Probation Officer

- A correctional officer whose primary duty and responsibility is the custody and physical restraint, when necessary, of prisoners or inmates within a prison, jail, or other criminal correction or detention facility, or while on work detail or while being transported outside the facility
- A superintendent or assistant superintendent of a correction or detention facility that maintains custody of prisoners or inmates and employs correctional officers. The superintendent is the person directly in charge of the day-to-day operations of a specific correction or detention facility. The assistant superintendent is the person whose responsibilities include direct line authority from the superintendent over all subordinate employees for the day-to-day operations of the facility. If no one employee in a corrections facility has such responsibility, then for retirement purposes there is no assistant superintendent of that facility.
- A community-based correctional probation officer whose primary duties and responsibilities are the supervised custody, surveillance, control, investigation, and counseling of assigned inmates, probationers, parolees, or community controllees within the community
- A youth custody officer employed by the Department of Juvenile Justice whose primary duties and responsibilities include the supervised custody, surveillance, control, investigation, apprehension, arrest, and counseling of assigned juveniles within the community
- A command officer or supervisor of Special Risk Class members whose primary duty and responsibility is the custody and physical restraint, when necessary, of prisoners or inmates within a prison, jail, or other criminal correction or detention facility (or while on work detail or while being transported outside the facility); or the supervised custody, surveillance, control, investigation, and counseling of assigned inmates, probationers, parolees, or community controllees within the community

Members of the Special Risk Class Must Meet the Criteria Shown Below

d. Emergency Medical Technician or Paramedic

- An emergency medical technician or paramedic whose primary duty and responsibility includes on-the-scene emergency medical care and who is employed with a licensed Advance Life Support or Basic Life Support employer
- The direct supervisor of emergency medical technicians or paramedics, or the supervisor or command officer of one or more members who have such supervisory responsibility

e. Certain Professional Health Care Employee in State Correctional or Forensic Facilities or Institutions

- Certain state health care professionals within the Department of Corrections or the Department of Children and Family Services who spend at least 75% of their time performing duties which involve contact with patients or inmates in a correctional or forensic facility or institution; and who are employed in certain specific employment classifications listed in s. 121.0515(2)(f), *Florida Statutes*.

f. Forensic Professionals

- A member employed in certain forensic positions with the Department of Law Enforcement in the crime laboratory, or certain forensic positions with the Division of State Fire Marshal in the forensic laboratory, or certain forensic employees of local government law enforcement agencies or medical examiner's offices who meet the criteria in the retirement laws and rules to qualify for this class.
- A member employed in a forensic position with a local government law enforcement agency or medical examiner's office in order to meet the criteria for Special Risk Class membership must spend 65% of his or her time performing duties that involve the collection, examination, preservation, documentation, preparation, or analysis of human tissues or fluids or physical evidence having potential biological, chemical, or radiological hazard or contamination, or use chemicals, processes, or materials that may have carcinogenic or health damaging properties in the analysis of said evidence, or the member must be the direct supervisor of one or more individuals having such responsibility.

2. Certification or a requirement to be certified as described below:

a. Law Enforcement Officers, Correctional Officers, Community-Based Correctional Probation Officers and Youth Custody Officers

- Certified by the Criminal Justice Standards and Training Commission in compliance with s. 943.1395, *Florida Statutes* (except a sheriff or elected police chief).

b. Firefighters

- Certified by the Firefighters Standards and Training Council in compliance with s. 633.35, *Florida Statutes*.

3. Certification as described below:

a. Emergency Medical Technicians and Paramedics

- Certified by the Department of Health in compliance with s. 401.27, *Florida Statutes*.

Source: *A Retirement Guide for the Special Risk Class*, Florida Division of Retirement, 2009.

Appendix B**Retirement Years of Service and Accrual Rates Vary Significantly by Class**

The Florida Retirement System's five retirement classes have varying years of service requirements and accrual rates. For each class, the table below describes the years of service (or age) needed to achieve "normal retirement." The table also shows the annual accrual rates for each class.

Table B-1
Normal Retirement and Annual Accrual Rates Vary Significantly by FRS Retirement Class

Class	Normal Retirement	Annual Accrual Rate
Regular	30 years of service or age 62 with 6 years of service	1.6% with 30 years of service or age 62 1.63% with 31 years of service or age 63 1.65% with 32 years of service or age 64 1.68% with 33 years of service or age 65
Special Risk	25 years of special risk service, age 55 with 6 years of service, or age 52 with 25 years of service including military service	3% for each year of service
Special Risk Admin Support ¹	25 years of service, age 55 with 6 years of special risk service, or age 52 with 25 years of service including military service	1.6% with 25 years of service or age 55 1.63% with 26 years of service or age 56 1.65% with 27 years of service or age 57 1.68% with 28 years of service or age 58
Senior Management Service	30 years of service or age 62 with 6 years of service	2% per year of service.
Elected Officers	30 years of service or age 62 with six years of service	
Judges & Justices		3.33% per year of service
All Others		3% per year of service

¹ Must have six years of special risk-related service credit.

Source: Division of Retirement.

Appendix C

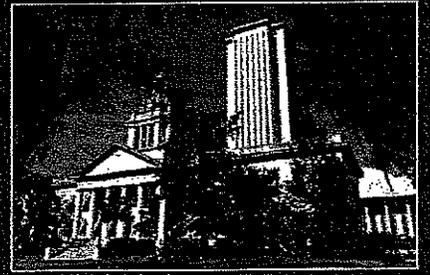
Expansions to the Special Risk Class Have Generated Costs in Excess of \$2 Billion Since 1970

The Legislature has modified the benefits and membership criteria for the Florida Retirement System Special Risk Class numerous times since its creation in 1970. The exhibit below describes the significant statutory amendments and includes the fiscal impact of the changes when such data is available.

Table C-1
The Legislature Has Modified the Benefits and Membership Criteria for the FRS Special Risk Retirement Class Numerous Times

Year	Change	Fiscal Impact
1974	Special risk accrual rate increased from 2% to 3%	Cost: \$39.48 million for 4-year period
1978	Special risk accrual rate decreased from 3% to 2%	Savings: \$9.6 million the first year; recurring
1989	Special risk accrual rate increased from 2% to 3% over five years	Cost: \$309.2 million over five years; recurring
1999	Special Risk Class expanded to include emergency medical technicians or paramedics	Cost: \$6.02 million the first year; recurring
2000	Special risk minimum in-line-of-duty disability benefits increased from 42% to 65%	Cost: \$2.9 million for the first year, total of \$11.8 million through June 2003; recurring
2000	One-time 12% benefit increase for retirees with special risk service between October 1, 1978 and December 31, 1992 who retired prior to July 1, 2000	Cost: \$1.025 billion amortized over 30 years
2000	Special Risk Class expanded to include community-based correctional probation officers	Cost: \$36.6 million for first two and one-half years; recurring
2000	Special Risk Class expanded to include certain forensic workers employed by the Department of Corrections or the Department of Children and Family Services	Cost: \$8 million for first two and one-half years; recurring
2000	Special risk retirement credit upgraded for all years between 1978 and 1993 for all members retiring on or after July 1, 2000	Cost: \$697 million from the Trust Fund surplus
2001	Special Risk Class expanded to include fire prevention and training supervisors and fixed-wing pilot firefighters performing aerial surveillance with the Division of Forestry in the Department of Agriculture	Cost: Unknown cost because the number of employees affected by the expansion is unknown. However, employer contributions increased 123% for each employee, recurring
2005	Special Risk Class expanded to include specified forensic workers employed by law enforcement agencies or medical examiners' office	Cost: \$1.4 million for the Florida Department of Law Enforcement in the first year. Unknown cost for other state and local FRS employers since the number of employees affected is unknown.
2008	Special Risk Class criteria changed for forensic workers in the Department of Law Enforcement or Division of State Fire Marshal	Savings: \$514,657 the first year, recurring

Sources: Milliman and Robertson, Inc., Division of Retirement, legislative staff, and OPPAGA analyses.



FRS Defined Contribution Plan Costs Are Typically More Predictable; the Fiscal Impact of Requiring New Employees to Enroll in the Plan Is Influenced by Many Factors

at a glance

Most states (39) provide only defined benefit retirement plans to their employees, although defined contribution plan costs are more predictable. The Florida Legislature has considered several proposals to close the defined benefit Pension Plan and require all new employees to join the defined contribution Investment Plan. This action would provide increased certainty in the level of required employer contributions to the FRS over time and may reduce certain costs. However, closing the Pension Plan would increase funding requirements for those employees who remain in the plan. Future costs of the two plans are dependent on many variables, and the Legislature has requested an actuarial study to estimate these costs.

Scope

As directed by the Legislature, this report is part of a series that reviews the Florida Retirement System (FRS). This report compares the FRS's defined benefit Pension Plan to the defined contribution Investment Plan and answers three questions.

1. What are the major advantages and disadvantages of defined benefit and defined contribution plans?
2. What types of retirement plans are offered by other states?
3. How would requiring all new employees to join the defined contribution plan affect employer costs?

Background

The two retirement plans within the Florida Retirement System (FRS) are the defined benefit Pension Plan and the defined contribution Investment Plan.

The defined benefit Pension Plan, established in 1970, provides members with a lifetime pension payment based on their age, years of service, average salary, and retirement membership class.¹ During Fiscal Year 2008-09, the Pension Plan had 572,887 active participants and 289,602 retirees. The plan had a net asset market value of \$99.6 billion as of June 30, 2009.²

The defined contribution Investment Plan, created in Fiscal Year 2000-01 and first offered in Fiscal Year 2002-03, does not provide members with guaranteed lifetime retirement benefits. Benefits are based on how much the employer contributes to the plan, the types of investment options selected by the employee (e.g., stock and bond mutual funds), and how well these

¹ The FRS consists of five retirement classes—regular, special risk (law enforcement officer, firefighters, etc), special risk administrative support, senior management service (e.g., employees who fill management positions), and elected officers.

² An additional 32,921 members were in the Deferred Retirement Option Plan.

investments perform over the employee's lifetime. As of June 30, 2009, the Investment Plan had 95,529 active participants. In addition, 21,139 individuals had left the plan, placing their funds in another employer's retirement plan or taking their funds in a lump sum. The plan had a net asset market value of \$4.08 billion as of June 30, 2009.

Most FRS members are employed by local government entities. Membership in the Florida Retirement System is compulsory for all full- and part-time employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or participating city or special district. As shown in Exhibit 1, school board and county government employees comprise more than two-thirds of active members in both the Pension Plan and the Investment Plan.

Two state agencies administer the Pension Plan and the Investment Plan. The Department of Management Services' Division of Retirement and the State Board of Administration (SBA) manage the two retirement plans. The **Division of Retirement** provides administrative services to both plans by tracking enrollment, receiving employer contributions, and publishing membership statistics in its annual report. For the defined benefit plan, the division calculates retirement benefits and disburses retirement checks. The **State Board of Administration** is responsible for investing FRS Pension Plan Trust Fund monies to help ensure that investment returns are sufficient to fund current and future pensioners. It also administers the defined contribution Investment Plan. Additionally, to help public employees make informed financial decisions regarding their pensions, the board coordinates with the Division of Retirement to operate the MyFRS Financial Guidance Program, which provides FRS members information and guidance through several methods, including a website and toll-free help line.

Employer contributions and investment income fund the two plans. Pension benefits for members of the defined benefit plan are funded

primarily by returns generated by fund investments and employer contributions.³ Defined contribution plan benefits are funded primarily by employer contributions and investment earnings.

Employer contribution rates for the **defined benefit Pension Plan** are established to cover the plan's 'normal costs' and amortize its unfunded actuarial liability. Normal costs are the portion of the actuarial present value of pension benefits allocated to a specific year. The Division of Retirement's contracted actuary estimates the value of future pension benefits by applying to plan data various demographic assumptions, such as member's life expectancy, age at retirement, terminations prior to vesting, disability rates, and economic assumptions, such as the plan's rate of return on investments. The actuary then computes a normal cost rate, which represents a constant percentage of payroll required to be contributed each year beginning with the date from which benefits initially accrue to the projected date of retirement, to cover the expected cost of benefits. The actuary also estimates the plan's unfunded actuarial liability, which represents the amount of pension liabilities not covered by contributions made at the normal cost rate or plan assets. Unfunded actuarial liabilities are created when a plan's actual experience does not match the demographic and/or economic assumptions (e.g., members live longer than predicted, the rate of return is lower than expected, or retroactive benefits are provided). Florida statutes require that the Pension Plan's unfunded liability be amortized over a 30-year period.

For the **defined contribution Investment Plan**, the Legislature established an employer contribution rate designed to mirror the defined benefit Pension Plan's normal cost rate for each membership class in Fiscal Year 1999-00. The percentage of salary deposited in Investment Plan participants' accounts has not changed since the plan was implemented.

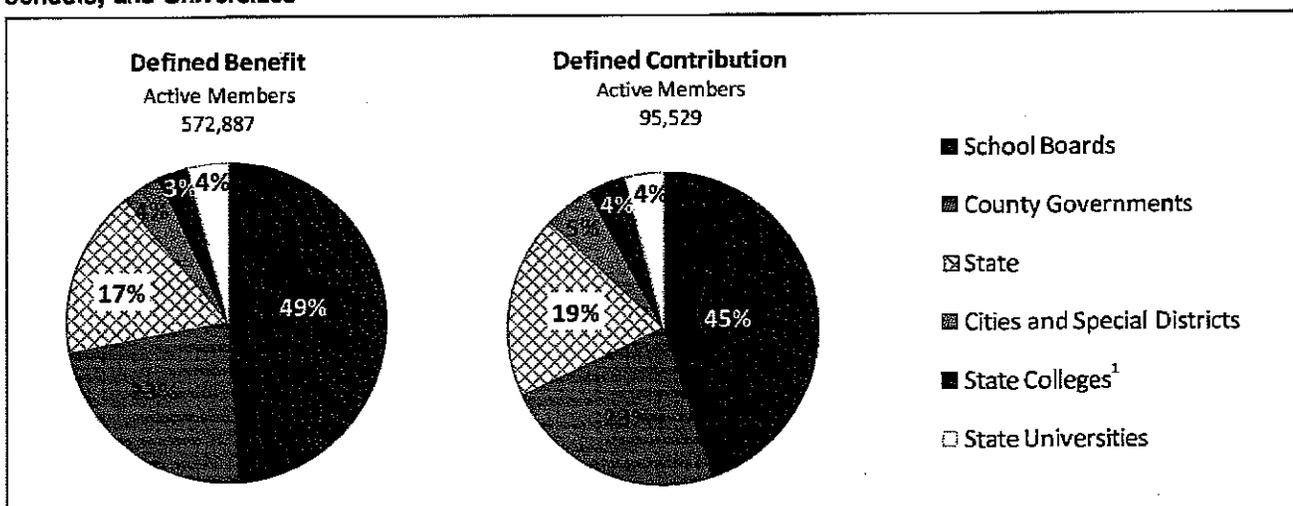
³ The SBA reported that over the past 20 years, approximately 64% of Pension Plan benefit payments have been funded by investment gains.

Once costs for the two plans are determined, the Legislature requires all FRS employers to use a uniform contribution rate system. Under this system, employer contributions are based on blended rates equal to the percentage of the total payroll for each FRS membership class or subclass regardless of which retirement plan a member elects to join. For Fiscal Year 2009-10, the blended employer contribution rates for both

plans ranged from 8.69% for Regular Class members to 19.76% for Special Risk Class members. Using blended rates is intended to provide greater stability and certainty in budgeting; provide greater fiscal equity and uniformity for FRS employers; and allow employees to make their retirement plan selection decisions free of employer influence.

Exhibit 1

Most Members of the FRS Defined Benefit and Defined Contribution Plans Are Employed by Local Governments, Schools, and Universities



¹ The Florida College System (formerly the Community College System) comprises public postsecondary educational institutions that grant two- and four-year academic degrees.

Source: The Division of Retirement.

Questions and Answers —

What are the major advantages and disadvantages of defined benefit and defined contribution plans?

Defined benefit and defined contribution plans each have advantages and disadvantages. As shown in Exhibit 2, a major advantage of defined contribution plans from an employer's perspective is that their costs are generally more predictable than the costs of defined benefit plans. With a defined contribution plan, elected officials or their designated representatives (e.g., a board of trustees) decide what percentage of payroll to deposit into participants' accounts,

and the employer has little or no financial responsibility once these contributions are made. Government entities offering defined contribution plans are not responsible for covering shortfalls should the contributions be inadequate or investment returns be insufficient to cover actual retirement needs, and they do not need to fund actuarial studies of the plans' funding status. However, a disadvantage of defined contribution plans is that in order to provide retirement benefits comparable to those included in a defined benefit plan, funding requirements may be higher because individual accounts typically are more expensive to manage than are the aggregated funds of employees in large defined benefit pension plans; these large plans may be able to reduce their investment

costs through economies of scale. In addition, defined contribution plans may be less attractive to individuals who seek long-term public service careers because the retirement benefits are typically lower for the same employer contribution rate. Thus, defined contribution plans may not adequately fund a member's retirement needs unless the contribution rates are increased to provide a more comparable retirement benefit.⁴ Research indicates that long-term career employees value employment and retirement security, and are more likely to be attracted to defined benefit plans.

Defined benefit plans also have various advantages and disadvantages. For example, defined benefit plans are managed by professional money managers rather than

⁴ Reduced retirement benefits may result in increased reliance on social programs, such as Medicaid and food stamps.

employees and tend to generate higher investment returns than defined contribution plans. However, defined benefit plans carry investment risks, as the plan is responsible for covering shortfalls if investment returns are lower than anticipated or if other actuarial assumptions are not met.⁵ In addition, defined benefit plans typically do not offer employees the ability to transfer plan assets to another program, which may not be attractive to individuals who do not intend to remain with one employer throughout their careers.⁶

⁵ Contribution levels for defined benefit plans are established by actuarial studies that estimate future benefit costs based on key demographic and economic assumptions, such as projected employee pay raises, attrition, disability, and life expectancy, and investment return rates.

⁶ FRS Pension Plan members have a degree of portability because they can retain their pension benefits as long as they are employed by any of the 964 FRS employers.

**Exhibit 2
Defined Contribution and Defined Benefit Plans Offer Advantages and Disadvantages to Employers and Plan Members**

	Defined Benefit Plans	Defined Contribution Plans
Description	Provide retired participants a lifetime guaranteed benefit payment based on the participant's years of service, average salary, membership class, and age at retirement.	Employers contribute a guaranteed amount that can be invested by participants during the course their career, within the investment options provided by the plan. The amount accumulated at retirement is based on the performance of these investments.
Investment returns	Investment returns generally are higher because professional money managers invest fund assets for the long term, spreading market risks over all participants and taking advantage of buying opportunities.	Investment returns are generally lower because employees tend to pick low-risk, low-return investments.
Investment costs	Investment costs (e.g., fees paid to investment managers) tend to be lower for large public plans due to economies of scale.	Costs are typically higher because individual accounts must be managed and do not benefit from economies of scale.
Administrative costs	Administrative costs vary depending on the complexity of plan. Benefit levels of individual employees must be tracked over time, and regular actuarial valuations must be conducted to determine appropriate contribution rates.	Administrative costs vary depending on complexity of plan. Individual investment accounts must be maintained and some plans, including Florida's Investment Plan, provide investment education services to members.
Investment risks	The plan assumes investment risks.	Participants assume investment risk. Poor investment performance may reduce their retirement benefits.
Portability	Accruals are not portable outside the retirement plan, cannot be transferred to another employer's plan, and employees forfeit pension benefits if they leave prior to the vesting period.	After a short-vesting period, the participant is entitled to transfer accruals to another employer's qualified plan or to a qualified plan approved by the Internal Revenue Service.
Types of employees attracted to plan	Defined benefit plans are attractive to long-term career employees who desire retirement security.	Defined contribution plans are attractive to short-term employees who wish to participate in a plan that is portable and do not plan to have a career with employers within the same retirement plan.

Source: OPPAGA literature review.

What types of retirement plans are offered by other states?

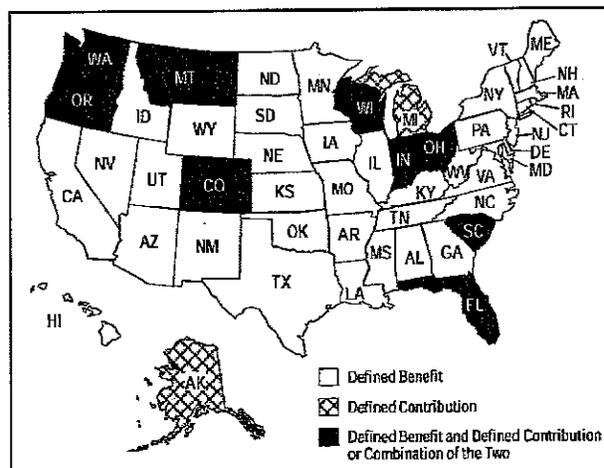
Most states (39) provide only a defined benefit plan for the majority of their employees. However, as shown in Exhibit 3, two states, Alaska and Michigan, require all newly hired regular class employees to enter a defined contribution plan.⁷ The remaining nine states, including Florida, either offer employees a choice between enrolling in a defined benefit plan or a defined contribution plan, or operate a system that has elements of both types of plans.⁸ Some states also restrict eligibility for their plans (see Appendix A).

Two states, Nebraska and West Virginia, have recently closed their defined contribution plans to new members because these systems had produced insufficient retirement income for members. Nebraska has required the majority of its public employees to enroll in a defined contribution plan since 1964. However, over the 20 years leading up to 2002, the average return for defined contribution plan investments was lower than the average return for defined benefit plan investments (7% versus 11%). As a result, employees in the defined contribution plan received considerably lower pension incomes than those who retired from the defined benefit plan. In 2003, Nebraska gave defined contribution plan members the choice of remaining in the plan or enrolling in a cash balance plan that provided a guaranteed 5% minimum rate of return on their individual accounts.⁹

In 1991, West Virginia required new school employees to enroll in a defined contribution

plan. However, in 2005, the state determined that these employees had difficulty retiring because their investment accounts had low balances—the average account had a balance of \$33,944, and participants over age 60 had average balances of \$23,193. The state subsequently closed its defined contribution plan to new members and required them to a join a defined benefit plan.

Exhibit 3 Most States Offer Public Employees Defined Benefit Plans



Source: OPPAGA review of state retirement system publications, summer 2009.

How would requiring all new employees to join the defined contribution plan affect employer costs?

If all new employees were required to join the Investment Plan, employer contribution rates will initially increase; however, employers may have rates that are more predictable.

In recent years, the Legislature has considered proposals to close the FRS defined benefit plan and require all new employees to join the defined contribution Investment Plan. This action may provide increased certainty in the level of required employer contributions to the Florida Retirement System over time, as investment risks would be increasingly shifted to employees.

⁷ Alaska requires all employees to enroll in the defined contribution plan. Michigan state police and public school employees participate in a defined benefit plan, while all other employees participate in the defined contribution plan.

⁸ For example, Indiana and Oregon require employees to enroll in plans that combine aspects of both defined benefit and defined contribution plans, while Washington gives employees a choice between a defined benefit plan and a plan that combines aspects of both defined benefit and defined contribution plans.

⁹ A cash balance plan is a defined benefit plan in which the employer manages assets, employees have individual accounts, and investment returns above a pre-determined level remain the assets of the employer.

As noted by a February 2009 Division of Retirement analysis of a bill that would have closed the Pension Plan to new members, compulsory participation in the Investment Plan would increase the required uniform contribution for those employees who would be grandfathered in the Pension Plan. This would occur due to several factors, including the cost of funding Pension Plan benefits being spread among a decreasing number of members, fewer plan participants leaving employment prior to vesting, and the age of plan participants increasing more than would otherwise be expected.

To date, actual contributions paid by employers for the defined benefit Pension Plan and defined contribution Investment Plan have been the same since the Investment Plan was established in 2002. This is the result of a statutory requirement that employer contributions be based on a uniform contribution rate for all membership classes that is sufficient to fund the benefit obligations of both retirement plans.¹⁰

The Legislature has requested that the Division of Retirement commission an actuarial study to estimate the overall fiscal impact of closing the defined benefit Pension Plan to new members. This study will be completed during the 2010 Legislative Session.

Agency Response

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the executive director of the State Board of Administration and the Secretary of the Department of Management Services for review and response. The Secretary's written response is included in Appendix B.

¹⁰ The Legislature has used surpluses in the defined benefit plan to reduce contributions to both the Pension Plan and the Investment Plan. These surpluses existed between Fiscal Years 1998-99 through 2008-09, and ranged up to \$14.5 billion in Fiscal Year 2000-01. The Legislature used \$12.3 billion of these surpluses to reduce employer contributions and fund benefit improvements. The surpluses primarily existed because investment returns exceeded the levels actuarially required to fund pension obligations. These surpluses are now depleted, and in Fiscal Year-2008-09, the pension plan incurred an actuarial deficit of \$15.4 billion. As a result, required contributions to the FRS will increase beginning in Fiscal Year 2010-11.

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). Cover photo by Mark Foley.

OPPAGA Website: www.oppaga.state.fl.us

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Gary R. VanLandingham, Ph. D., OPPAGA Director

Appendix A

Some States Restrict Eligibility for Retirement Plans

Most states (39) offer their public employees defined benefit retirement plans, while three offer a defined contribution plan only and nine offer employees a choice between the two types of plans or a single plan with aspects of each. Some states restrict eligibility for the various plans, as described in Table A-1 below.

Table A-1
Several States Have Restrictions on Who May Join Specific Retirement Plans

State	Plans
California	Employees must enroll in the Alternate Retirement Program, a mandatory savings plan for certain new, first-time state employees hired on or after August 11, 2004. Alternative retirement program members are converted to the defined benefit plan after two years.
Hawaii	Vested employees can switch from a defined benefit plan to a defined contribution plan if the employee terminates employment prior to reaching the normal retirement age.
Indiana	Police and firefighters participate in a defined benefit plan, and all other employees participate in a combination plan, which includes a defined benefit plan and a supplemental annuity savings account.
Louisiana	Employees of the Board of Regents, University of Louisiana System Board of Trustees, Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, Louisiana Community and Technical Colleges Board of Supervisors and other boards that manage institutions of higher education may elect to participate in a defined contribution plan.
Maryland	Faculty members and administrators employed by public higher education institutions may choose to participate in a defined contribution plan.
Michigan	State police and public school employees participate in a defined benefit plan while state employees hired on or after March 31, 1997, participate in a defined contribution plan.
Minnesota	Members of the governor's staff, legislative staff, and elected officials have the option of participating in a defined contribution plan.
Mississippi	Most employees participate in a defined benefit plan. Some members employed by institutions of higher learning may choose to participate in a defined contribution plan.
Montana	New employees may choose to participate in a defined benefit or defined contribution plan.
Nebraska	Judges, state patrol, and school employees participate in a defined benefit plan. Employees participating in the state and county retirement system have a cash balance plan, which is a defined benefit plan in which employees have individual accounts that are managed by professional money managers who determine how all employee monies will be invested.
Ohio	Employees may choose to participate in a defined benefit plan, a defined contribution plan, or a plan that combines elements of a defined benefit plan and a defined contribution plan.
Washington	Employees may choose to participate in a defined benefit plan or a plan that combines elements of a defined benefit plan and a defined contribution plan.
Wisconsin	Employees participate in defined benefit and defined contribution plans simultaneously. Upon retirement, the employees' benefits are calculated for both plans and the employees' retirement benefits are based on the higher of the two calculations.

Source: OPPAGA review of state retirement publications, summer 2009.

Appendix B



Governor Charlie Crist

Office of the Secretary
4050 Esplanade Way
Tallahassee, Florida 32399-0950
Tel: 850.488.2786
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www.dms.MyFlorida.com

Secretary Linda H. South

March 5, 2010

Mr. Gary R. VanLandingham, Director
Office of Program Policy Analysis and
Government Accountability
111 West Madison St., Room 312
Tallahassee, FL 32399-1450

Dear Mr. VanLandingham:

We have reviewed your preliminary and tentative report, ***FRS Defined Contribution Plan Costs Are Typically Lower and More Predictable; Fiscal Impact of Requiring New Employees to Join the Plan Influenced by Many Factors.***

The department will implement or assist other entities in implementing any options the Legislature should choose to designate.

We appreciate your staff's efforts and cordial working relationship over the past few months. If you need additional information, please contact Steve Rumph, Inspector General, at 488-5285.

Sincerely,

A handwritten signature in black ink, appearing to read 'LH South'.

Linda H. South
Secretary

cc: James Finch, Chief of Staff
David Faulkenberry, Deputy Secretary
Sarabeth Snuggs, Director of Retirement
Elizabeth Irvin, Legislative Affairs Director
Linda McDonald, Communications Director

We serve those who serve Florida.



DROP Could Be Improved by Defining Its Purpose, Standardizing Requirements, and Ensuring That Benefits Are Equitably Funded

at a glance

The Deferred Retirement Option Program (DROP) allows Florida Retirement System (FRS) Pension Plan members to officially retire but continue working for up to five years; the program is optional and available to all FRS Pension Plan participants. During this period, these employees continue to receive their regular salary while their pension payments accumulate in the FRS Trust Fund. State law provides for a 6.5% annual interest rate and a 3% cost of living adjustment; the cost of living adjustment is applied annually to all FRS pensions. Although the FRS incurs additional costs to fund DROP, there is substantial cost shifting between employer groups because the system uses a single contribution rate for all participants. As a result, entities such as school districts that primarily employ workers in FRS's Regular Class subsidize contributions for other entities that have DROP participants in other retirement classes, such as Special Risk.

At least 12 other states offer programs similar to DROP, although these states have varying eligibility and participation requirements. Recent legislation changed FRS reemployment provisions that affect all retirees, including DROP participants. The Legislature could consider additional changes to DROP, such as defining the program's purpose, establishing contribution rates for the varying retirement classes that include DROP, standardizing participation requirements, changing the interest rate guarantee on DROP accounts to a level that matches current economic conditions, or eliminating the program.

Scope

As directed by the Legislature, this report is part of a series that reviews the Florida Retirement System (FRS). This report examines the Deferred Retirement Option Program (DROP) and answers four questions.

1. How has DROP affected FRS employer costs?
2. How do other states implement and fund their deferred retirement option programs?
3. How did recent FRS legislation affect Florida's Deferred Retirement Option Program?
4. What options could the Legislature consider for DROP?

Background

The Deferred Retirement Option Program allows most eligible Pension Plan participants in the Florida Retirement System to officially retire but continue working in their position for up to five years. The pension benefit for DROP participants is calculated upon program entry and is not increased due to additional years of service or pay raises because participants are considered to be retired. DROP participant pension benefits are calculated using the formula on page 2, which applies to all FRS retirees.

Years of Service	×	Accrual Rate	×	Average Final Compensation	=	Pension Benefit
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Average final compensation is the average of an employee's five highest fiscal years of compensation. The accrual rate, which varies by class, is the percentage of the average final compensation that is awarded for each year of service.

While in DROP, participating employees continue to receive their regular salary while their pension payments accumulate in the FRS Trust Fund, earning a statutorily guaranteed 6.5% annual interest rate return; like other Pension Plan retirees, DROP participants also receive an annual 3% cost of living increase. DROP is funded primarily by employer contributions and, to a lesser extent, investment returns from the FRS pension plan. When employees complete DROP, they may receive their account balances in a lump sum payment, roll the funds into another eligible retirement plan authorized by the Internal Revenue Service, or receive a combined partial lump sum payment and direct rollover.

FRS members are eligible to enroll in DROP when they meet 'normal retirement criteria', which include both age and years of service factors. For example, Regular Class members may enroll in DROP if they are age 62 with at least six years of service or have 30 years of service, regardless of their age. Special Risk Class members may join if they are age 55 with six years of service or have 25 years of service regardless of their age.

FRS members also may be eligible to defer their enrollment in DROP. Regular Class members who complete 30 years of service but are under age 57 may defer their enrollment in DROP until age 57. Similarly, Special Risk Class members who complete 25 years of special risk service but are under age 52 may defer their DROP enrollment until age 52. Employees have one year following their maximum DROP deferral date to enroll in DROP. For every month a member delays enrolling in DROP beyond this one-year window, program eligibility is reduced by a corresponding month. The only exceptions to these conditions are for instructional personnel teaching

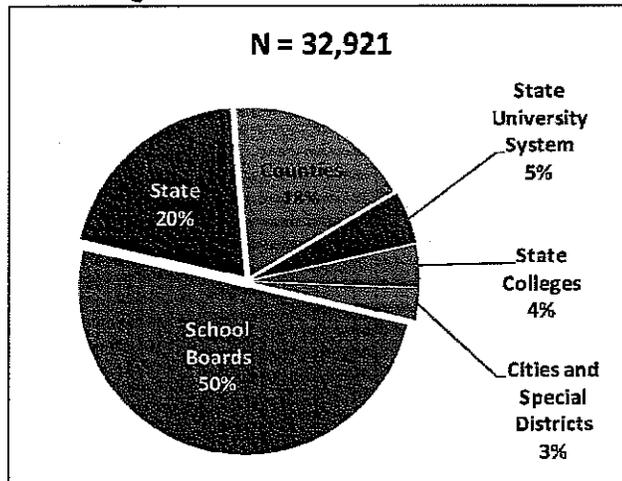
kindergarten through twelfth grade; these employees may enroll in DROP at any time after meeting eligibility requirements and may apply to extend their DROP participation for an additional 36 months. The member's employer must approve all extensions.

DROP is open to all FRS Pension Plan members. As of June 30, 2009, there were 32,921 employees participating in DROP, representing all FRS membership classes.

- **Regular Class** includes employees who do not fall within the other retirement classes, and employees in this class comprise 89% of DROP participants.
- **Special Risk Class** comprises 8% of DROP participants and includes police, firefighters, corrections officers, and others who meet specific eligibility criteria.
- **Special Risk Administrative Class** comprises less than 1% of DROP participants and includes former Special Risk Class members who have been transferred to a non-special risk support position.
- **Senior Management Service Class** comprises 2% of DROP participants, including community college presidents, city and county managers, appointed district school superintendents, and, with certain restrictions, all designated senior managers in state and local governments.
- **Elected Officers Class** comprises less than 1% of the DROP participants, including persons who hold specific city, county, state, and school board elected positions.

FRS employers include state agencies, counties, school districts, the state university system, state colleges, and special districts. As of June 30, 2009, FRS had 964 participating employers. As shown in Exhibit 1, half of these participants were employed by school districts. State employees were the second largest group, followed by county employees.

Exhibit 1
Most DROP Employees Are from Educational Institutions Such as School Boards, Universities, and State Colleges



Source: Division of Retirement.

The Division of Retirement administers DROP and the State Board of Administration invests FRS funds. The Department of Management Services' Division of Retirement administers the program. The division tracks DROP enrollment, receives employer contributions, calculates DROP benefits, and disburses DROP payments when employees complete the program. Division staff also provides information to help employees decide whether to enter the program, including data on what their pension benefits would be with and without DROP participation. The State Board of Administration invests FRS monies, including those from DROP, with the goal of ensuring that investment returns are sufficient to meet pension and DROP obligations.

Questions and Answers—

How has DROP affected FRS employer costs?

We estimated that in Fiscal Year 2008-09, the FRS paid an additional \$71.4 million to fund DROP. This higher cost occurred because DROP participants retire earlier than they normally would have if the program was not available. This voluntary decision increases the length of time that they draw pension benefits and reduces

the number of years in which employers can fund their retirement benefits. Employers thus must increase contributions to fund the longer time spent in retirement. As shown in Appendix A, employer contributions for all membership classes and DROP are projected to increase significantly in Fiscal Year 2010-11.

While the FRS incurs an additional expense for DROP, some employers incur disproportionate costs because the program is funded through a uniform contribution rate, which results in substantial cost shifting among retirement classes. Although FRS membership classes have varying benefits and incur varying costs, DROP uses a uniform employer contribution rate for all persons in the program regardless of their FRS membership class. This rate is currently 9.8% of each participant's salary.¹ In contrast, FRS requires employers to contribute differing percentages of salary for the various retirement membership classes for persons who have not entered DROP; these percentages range from 8.69% of salary for members of the FRS Regular Class, to 19.76% for members of the Special Risk Class. These contribution rates are based on the actuarial costs of providing retirement benefits for individuals in the different retirement classes.

We estimated that as a result of this cost shifting, Regular Class employers paid an additional \$20.3 million in Fiscal Year 2008-09 to fund DROP participants (see Appendix B for a discussion of the contribution costs for each FRS class). In contrast, employers from other membership classes (e.g., Special Risk Class) saved \$23.2 million when their employees entered DROP, as the normal cost rate for these employees would be lower (from between 1.02% and 11.07%, depending on membership class) than the uniform DROP rate.² Establishing contribution rates for DROP participants based on their retirement class would avoid these cost shifts,

¹ The Legislature applies a portion of the FRS Trust Fund actuarial surplus, when available, to reduce all employer contribution rates. In Fiscal Year 2009-10, the DROP contribution rate was reduced from 11.14% to 9.8%.

² Between Fiscal Years 2000-01 and 2008-09, employers of Regular Class members paid an additional \$262.3 million for DROP employees while Special Risk Class employers saved \$133.8 million. This period represents the most complete DROP data available; data for the program's first two years were maintained in an information system that is not currently accessible.

which predominantly affects school boards, universities, and state colleges as almost all of their workers are in the Regular Class (99%, 99%, and 97%, respectively).³

As the purpose of DROP is not specified in statute, it is unclear if the Legislature intended for Regular Class employers to subsidize the DROP costs for all other membership classes.

How do other states implement and fund their deferred retirement option programs?

At least 12 other states have established deferred retirement option programs, many of which are similar to Florida's program. As shown in Appendix C, these states have criteria for entering the program (age and years of service) and place limits on how long workers can participate (the most frequent period is 60 months). Like Florida, four states — Alabama, Arkansas, Louisiana, and South Carolina — offer DROP to all pension plan members. In addition, six states — Alabama, Arkansas, Arizona, Maryland, Michigan, and Oklahoma — provide a guaranteed interest rate on DROP funds, ranging from 2% in Oklahoma to 8.5% in Arizona. Florida's guaranteed rate of 6.5% falls within this range. Moreover, like Florida, four states increase DROP benefits through cost of living adjustments. Oklahoma's legislature annually sets the cost of living adjustment, while cost of living adjustments in Maryland, Missouri, and South Carolina are linked to the changes in the Consumer Price Index.

However, other states' deferred retirement option programs also have provisions that vary significantly from Florida's program. For example, Arizona, Indiana, Maryland, Nebraska, Ohio, and Oklahoma have a separate DROP system for special risk employees (e.g., state police and firefighters). In addition, six states — Alabama, Indiana, Louisiana, Ohio, Oklahoma, and South Carolina — allow employees who meet eligibility requirements to enroll in DROP whenever they choose. Three states allow eligible employees who have already surpassed DROP age and years of service

requirements to enroll retroactively; these 'Back DROP' or 'Reverse DROP' plans are offered by Arizona, Missouri, and Oklahoma.

Other states also vary in how interest is earned on DROP accounts. For example, Nebraska's members place their accounts in 1 of 13 investment options offered through the state's Deferred Compensation Plan; a member's account earns the rate of return of the selected investment option. In Ohio, non-highway patrol public employees can participate in a program similar to DROP that allows the employees to take a partial lump sum payment that cannot be less than 6 times or more than 36 times the monthly amount that would be payable to the members under their selected payment plan.

How did recent FRS legislation affect Florida's Deferred Retirement Option Program?

The 2009 Legislature made numerous changes to the Florida Retirement System, three of which affected DROP participants; the changes go into effect on July 1, 2010.⁴ First, the Legislature amended provisions that governed when individuals could return to FRS employment after retirement. Previously, those who retired or exited DROP had to wait one calendar month before they could be re-hired by an FRS employer. In the future, such individuals must wait six calendar months before being re-employed. Employees and employers who violate reemployment provisions are liable to the FRS for any benefits paid.

Second, the 2009 legislation prohibited individuals who retire or exit DROP from earning credits toward a second FRS benefit if an FRS employer subsequently reemploys them. As a result, employers who hire such persons are no longer required to make retirement contributions for these workers unless the FRS pension plan experiences an unfunded actuarial liability.⁵

³ Milliman, Inc. *Study to Revise Florida Retirement System (FRS) Funding Valuation to Incorporate Deferred Retirement Option Program (DROP) Participation in Each Membership Class*, January 15, 2009.

⁴ Chapter 2009-209, *Laws of Florida*.

⁵ An unfunded actuarial liability occurs when plan assets are insufficient to meet the pension payments to current and future pensioners within the Florida Retirement System. Florida law requires that unfunded actuarial liabilities be amortized over a 30-year period.

Third, the legislation modified the period for elected officials' DROP accounts to earn interest. Currently, elected officials already in DROP can continue earning interest on their accounts beyond their DROP completion date and until they finish their current or re-elected term of office. In July, elected officials who begin DROP will no longer earn interest on the account after the DROP period has been completed.

What options could the Legislature consider for DROP?

If the Legislature wishes to make additional changes to Florida's Deferred Retirement Option Program, it could consider five options.

1. Statutorily define DROP's purpose.
2. Establish employer contribution rates, which include DROP, for each membership class.
3. Standardize DROP requirements.
4. Change the interest rate for DROP accounts to a rate based on current economic conditions.
5. Eliminate DROP.

Establish legislative intent for DROP. Currently, the purpose of DROP is not stated in law, and opinions vary regarding its overall goal. One perspective holds that DROP is intended to be an early retirement incentive to reduce payroll costs by encouraging older, and presumably higher paid employees to leave the workforce. In contrast, another perspective holds that DROP is intended to be a tool for retaining highly experienced employees in the workforce and avoiding training and turnover costs. Clarifying the legislative intent for DROP would provide a basis for evaluating the program's success and the need for further changes.

Standardize DROP participation requirements. Currently, most FRS Pension Plan members can participate in DROP for a maximum of five years, while school district K-12 instructional personnel, with employer approval, can participate in the program for an additional three years. In addition, school instructional personnel may defer DROP enrollment to any age after meeting normal retirement criteria. The Legislature authorized these enhanced benefits for school personnel in an effort to retain qualified teachers when the state was experiencing a statewide

teacher shortage. However, while there are shortages in selected areas of the state and within certain teaching disciplines, there is no longer a statewide shortage. The Legislature could standardize these requirements by reducing the length of time that teachers may remain within DROP to five years.

In addition, the Legislature could consider allowing all eligible members to defer DROP entry to a time of their choosing after they meet normal retirement criteria. If members were allowed to defer DROP entry to any date after meeting normal retirement requirements, FRS costs could be reduced because pension payments for participating employees would begin at a later age, the payments would be paid over a shorter lifetime, and there would be more time to fund pension benefits.

Once the Legislature determines the primary purposes of DROP, it may wish to standardize program requirements in accordance with these goals. The advantages of standardizing DROP enrollment windows and participation periods (e.g., allow all eligible members to defer DROP enrollment and limit the participation period to no more than five years) are that such changes would make the program's participation equitable among all FRS workers and may reduce employer costs. An actuarial study would be required to estimate the savings associated with this proposal.

Establish employer contribution rates that include DROP for each membership class. Florida law provides that employee benefits should be funded in a manner that is fair, orderly, and equitable.⁶ As such, the Legislature may wish to revisit how DROP is funded and establish a system that ties contribution rates to the types of workers employed by FRS employers. The Legislature could do so by establishing contribution rates that include DROP for each membership class, (i.e., the mechanism currently used for FRS regular retirement contributions). This option would reduce DROP costs for entities that primarily employ Regular Class employees (e.g., school boards, universities, and state colleges), but would increase costs for entities that primarily employ special risk employees (e.g., county sheriffs, city police, and state law

⁶ Section 112.61, F.S.

enforcement agencies). Thus, the major effect of this option is that it would eliminate the cost shift, with employers whose costs are currently being subsidized required to pay the full cost for their employees who participate in the program.

Link the interest rate guaranteed for DROP accounts to a rate based on current economic conditions. As noted previously, DROP provides a 6.5% guaranteed annual rate of return. As an alternative, the Legislature could tie the guaranteed rate to a benchmark such as the Consumer Price Index, the one-year Treasury Bill yield, or the prime interest rate charged by major banks. Linking the rate to such a benchmark would likely reduce program costs.

Eliminate DROP. In 2009, the FRS paid approximately \$71.4 million more to fund DROP than it would have paid if the program did not exist. To reduce employer costs, the Legislature could eliminate the program by closing it to new participants effective July 1, 2010. If the program were discontinued, FRS employers would have to pay the costs associated with current participants until these members exit the program. This would take up to five years for most employers and up to eight years for those who employ K-12 instructional personnel. However, once all current DROP participants exit the program, governments that participate in FRS would realize annual savings. The amount of these savings would depend on several factors, including future pay increases and whether employees who would

have entered DROP remain in the workforce or retire.

The decision on whether to eliminate DROP depends in part on the Legislature's intent regarding the program's purpose. If the Legislature determines that the fundamental purpose of DROP is to produce payroll savings by encouraging older employees to commit to a date at which they will leave government employment, then eliminating the program could result in such persons continuing to work, as they would no longer be able to collect up to five years of pension benefits as a lump sum and use these monies to help fund their retirement. Participating governments would incur lower pension costs while these individuals continued to work, as contribution rates on average are currently lower for workers who are not in DROP. However, if the Legislature determines that DROP is intended to encourage older, highly qualified, experienced employees to remain in the workforce, eliminating the program could affect this outcome.

Agency Response ---

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the Secretary of the Department of Management Services for review and response. The Secretary's written response is included in Appendix D.

Appendix A

Employer Contribution Costs Will Increase in Fiscal Year 2010-11

The Division of Retirement's contracted actuary recently conducted a valuation of the FRS pension fund and determined that employer contribution rates will significantly increase beginning July 1, 2010. The rate increase is due to the elimination of a funding surplus that was used to reduce current employer contributions and the creation of an unfunded actuarial liability due to poorer than expected investment performance that will increase future employer contributions. Table A-1 below shows the rate reductions due to using the surplus in Fiscal Year 2009-10 and the rate increases resulting from the actuarial liability in Fiscal Year 2010-11. Columns B and D display the actuary's estimate of the uniform employer contribution rates required to fund DROP and the Pension and Investment Plans. Column C reflects the current legislatively approved uniform employer contribution rates, reduced by using surplus funds. Column D details the uniform employer contribution rates recommended by the actuary for implementation. These rates are referred to as recommended rates because the actuary cannot enact laws for the State of Florida. Only the Legislature can amend state law to specify the contribution rates to be paid.

Table A-1

Contribution Costs Vary Among Membership Classes and Will Increase in the Next Fiscal Year

A Membership Class	B FY 2009-10 Normal Funded Cost Rates	C FY 2009-10 Normal Rates As Funded	D FY 2010-11 Normal Normal Cost Rates	E Recommended FY 2010-11 Normal Total Contribution Rates
Special Risk	21.99%	19.76%	22.15%	28.12%
Special Risk Administrative	12.04%	11.39%	11.24%	27.21%
Senior Management Services	12.93%	11.96%	11.70%	20.97%
Elected Officials				
Judicial	20.57%	18.40%	19.39%	30.39%
Legislature/Attorneys/Cabinet	14.83%	13.32%	14.38%	31.43%
Counties	17.27%	15.37%	16.62%	36.37%
DROP - All Classes	11.14%	9.8%	14.23%	19.20%

¹ Includes normal costs and unfunded actuarial liabilities. Normal costs are based on economic and demographic assumptions and represent the portion of the actuarial present value of pension benefits allocated to a specific year. Unfunded actuarial liabilities represent the amount of pension liabilities not covered by contributions made at the normal cost rate or plan assets.

Source: Department of Management Services' Division of Retirement.

Appendix B

DROP Is Funded Through a Uniform Rate That Shifts Program Costs

DROP is funded through a uniform employer contribution rate for all participants. In Fiscal Year 2008-09, entities that employed staff in the FRS's Regular Class contributed 8.69% of these employees' salary for workers who were not in DROP and 9.80% of salary for employees who participate in DROP. Entities with staff assigned to all other retirement classes also contributed 9.80% of salary for DROP participants; however, these entities' contribution rates for employees not in DROP were significantly higher, ranging from 11.39% for staff in the Special Risk Administrative Support Class members to 19.96% for Special Risk Class members. As a result, entities that had Regular Class workers in DROP subsidized the cost of program benefits for all other membership classes.

Table B-1 below demonstrates these costs shifts. It identifies the FRS costs (including employer contributions and surplus funds) that were paid for each membership class in Fiscal Year 2008-09. Column B in Table B-1 shows the normal DROP cost incurred for each retirement class under the uniform rate. Column C shows the cost that would have been incurred if the workers in each retirement class had not entered DROP but had stayed employed in their existing class. The values in this column are estimates of the amount that would have been paid if FRS did not use a uniform rate for DROP. Column D shows the difference between these two amounts for each retirement class. Because of the cost shifting, Regular Class costs were \$20.3 million more in Fiscal Year 2008-09, while Special Risk Class costs were \$19.9 million less than they would have been in the absence of the uniform DROP rate.

Table B-1

Cost Shifting Results in Regular Class Employers Subsidizing the Costs of Other Membership Classes

Employer Membership Class	FY 2008-09 FRS Costs of Employees Enrolled in DROP (in millions)	FRS Costs if Employees had not Entered DROP (in millions)	Difference in FRS Costs for DROP Participants (in millions)
Special Risk	\$19.7	\$39.6	-\$19.9
Special Risk Administrative	\$0.43	\$0.47	-\$0.04
Senior Management Service	\$5.8	\$7.1	-\$1.3
Elected Officers	\$2.7	\$4.7	-\$2.0

¹ Excludes actuarial costs for DROP participation, which were estimated in the Division of Retirement's contracted actuary's January 2010 special actuarial study. The study calculated that these costs would range from 0.47% of salary for employees in the Regular Class to 1.67% of salary for legislators in the Elected Officers Class. The column does not sum to zero due to because there was a difference in the anticipated level of participation and the actual level of participation for each membership class.

Source: Division of Retirement documents.

Appendix C

States Vary in Deferred Retirement Option Program Eligibility and Implementation Requirements

At least 12 other states have established deferred retirement option programs for their public employees that are similar to Florida’s DROP. As shown below, these states have criteria for entering the program (age and years of service), and place limits on how long workers can participate. Some states restrict program enrollment, while others allow employees to enroll retroactively. Several states tie account cost of living increases and interest earnings to legislative rule and current economic indices to control their cost obligations.

**Table C-1
States Vary in Deferred Retirement Option Program Eligibility and Implementation Requirements**

State	Eligibility	DROP Duration	Annual Interest and Cost of Living Increases
Florida	Open to all membership classes that meet age and years of service eligibility. While participating in the program, the member's retirement benefit is deposited into the FRS Trust Fund, earning tax-deferred interest. At the conclusion of DROP, the member must terminate from all FRS employers. All DROP members currently can rejoin the FRS as a renewed class member after a one-month break in service. However, effective July 1, 2010, DROP members will have to wait six months.	60 months 96 months for instructional personnel teaching kindergarten through 12 th grade.	6.5% interest 3% cost of living
Alabama	Open to all membership classes with 25 years of service and age 55 (age 52 for state police members).	36 – 60 months	4% interest 0% cost of living
Arkansas	Members of the Public Employee Retirement System may enroll in DROP after 28 years of service, regardless of age. Employers contribute 63% of the employee's salary into the DROP account. Additionally, they contribute ½ of 1% for each month of service over 28 years up to a maximum of 75% for 30 or more years of service.	84 months	6% interest 3% cost of living after the first year
Arizona	Members of the Public Safety Personnel Retirement System with 20 or more years of service, regardless of age, may participate in a DROP or Reverse DROP. Reverse DROP allows members to retroactively retire once they have more than 20 years of service. For example, members could work 25 years, and then decide to have their pensions based on 20 years of service and have their last five years credited to the Reverse DROP plan. Pension benefits are recalculated and reduced based on the date members chose to enter Reverse DROP.	60 months	8.5% interest for DROP 3.5% interest for Reverse DROP
Indiana	Police officers and firefighters who are 52 years old and have at least 20 years of service may enroll in DROP. Those with less than 32 years of service must contribute 6% of their salary to their DROP accounts.	12-36 months	0% interest 0% cost of living
Louisiana	All members who are eligible for retirement. Eligibility varies depending on membership class and years of service.	36 months	0% interest 0% cost of living
Maryland	Open to state police and local law enforcement officers. State police participation cannot extend beyond age 60 or 28 years of service. Local law enforcement must have a minimum of 25 years of service and the DROP period cannot extend the officer's total years of service beyond 30 years.	Up to 48 months for state police and 60 months for law enforcement officers	6% interest Cost of living is tied to the Consumer Price Index
Michigan	Open to members of state police who have at least 25 years of service. A percentage of member's salary is deposited in a DROP account based on how long the employee participates in the program. Percentages are as follows: less than one year-30%; one year but less than two years-50%; two years but less than three years-60%; three years but less than four years-70%; four years but than five years-80%; five years but less than six years-90%; six years-100%.	72 months	3% Interest 0% cost of living

State	Eligibility	DROP Duration	Annual Interest and Cost of Living Increases
Missouri	Members must work at least two years beyond their normal retirement eligibility date, which varies by when they were hired. They may then retroactively enroll in a DROP for up to five years after they were initially eligible. Upon entering DROP, pension benefits are recalculated and reduced based on the date members choose to enter the plan and, at termination, they receive a lump sum payment that equals 90% of the pension earned during the DROP period.	60 months	Pension benefits are deposited in a DROP account that earns interest at a rate that, depending on a member's hire date, is generally 80% of the change in the Consumer Price Index.
Nebraska	Restricted to state patrol officers between ages 50 and 60 who have at least 25 years of service. Members must terminate service after five years of DROP or age 60.	60 months	The member's DROP account is placed in one of 13 investment options offered by the program. The DROP account earns the rate of return achieved by the selected investment option.
Ohio	Open to Ohio Highway Patrol Retirement System members until they turn age 60: 1) they are at least 48 years old with 25 years of service, or 2) they are at least 52 years old with 20 years of service. Employees must contribute 10% of their salary to a DROP account. Those entering DROP before age 52 must serve at least three years in DROP while those age 52 or older must serve two years. Employees who discontinue DROP participation before serving the minimum number of years must forfeit any accrued interest.	96 months	Interest rate set annually by the State Retirement Board. 3% cost of living applied after age 53.
Ohio This program serves as an alternative to DROP	The Public Employee Retirement System has a program similar to DROP that allows members eligible to retire to take a lump sum payment that would be payable to the members under their selected payment plan, and that cannot be less than 50% of their monthly pension benefit. Members may take advantage of this program after they have reached one of three milestones: 1) at any age after 30 years of service, 2) at age 55 with 25 years of service, or 3) at age 60 with five years of service. Employees retiring with fewer than 30 years of service or under age 65 receive reduced retirement benefits.		N/A
Oklahoma	Members of the Oklahoma Law Enforcement Retirement System may participate in Back DROP and DROP. Back DROP allows members to retroactively enter DROP. Their pension benefits are then reduced and based on the years of service they had as of their Back DROP entry date. Back DROP and DROP are open to members with more than 20 years of service regardless of age. After completing either program, employees must terminate employment.	60 months	DROP or Back-DROP earns 2% interest below the rate of return earned by the retirement system's pension fund but no less than the actuarial assumed interest rate certified by the division's contracted actuary. Cost of living is determined annually by the legislature.
South Carolina	Open to all members who have 28 years of service or who are age 65. Members contribute 6.5% their salaries to the program.	60 months	0% Interest Cost of living adjustments tied to the Consumer Price Index

Source: OPPAGA review of state's retirement handbooks and documents, fall 2009.

Appendix D



Governor Charlie Crist

Office of the Secretary
4050 Esplanade Way
Tallahassee, Florida 32399-0950
Tel: 850.488.2786
Fax: 850.922.6149
www.dms.MyFlorida.com

Secretary Linda H. South

March 5, 2010

Mr. Gary R. VanLandingham, Director
Office of Program Policy Analysis and
Government Accountability
111 West Madison St., Room 312
Tallahassee, FL 32399-1450

Dear Mr. VanLandingham:

We have reviewed your preliminary and tentative report, ***DROP Could Be Improved by Defining Its Purpose, Standardizing Requirements, and Ensuring That Benefits Are Equitably Funded.***

The department will implement or assist other entities in implementing any options the Legislature should choose to designate.

We appreciate your staff's efforts and cordial working relationship over the past few months. If you need additional information, please contact Steve Rumph, Inspector General, at 488-5285.

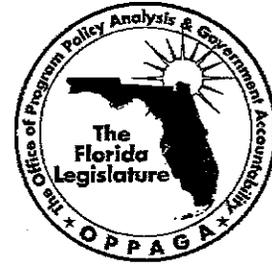
Sincerely,

Linda H. South
Secretary

cc: James Finch, Chief of Staff
David Faulkenberry, Deputy Secretary
Sarabeth Snuggs, Director of Retirement
Elizabeth Irvin, Legislative Affairs Director
Linda McDonald, Communications Director

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The Florida Legislature
***Office of Program Policy Analysis
and Government Accountability***



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Project supervised by Kara Collins-Gomez (850/487-4257)

Project conducted by Ed Madden (850/487-9273) and Linda Vaughn (850/487-9216)

Gary R. VanLandingham, Ph. D., OPPAGA Director

Local Government
Auditor General Trends Report

Report No. 2010-113



Report on Significant Financial Trends and Findings Identified in Local Governmental Entity Audit Reports and Annual Financial Reports For the Fiscal Year Ended September 30, 2008

1

SCOPE



Report required by Section 11.45(7)(f), FS

1,204 Audit Reports

- 66 counties (including 388 county agencies)
- 381 municipalities
- 757 special districts

Audit reports submitted to us pursuant to Section 218.39, FS

208 Annual Financial Reports (AFRs)

- 6 municipalities
- 202 special districts

AFRs submitted to Department of Financial Services

2

SIGNIFICANT FINANCIAL TRENDS



Notifications to LAC and Governor

Local governmental entities meeting one or more of the conditions specified in s. 218.503(1), FS:

- Failure to pay short-term loans or make long-term debt payments due to a lack of funds
- Failure to pay uncontested claims within 90 days due to a lack of funds
- Failure to timely transfer withholding taxes or employee/employer contributions for social security or pension, retirement, or benefit plans due to a lack of funds
- Failure to pay wages, salaries or retirement benefits due to a lack of funds
- Unreserved/unrestricted fund balance/net assets deficit or total net assets deficit

3

SIGNIFICANT FINANCIAL TRENDS



Local governmental entities meeting one or more of the conditions specified in s. 218.503(1), FS:

	<u>2006-07 FY</u>	<u>2007-08 FY</u>
Counties	0	1
Municipalities	14	10
Special Districts	<u>41</u>	<u>73</u>
TOTALS	<u>55</u>	<u>84</u>

Overall increase of 53%, 78% increase for special districts
Increase due to community development districts

4

SIGNIFICANT FINANCIAL TRENDS



Community Development Districts (CDDs)

Units of special purpose government, created pursuant to Ch. 190, FS, primarily for financing, then operating and maintaining, communitywide improvements in new communities.

Landowner (usually a developer) petitions local government to create a CDD with broad powers to generate revenue.

At 9/30/03, 224 active CDDs in Florida

At 9/30/08, 578 active CDDs in Florida
(increased 158% since 2003)

5

SIGNIFICANT FINANCIAL TRENDS



Community Development Districts (CDDs) - continued

- Improvements typically financed with bonds
- Special assessments to property owners within the CDD pay for debt service on bonds
- Improvements generally completed prior to sale of individual properties to homeowners
- Not uncommon for CDDs to meet the condition specified in Section 218.503(1)(e), FS (unreserved/unrestricted fund balance/net assets deficit or total net assets deficit) in the early years

6

SIGNIFICANT FINANCIAL TRENDS



Community Development Districts (CDDs) - continued

Likely due to the housing crisis, various financial difficulties were reported in 2007-08 FY CDD audits and trend is expected to continue (see also Exhibit A of report):

- 39 reported unreserved/unrestricted fund balance/net asset deficits
- 7 reported going concern issues – auditor questioned ability to continue operations on an ongoing basis
- 32 reported failures to make bond debt service payments or the payments were made from required bond reserve accounts
- 37 reported that the developer or significant landowner had failed to provide funding necessary for operations and debt service payments
- 29 reported that developers had filed for bankruptcy protection or foreclosure proceedings had been initiated

7

SIGNIFICANT FINANCIAL TRENDS



Other Trends

- Ad valorem taxes levied increased from 2004 to 2008, however, decreased from 2006 to 2008 by \$647 million for counties and \$1 billion for municipalities, due to:
 - Decline in property values
 - Reductions in millage rates
 - 2007 and 2008 legislation limiting the ad valorem revenue-raising capabilities (e.g., additional exemptions, portability, appreciation caps, required millage reductions)

8

SIGNIFICANT FINANCIAL TRENDS



Other Trends

- For 62 entities, auditors reported deteriorating financial conditions. Such conditions could lead to meeting a condition in Section 218.503(1), FS, an increase of 38% from 2006-07 FY
- Our review of audit reports and annual financial reports disclosed:
 - 146 special districts reported no unreserved/unrestricted fund equities
 - 745 entities experienced net losses in both governmental and proprietary operations
 - 178 entities reported cash and investments that were not sufficient to cover current liabilities

9

SIGNIFICANT FINDINGS



Modified Audit Opinions

- 7 qualified opinions – fairly presented “except for” – primarily for inadequate support for capital assets
- 2 adverse opinions – not fairly presented – for inadequate support for capital assets
- 1 disclaimer of opinion – could not express an opinion – financial and other information provided to auditor was too limited

Results were similar to prior year

10

SIGNIFICANT FINDINGS



Types of Audit Findings

We classified audit findings into several categories, which are discussed in detail in the report and summarized in Exhibits C and D

Detail of Audit Findings

- AG Rules require findings to contain specified elements
- 47% of findings in audit reports were not sufficiently detailed (53% in prior year), contrary to AG Rules
- Lack of sufficient detail may result in failure of audit report users to fully understand the finding or the extent of the problem

11

SIGNIFICANT FINDINGS



Repeat Findings

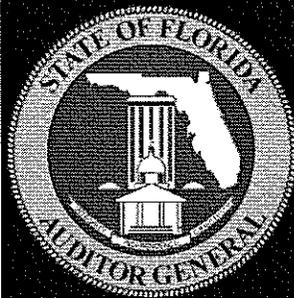
- 45% of audit findings in 2007-08 FY reports were also findings in 2006-07 reports. Several were also in 2005-06 FY reports

Recommendation: The Legislature should consider amending Section 218.39, FS, to include provisions that encourage local governmental entities to take timely and appropriate action to address audit findings.

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**REPORT ON SIGNIFICANT FINANCIAL
TRENDS AND FINDINGS
IDENTIFIED IN LOCAL GOVERNMENTAL
ENTITY AUDIT REPORTS
AND
ANNUAL FINANCIAL REPORTS**

For the Fiscal Year Ended
September 30, 2008



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

This report was prepared by Gregory J. Barrett, CPA, and Donald D. Decker, CPA, under the supervision of the
senior partner in charge of the audit, James J. McLaughlin, CPA, and the partner in charge of the audit, J. J. McLaughlin, CPA.
The report and other papers prepared in the course of the audit are the property of the firm and are not to be
distributed outside the firm or used for any other purpose without the written consent of the firm.

REPORT ON SIGNIFICANT FINANCIAL TRENDS AND FINDINGS IDENTIFIED IN LOCAL GOVERNMENTAL ENTITY AUDIT REPORTS AND ANNUAL FINANCIAL REPORTS

SUMMARY

This report provides a summary of significant financial trends and findings identified in audit reports prepared by independent certified public accountants and submitted to us for 66 counties (including 388 county agencies), 381 municipalities, and 757 special districts, and annual financial reports for 6 municipalities and 202 special districts submitted to the Florida Department of Financial Services, for the 2007-08 fiscal year.

SIGNIFICANT FINANCIAL TRENDS

- Many local governmental entities are experiencing deteriorating financial conditions. Our application of financial indicators disclosed, for selected entities, certain financial trends that may be indicative of deteriorating financial conditions, including high levels of ad valorem millage rates for lesser-populated counties and higher-populated municipalities; insufficient levels of unreserved fund equity; declining excess revenues over expenditures in governmental funds or decreasing operating incomes (or increasing operating losses) in proprietary funds; low or declining levels of cash and investments, as compared to current liabilities; and increasing long-term debt in governmental activities.
- Of the local governmental entities that submitted audit reports to us as of February 15, 2010, 63 were reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes¹. In addition, our review of 208 annual financial reports for unaudited local governmental entities disclosed that 21 special districts met the condition specified in Section 218.503(1)(e), Florida Statutes. The 84 entities meeting one or more of the specified conditions represents a 53 percent increase compared to the prior fiscal year. In addition, 62 local governmental entities were reported as experiencing deteriorating financial conditions, an increase of 38 percent compared to the prior fiscal year. These increases are primarily attributable to community development districts (CDDs). The number of CDDs meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, increased 54 percent compared to the prior fiscal year, and the audit reports for other CDDs noted serious financial matters that occurred at or subsequent to September 30, 2008. Such matters included going concern issues, failure to pay claims within 90 days, failure to make bond payments or having to make bond payments from reserves, failure of developers or significant landowners to provide funding to the CDD, and bankruptcy or foreclosure issues.
- While average millage rates for counties and municipalities decreased since 2004, taxable property values have increased significantly over the same period for both entity types. Also, while taxes levied increased over that same period, taxes levied have decreased by approximately \$647 and \$1,015 million since 2006 for counties and municipalities, respectively, resulting from the decline in property values, reductions in millage rates, and 2007 and 2008 legislation that limited the ad valorem revenue-raising capabilities for local governmental entities.

SIGNIFICANT FINDINGS

- Certain types of findings are frequently included in county, municipality, and special district audit reports. For many of the audit reports, the findings were not sufficiently descriptive to allow a determination as to the significance of the finding.
- Thirty-nine percent of the findings were identified as significant deficiencies and 19 percent of those were also identified as material weaknesses.

¹ All statutory references are to the 2008 Florida Statutes.

- Of the 2,821 findings included in 2007-08 fiscal year audit reports, 1,259 (45 percent) were findings that had also been included in audit reports for the prior fiscal year.

BACKGROUND

Section 11.45(2)(h), Florida Statutes, established as one of the goals of the local government financial reporting system the timely, accurate, uniform, and cost-effective accumulation of financial and other information that can be used by the Legislature and other appropriate officials to improve the financial condition of local governments. The Legislature has assigned local governmental entity independent auditors and us responsibilities related to monitoring financial condition of local governments as follows:

- Section 11.45(7)(b), Florida Statutes, provides that we review, in consultation with the Florida State Board of Accountancy, all local governmental entity audit reports prepared by independent certified public accountants (CPAs) and submitted to us.
- Section 218.39(1), Florida Statutes, provides for local governmental entity audits to be performed by CPAs. The scope of these audits includes an examination of the financial statements, the issuance of a report on internal control and compliance in accordance with generally accepted government auditing standards, and, if applicable, the issuance of a report on internal control and compliance relative to State financial assistance in accordance with the *Florida Single Audit Act* and relative to Federal awards in accordance with United States Office of Management and Budget *Circular A-133*. Section 218.39(5), Florida Statutes, requires that independent auditors notify local governmental entities of deteriorating financial conditions that may cause a condition described in Section 218.503(1), Florida Statutes, to occur if actions are not taken to address such conditions. Chapter 10.550, Rules of the Auditor General, requires that the independent auditor's management letter include recommendations addressing deteriorating financial conditions disclosed by the audit.
- Chapter 218, Part V, Florida Statutes, is entitled the "Local Governmental Entity, Charter School, and District School Board Financial Emergencies Act." Section 218.503(2), Florida Statutes, requires a local governmental entity to notify the Governor and the Legislative Auditing Committee when one or more of the conditions specified in Section 218.503(1), Florida Statutes, has occurred or will occur if action is not taken to assist the entity. The local governmental entity's independent auditor is required by Chapter 10.550, Rules of the Auditor General, to state in the management letter whether or not the local governmental entity met one or more of the conditions specified in Section 218.503(1), Florida Statutes. If the entity is reported as meeting one or more of the conditions, we are required to report this to the Governor and the Legislative Auditing Committee. The Governor is responsible for determining whether the local governmental entity needs State assistance to resolve the condition(s) and, if so, the entity is considered to be in a state of financial emergency.

Section 11.45(7)(f), Florida Statutes, requires that we annually compile and transmit to the President of the Senate, the Speaker of the House of Representatives, and the Legislative Auditing Committee a summary of significant findings and financial trends identified in local governmental entity audit reports and other information, such as annual financial reports for entities that are not required to provide for an audit.

SIGNIFICANT FINANCIAL TRENDS

Notifications to Legislative Auditing Committee and the Governor

Section 218.503(1), Florida Statutes, requires that local governmental entities be subject to review and oversight by the Governor if one or more specified conditions occur. These conditions include failure to pay short-term loans or make bond debt service payments when due as a result of a lack of funds, failure to pay wages and salaries to employees due to a lack of funds, and an unreserved or total fund balance or unrestricted or total net assets deficit for

which sufficient resources are not available to cover the deficit. Section 11.45(7)(e), Florida Statutes, requires us to notify the Legislative Auditing Committee and the Governor of any audit report reviewed that contains a statement that the local governmental entity met one or more of the specified conditions.

Our review of the 2007-08 fiscal year local governmental entity audit reports prepared by independent certified public accountants and received by us as of February 15, 2010, disclosed that a total of 63 entities (1 county, 10 municipalities, and 52 special districts) were reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes. Our review of 208 annual financial reports for unaudited local governmental entities disclosed that 21 special districts met the condition specified in Section 218.503(1)(e), Florida Statutes. The 84 entities meeting one or more of the specified conditions as compared to the 55² noted for the prior fiscal year represents a 53 percent increase. The increase is primarily due to community development districts (see additional discussion under **Community Development Districts**).

As required by Section 10.554(1)(i)7.c.2., Rules of the Auditor General, if the auditor reported that the local governmental entity met one or more of the conditions specified in Section 218.503(1), Florida Statutes, the auditor was required to specify whether such condition was a result of deteriorating financial conditions. For 17 of the 63 entities reported as meeting one or more of the conditions as of September 30, 2008, the auditors indicated that the condition resulted from deteriorating financial conditions.

In addition to those entities that were reported as having met a condition in Section 218.503(1), Florida Statutes, as of September 30, 2008, we also reported to the Legislative Auditing Committee and the Governor (see additional discussion under **Community Development Districts**) a total of 17 special districts for which either the notes to the financial statements or the auditors indicated a condition in Section 218.503(1), Florida Statutes, was met subsequent to September 30, 2008, or serious matters affecting financial condition occurred at or subsequent to September 30, 2008.

Deteriorating Financial Conditions

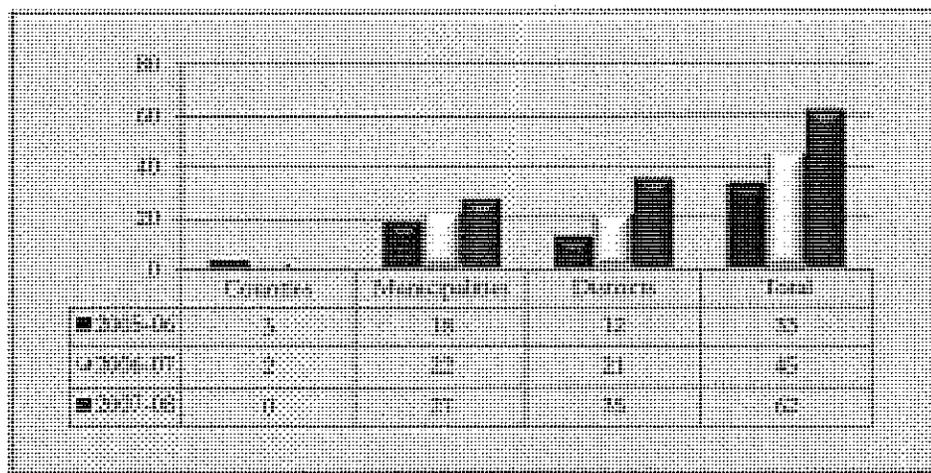
Section 218.39(5), Florida Statutes, requires auditors to notify local governmental entity officials or their designees when deteriorating financial conditions exist that may cause a condition described in Section 218.503(1), Florida Statutes, to occur if actions are not taken to address such conditions. Section 10.556(7), Rules of the Auditor General, requires auditors to use financial condition assessment procedures, and Section 10.554(1)(i)7.c., Rules of the Auditor General, requires auditors to report any deteriorating financial conditions noted as a result of the financial condition assessment. For example, a local governmental entity may have been experiencing operating losses for several years resulting in significantly depleted unrestricted net assets which, if not corrected through an increase in rates charged to customers or a reduction in expenses, would result in deficit unrestricted net assets, a condition specified in Section 218.503(1), Florida Statutes.

Auditors reported a total of 62 entities (27 municipalities and 35 special districts) as experiencing deteriorating financial conditions as of September 30, 2008, an increase of 17 entities, or 38 percent, as compared to the prior fiscal year, as shown in Table 1.³

² The number of entities reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, for the 2006-07 fiscal year differs from the number reported in report No. 2009-202 because additional reports for that fiscal year were received subsequent to the release of report No. 2009-202.

³ The number of entities reported in Table 1 as experiencing financial condition problems for the 2006-07 fiscal year differs from the number reported in report No. 2009-202 because additional reports for that fiscal year were received subsequent to the release of report No. 2009-202.

**Table 1
Deteriorating Financial Conditions**



Source: Audit reports

Community Development Districts

As previously noted, there was an overall increase in the number of local governmental entities reported as meeting one or more of the conditions specified in Section 218.503(1), Florida Statutes, and several were reported as experiencing serious matters affecting financial condition at or subsequent to September 30, 2008. As discussed below, this increase was primarily attributable to community development districts.

The Legislature enacted the “Uniform Community Development District Act of 1980” (Act) authorizing a uniform procedure in general law to establish an independent special district as an alternative method to manage and finance basic services for community development. Community Development Districts (CDDs) are local units of special-purpose government created pursuant to Chapter 190, Florida Statutes, and are limited to the performance of those specialized functions contained in the Act. A CDD is created primarily for the purpose of financing, and then operating and maintaining, communitywide improvements in new communities, such as roads, sidewalks, landscaping, and community recreational facilities. CDDs also have broad authority to finance, acquire, construct, operate, and maintain public improvements, such as water management, water supply, sewer, and wastewater management, subject to the regulatory jurisdiction and permitting authority of all applicable governmental bodies. A landowner (usually a developer) petitions the local government to create a CDD, which must consist of at least 1,000 acres, with broad powers that enables the CDD to generate revenue. To finance the provision of these services, CDDs have the authority to borrow money and issue bonds, certificates, warrants, notes, or other evidence of indebtedness, to levy tax and special assessments, and to charge, collect, and enforce fees and other user charges.

As shown in Table 2, the total number of active CDDs increased significantly from 224 at September 30, 2003, to 578 at September 30, 2008, an increase of 354, or 158 percent, during the five-year period. At September 30, 2008, CDDs comprised 36 percent of all active special districts in Florida.

Table 2

Fiscal Year Ended September 30	CDDs Created	CDDs Dissolved	Total Active CDDs
2003			224
2004	76	2	298
2005	66	3	361
2006	90	2	449
2007	102	2	549
2008	34	5	578

Source: Florida Department of Community Affairs' Official List of Special Districts

Of the 578 active CDDs as of September 30, 2008, 419 submitted audit reports to us as of February 15, 2010⁴ (electronic copies of the CDDs' audit reports are available on the Auditor General Web site at www.myflorida.com/audgen/pages/specialdistricts%20a-c.htm). Forty-three CDDs were reported to the Legislative Auditing Committee and Governor as having met one or more conditions specified in Section 218.503(1), Florida Statutes, for the 2007-08 fiscal year, an increase of 54 percent compared to the prior fiscal year. Additionally, we reported 16 CDDs to the Legislative Auditing Committee and Governor for serious financial matters occurring at or after September 30, 2008. Exhibit A provides a summary of information from the 2007-08 fiscal year audit reports for these 59 CDDs. As shown in Exhibit A:

- For 7 CDDs, the auditor questioned the ability of the CDD to continue operations on an ongoing basis (going concern).
- Thirty-nine CDDs reported a net unreserved fund balance/unrestricted net assets deficit as of September 30, 2008, with deficits ranging from \$3,340 to \$11,461,841. This is the condition specified in Section 218.503(1)(e), Florida Statutes.
- For 6 CDDs, either the notes to the financial statements or the auditor reported that the entities failed to pay claims from creditors within 90 days after the claim was presented due to a lack of funds, the condition specified in Section 218.503(1)(b), Florida Statutes.
- For 32 CDDs, either the notes to the financial statements or the auditor reported that the entity either failed to make a scheduled bond debt service payment(s) (the condition specified in Section 218.503(1)(a), Florida Statutes), or the debt service payment was made from required bond reserves because the entity lacked sufficient funds to make the payment.
- For 37 CDDs, either the notes to the financial statements or the auditor reported that the developer or significant landowner had failed to provide funding to the CDD, either in the form of assessments or funding for operational or debt service purposes. For many of these CDDs the notes or the auditor stated that the CDD was dependent on funding from the developer or significant landowner.
- For 29 CDDs, either the notes to the financial statements or the auditor reported that developers had filed for bankruptcy protection or foreclosure proceedings had been initiated on district properties.

Because it is usually necessary for CDDs to issue some form of indebtedness to finance the construction or acquisition of the communitywide improvements, and such improvements are generally in place before properties are sold to other parties, CDDs often experience operating losses or deficit fund balances in the early years of their existence. Auditors for many initial CDDs report the entity as meeting the condition specified in Section

⁴ For the 2007-08 fiscal year, 138 CDDs did not meet the threshold requiring an audit pursuant to Section 218.39, Florida Statutes. For the remaining 21 CDDs, the entities were either required to provide for an audit and had not submitted the audit report to us by February 15, 2010, or we did not have sufficient information to determine whether an audit was required.

218.503(1)(e), Florida Statutes, an unreserved or total fund balance or unrestricted or total net assets deficit for which sufficient resources are not available to cover the deficit. In the past, meeting this condition was relatively temporary for many CDDs as properties were sold within the district and assessments were collected. However, likely due to the recent housing crisis, many CDDs are facing true financial crises due to a lack of sufficient funds to make debt service payments on bonds or to pay obligations within 90 days. As a result, the deficit condition remains and the CDD meets additional conditions specified in Section 218.503(1), Florida Statutes. The lack of sufficient funds for newer CDDs appears to be primarily attributable to the failure of developers to provide funding. Developers are typically responsible for paying assessments on the unsold properties within the district and some have agreements with CDDs to fund operations of the district for a certain time period. If the developer is unable to sell properties within the district for an extended period of time, the developer may lack sufficient funds to make the requirement payments. As noted above, many developers are filing for bankruptcy protection.

As the economic downturn, including the housing crisis, continued through the 2008-09 fiscal year and into the 2009-10 fiscal year, the number of CDDs experiencing similar financial difficulties is likely to increase.

Other Financial Trends

Our application of financial indicators (see Exhibit B) to financial and other information obtained for the counties, municipalities, and special districts evaluated for the 2003-04 through 2007-08 fiscal years disclosed certain significant financial trends as discussed below. The financial trends presented below are based on a desk review of audit reports and annual financial reports and do not represent individual financial condition assessments of particular entities. Such assessments are the responsibility of local governmental entities and their independent auditors and require information that can only be obtained through examination of entity records and inquiry of entity management.

Millage Rates, Taxable Property Values, and Taxes Levied

In 2007 and 2008, legislation was enacted and, as applicable, approved by the voters, that has limited the ad valorem revenue-raising capability of local governmental entities. These changes include increases in homestead exemptions, portability provisions, caps on the increase in value for non-homestead properties, and required millage rate reductions/limitations. Additionally, market values of real property have declined as a result of the recent housing crisis. From January 2007 to January 2008, taxable property values decreased by 5 and 6 percent for counties and municipalities, respectively; average millage rates increased 1.7 percent for counties and decreased by 19 percent for municipalities; and taxes levied decreased by 4 and 2 percent for counties and municipalities, respectively.

For the 2008, the average ad valorem millage rate was 6.2996 for counties and 3.9841 for municipalities. The average millage rate has decreased approximately 16 percent for counties and 10 percent for municipalities since 2004.

As noted in prior fiscal years, we found that, on average, lesser-populated counties and higher-populated municipalities generally had higher 2008 millage rates than higher-populated counties and lower-populated municipalities, as shown in Table 3.

Table 3

Counties		Municipalities	
Population Range	Average 2008 Millage	Population Range	Average 2008 Millage
< 25,000	8.3294	< 1,000	2.7114
25,000 – 74,999	7.2741	1,000 – 2,999	4.1576
75,000 – 224,999	4.9050	3,000 – 9,999	4.0418
225,000 – 674,999	5.2809	10,000 – 24,999	4.1212
675,000 +	4.7599	25,000 – 99,999	4.4459
		100,000 +	5.2367

Source: Florida Department of Revenue, Property Valuations and Tax Data Books

A summary of average millage rates, total taxable property values, and total taxes levied by counties and municipalities for the last five years are shown in Tables 4 and 5.

Table 4

Counties			
Year	Average Millage	Taxable Property Values	Taxes Levied
2004	7.4974	\$1,105,948,754,799	\$6,570,744,816
2005	7.3751	\$1,309,754,176,278	\$7,586,284,807
2006	6.9451	\$1,636,004,002,995	\$8,438,433,140
2007	6.1970	\$1,805,873,056,801	\$8,111,079,346
2008	6.2996	\$1,716,561,174,715	\$7,791,725,395

Table 5

Municipalities			
Year	Average Millage	Taxable Property Values	Taxes Levied
2004	4.4413	\$580,472,238,718	\$2,812,833,290
2005	4.3675	\$683,319,146,683	\$3,272,616,315
2006	4.2689	\$850,654,287,997	\$3,948,085,738
2007	4.8943	\$766,269,119,373	\$3,005,327,370
2008	3.9841	\$720,342,482,975	\$2,932,964,640

Source: Florida Department of Revenue, Property Valuations and Tax Data Books

While average millage rates for counties and municipalities decreased since 2004, taxable property values have increased significantly over the same period for both entity types. Also, while taxes levied increased over that same period, taxes levied have decreased by approximately \$647 million and \$1 billion since 2006 for counties and municipalities, respectively, resulting from the decline in property values, reductions in millage rates, and 2007 and 2008 legislation that limited the ad valorem revenue-raising capabilities for local governmental entities.

Fund Equity and Results of Operations

As shown in Table 6, 146 special districts reported no unreserved or unrestricted fund equities (i.e., fund balances or net assets), and 60 special districts reported deficit unreserved/unrestricted fund equities as of September 30, 2008, an increase of 7 percent as compared to the prior fiscal year. In addition, 2 counties and 7 municipalities reported deficit unreserved/unrestricted fund equities. Although local governments are not statutorily required to maintain a specified level of unreserved/unrestricted fund equity, the ability of these entities to maintain adequate service levels and fund capital acquisitions may be diminished if sufficient fund equity is not maintained.

Although many entities use excess revenues in governmental funds to support proprietary fund operations, or vice versa, we noted that 745 entities experienced net losses when both governmental and proprietary funds were taken into account, an increase of 20 percent as compared to the prior fiscal year. Additionally, of the entities that experienced net losses, 98 also reported net deficit unreserved/unrestricted fund equities as of September 30, 2008. Continued excess expenditures over revenues and deficit unreserved/unrestricted fund equities may cause such

entities to not have sufficient funds to sustain current services without having to borrow funds from outside sources, and also results in those entities having less resources available for emergencies and unforeseen situations.

Reported unreserved/unrestricted fund equity, revenue, and expenditure information, by entity, is available on our Web site at www.myflorida.com/audgen (click on Local Government/Nonprofit/For-Profit, Local Governmental Entity Financial Condition Assessment Procedures, INSTRUCTIONS-EXCEL).

Table 6⁵

Condition	Counties			Municipalities			Special Districts			Totals		
	Fiscal Year			Fiscal Year			Fiscal Year			Fiscal Year		
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008
Reported deficit total unreserved/unrestricted fund equity.	2	0	2	7	9	7	39	30	60	48	39	69
Reported no unreserved/unrestricted fund equity.	0	0	0	1	1	2	71	162	146	72	163	148
Experienced excess expenditures over revenues in governmental operations, or operating losses in proprietary operations.	35	42	53	229	251	296	402	415	490	666	708	839
Experienced net losses when both governmental and proprietary funds were taken into account.	21	34	35	142	174	228	393	411	482	556	619	745
Experienced net losses and reported net deficit unreserved/unrestricted fund equity.	0	0	1	4	7	5	66	80	92	70	87	98

Source: Audit reports and annual financial reports

Other Trends

A total of 94 audited entities (1 county, 25 municipalities and 68 special districts) reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2008, as compared to 87 as of September 30, 2004. Of these, 47 also experienced declining levels of cash and investments as compared to current liabilities over the past three to five years in governmental funds, proprietary funds, or both, as compared to 44 for the 2003-04 fiscal year. In addition, 84 special districts, reporting via annual financial reports, reported cash and investments in amounts that were not sufficient to cover current liabilities as of September 30, 2008. Declining levels

⁵ Table 6 includes 1 municipality and 103 special districts that reported no unreserved/unrestricted fund equity, and 17 special districts that reported deficit unreserved/unrestricted fund equity, on their 2007-08 fiscal year annual financial reports. Table 6 also includes 71 special districts and 4 municipalities that reported losses in either governmental or proprietary funds, and 69 special districts and 4 municipalities that reported net losses when both governmental and proprietary funds were considered, on their 2007-08 fiscal year annual financial reports.

of cash and investments as compared to current liabilities may indicate that the local governmental entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet its current needs.

As shown in Table 7, long-term debt reported for governmental activities increased by a total of \$6.4 billion, or 30 percent, from the 2003-04 to the 2007-08 fiscal year for entities from which we received audit reports for both fiscal years.

Table 7
Long-Term Debt – Governmental Activities
(in billions)

	Fiscal Year		Amount of Increase	Percentage Increase
	2004	2008		
Counties	\$ 8.5	\$12.1	\$3.6	42
Municipalities	8.3	10.6	2.3	28
Special Districts	4.4	4.9	.5	11
Totals	\$21.2	\$27.6	\$6.4	30

Source: Audit reports

Increasing long-term debt, especially when combined with the economic downturn discussed below, may result in the long-term debt exceeding a local government’s resources for paying the debt, and the local governmental entity may, therefore, have difficulty obtaining additional capital funds, have to pay a higher interest rate for them, and have difficulty repaying the debt.

Economic Downturn

Weakness in the State of Florida’s economy continued during the 2007-08 fiscal year resulting in decreased taxes and other revenues. Further economic weakness was experienced in the 2008-09 fiscal year and into the 2009-10 fiscal year, resulting in revenue sharing reductions to local governmental entities. Under these conditions, effective financial monitoring and timely and appropriate adjustments to operations are critical to local governmental entities to ensure that the costs of operations remain within available financial resources.

SIGNIFICANT FINDINGS

Modified Audit Opinions

Audit findings of the greatest significance include those that have a material impact on the fair presentation of the financial statements and may result in a modification of the independent auditor’s opinion on the financial statements. Modified opinions include: (1) qualified opinions, whereby the auditor states that except for the effects of the matter(s) to which the qualification relates, the financial statements are fairly presented; (2) adverse opinions, whereby the auditor states that the financial statements are not fairly presented; and (3) disclaimers of opinion, whereby the auditor does not express an opinion. As shown in Table 8, 10 of the 1,526 audit reports reviewed (including 388 county agencies, 381 municipalities, and 757 special districts) for the 2007-08 fiscal year contained modified opinions.

Table 8

Entity Name	Qualified Opinion	Adverse Opinion	Disclaimer of Opinion
Hillsborough County Supervisor of Elections	X		
Washington County Board of County Commissioners	X		
Town of Altha	X		
Town of Lake Hamilton			X
City of South Bay		X	
City of Vernon		X	
City of Webster	X		
Escambia County Law Library	X		
North Naples Fire Control and Rescue District	X		
St. Augustine Port, Waterway and Beach District	X		

Source: Audit reports

Most of the qualified opinions and both of the adverse opinions were the result of inadequate documentation to support capital assets. The disclaimer of opinion was issued because financial and other information provided to the auditor was too limited to warrant the expression of an opinion. The overall percentage of 2007-08 fiscal year reports that included modified opinions remained the same as the prior fiscal year.

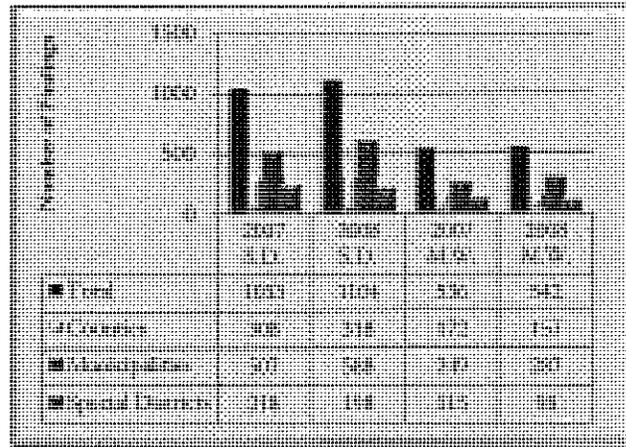
Classification of Audit Findings

Auditing standards require that auditors report significant control deficiencies and material weaknesses in internal control that are disclosed during the course of a financial statement audit. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the local governmental entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected.

Of the 1,526 audit reports reviewed (388 county agencies, 381 municipalities, and 757 special districts), 430 (28 percent) reported a significant deficiency(ies), of which 244 (16 percent) included a material weakness(es). A summary, by type of local governmental entity and category of finding, of reports including findings classified by auditors as significant deficiencies and material weaknesses is included as Exhibit C.

Of the 2,821 findings included in the audit reports reviewed, 1,104 (39 percent) were considered significant deficiencies, of which 542 (19 percent) were considered material weaknesses. In addition, as shown in Table 9, the number of significant deficiencies and material weaknesses increased by 71 (from 1,033 to 1,104, or 7 percent) and 6 (from 536 to 542, or 1 percent), respectively, compared to the prior fiscal year.

**Table 9
Number of Findings Classified as Significant
Deficiencies and Material Weakness**



Source: Audit reports

Significant Deficiencies and Other Audit Findings

We established categories of findings and classified the various audit findings included in the county, municipality, or special district audit reports accordingly. Summaries of the predominant and most significant audit findings included in audit reports reviewed for 388 county agencies, 381 municipalities, and 757 special districts for the 2007-08 fiscal year are presented below by category. In addition, a summary of the number of reports including predominant and significant audit findings by type of local governmental entity, with comparative prior fiscal year information, is included as Exhibit D.

Separation of Duties. For 72 (19 percent) of the county agency reports, 80 (21 percent) of the municipality reports, and 48 (6 percent) of the special district reports, findings were noted regarding an inadequate separation of duties or responsibilities. This represents 13 percent of all reports and a 1 percent increase in the percentage of reports with similar findings compared to the prior fiscal year. Inadequate separation of duties or responsibilities increases the possibility that errors or irregularities may occur and not be detected on a timely basis and diminishes the local governmental entity’s ability to properly safeguard assets. Many of these involved instances in which the county agencies, municipalities, and special districts contended that their staffs were small and it was not feasible economically to further separate duties or responsibilities. However, there were several instances in which the auditor recommended that the county agency, municipality, or special district reassign duties and responsibilities or establish compensating controls.

Policies and Procedures. For 15 (4 percent) of the county agency reports, 45 (12 percent) of the municipality reports, and 21 (3 percent) of the special district reports, policies and procedures were not established or were not followed to ensure that public business was conducted in accordance with laws, rules, ordinances, or good business practices. This represents 5 percent of all reports and is the same percentage of reports with similar findings compared to the prior fiscal year.

Budget Administration. For 23 (6 percent) of the county agency reports, 66 (17 percent) of the municipality reports, and 37 (5 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements for adopting and amending the budget, or inadequate budgetary controls. This represents 8 percent of all reports and a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year.

These findings included problems relating to failure to properly adopt a budget, inadequate budgetary policies, failure to budget for all funds or projects, and overexpended budgets. Examples included a tax collector that did not budget extra compensation in accordance with state law, a municipality that overexpended its budget at the legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations), and a special district that did not document a formal policy for its budget development and monitoring process. Such budgetary problems affect an entity's ability to demonstrate to the citizenry its proper use of public resources, and could result in inefficient or inappropriate use of its resources, resulting in deteriorating financial conditions.

General Accounting Records. For 55 (14 percent) of the county agency reports, 141 (37 percent) of the municipality reports, and 83 (11 percent) of the special district reports, findings were noted regarding inadequate accounting or other records, lack of subsidiary records or failure to timely reconcile subsidiary records to general ledger control accounts, and improper recording of transactions to the accounting records. This represents 18 percent of all reports and a 1 percent increase in the percentage of reports with similar findings compared to the prior fiscal year. Examples included a board of county commissioners that did not monitor and reconcile account balances resulting in significant audit adjusting entries, a municipality that had not properly accounted for its component units, and a special district that did not follow uniform accounting practices contrary to State law. Such recordkeeping problems affect an entity's ability to monitor its use of public resources, and increases the risk of inappropriate or inefficient use of its resources. Improper recording of transactions also affects the reliability of the entity's reporting of its financial position and results of its operations.

Financial Reporting. For 59 (15 percent) of the county agency reports, 93 (24 percent) of the municipality reports, and 56 (7 percent) of the special district reports, findings were noted relating to the reporting of financial data either externally or within the local governmental entity. This represents 14 percent of all reports and a 1 percent increase of reports with similar findings compared to the prior fiscal year. Examples included a sheriff that did not report financial information to the clerk or external auditors in a timely manner, a municipality that failed to submit reports to the State Treasurer contrary to State law, and a special district that requested assistance from the external auditors in preparing its financial statements. Such financial reporting problems affect an entity's ability to demonstrate compliance with legal and contractual requirements, and to provide assurance to interested parties (including its governing body) that it is in sound financial condition and is using its public resources in an efficient and appropriate manner.

Cash. For 15 (4 percent) of the county agency reports, 57 (15 percent) of the municipality reports, and 14 (2 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks. This represents 6 percent of all reports and is the same percentage of reports with similar findings compared to the prior fiscal year. These findings included inadequate or untimely bank reconciliations, stale-dated checks, inaccurate recording of cash transactions, and other cash accountability issues, including noncompliance with applicable legal requirements. Examples included a sheriff that did not monitor and account for all cash accounts, a municipality with deficit cash balances in multiple funds, and a special district that did not properly document completion and management review of bank reconciliations. Such cash accountability problems increase the risk that unauthorized disbursements or losses of cash could occur without being promptly detected.

Capital Assets. For 28 (7 percent) of the county agency reports, 104 (27 percent) of the municipality reports, and 46 (6 percent) of the special district reports, findings were noted regarding noncompliance with legal requirements pertaining to capital assets and the improper use of, and lack of accountability for, capital assets. This represents 12 percent of all reports and a 1 percent increase in the percentage of reports with similar findings compared to the

prior fiscal year. These findings included inadequate or lack of capital asset records, failure to timely reconcile subsidiary capital asset records to general ledger control accounts, failure to perform an annual inventory and compare the inventory to capital asset records, failure to properly identify or tag property, and unauthorized disposals of capital assets. Examples included a board of county commissioners that erroneously capitalized expenditures resulting in a material restatement of previously issued financial statements, a municipality that failed to record over \$100 million in infrastructure contributed by the county in the prior fiscal year, and a special district that had not properly recorded property in the accounting records. Capital asset accountability problems affect an entity's ability to safeguard capital assets and increase the risk that such assets could be misappropriated without being promptly detected.

Revenues/Collections. For 33 (9 percent) of the county agency reports, 100 (26 percent) of the municipality reports, and 28 (4 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable. This represents 11 percent of all reports and a 2 percent increase in the percentage of reports with similar findings compared to the prior fiscal year. These findings included improper recording of revenue or accounts receivable transactions, improper documentation for the receipt of revenues, lack of an adequate fee structure, untimely deposits, and deposits not made intact. Examples included a tax collector that did not issue warrants on all applicable delinquent personal property taxes and attempt seizure of the property, a municipality that failed to maintain adequate supporting documentation of utility billing and collection transactions, and a special district that was aware of an overbilled customer, but did not correct it. Such revenue and accounts receivable problems affect an entity's ability to ensure that cash collections are safeguarded against loss from unauthorized use or disposition. Failure to assess and collect all revenues to which the entity is entitled could contribute to deteriorating financial conditions.

Payroll and Personnel Administration. For 38 (10 percent) of the county agency reports, 71 (19 percent) of the municipality reports, and 15 (2 percent) of the special district reports, findings were noted regarding inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration. This represents 8 percent of all reports and a 1 percent increase in the percentage of reports with similar findings compared to the prior fiscal year. These findings included improper authorization and payment of salaries and benefits to employees, improper recording of payroll/personnel transactions, failure to properly and timely remit payroll taxes withheld, and other payroll/personnel matters. Examples included a sheriff that awarded bonuses that were not in accordance with a county ordinance, and ultimately resulted in alleged criminal activity, a municipality that overpaid retirement benefits made to the Florida Retirement System, and a special district that did not file its quarterly payroll tax returns. Such personnel and payroll problems affect an entity's ability to demonstrate compliance with legal requirements and increases the risk of inappropriate or inefficient use of public resources.

Purchasing/Contract Management. For 29 (7 percent) of the county agency reports, 72 (19 percent) of the municipality reports, and 15 (2 percent) of the special district reports, findings were noted regarding procurement of goods or services and contract or grant management. This represents 8 percent of all reports and a 1 percent decrease in the percentage of reports with similar findings compared to the prior fiscal year. These findings included lack of monitoring and compliance with grant provisions, failure to use purchase orders, lack of documented prior approval for purchases, noncompliance with bid/quotation requirements, and lack of documentation of receipt of goods or services. Examples included a board of county commissioners that did not verify and document vendor status with the Federal Excluded Parties List System (EPLS), a municipality that had not received reimbursements for approximately \$40 million of qualifying reimbursable grant expenditures due to untimely submittal and improper documentation, and a special district that did not follow purchasing procedures by approving and authorizing a purchase after payment was made. Such purchasing/contract management problems affect an entity's ability to

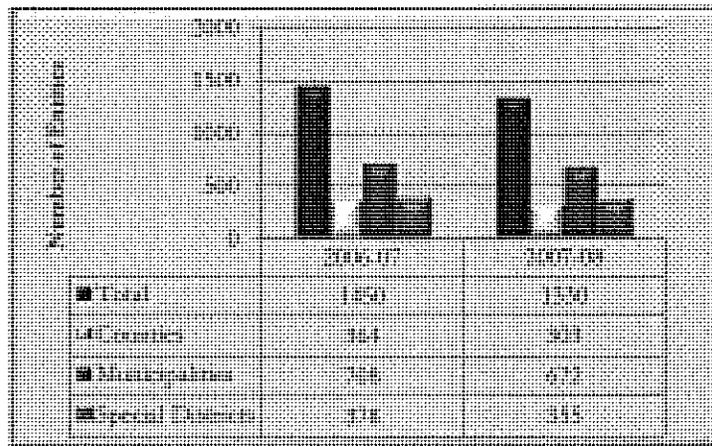
demonstrate compliance with legal and contractual requirements and to monitor its use of public resources increasing the risk of inappropriate or inefficient use of public resources.

Expenditures/Expenses. For 27 (7 percent) of the county agency reports, 65 (17 percent) of the municipality reports, and 28 (4 percent) of the special district reports, findings were noted regarding the expenditure of public funds. This represents 8 percent of all reports and is the same percentage of reports with similar findings compared to the prior fiscal year. These findings included expenditures/expenses that were not properly documented, approved, or recorded; could be made more efficiently; or were not made in compliance with legal guidelines, laws, rules, or procedures. Examples included a sheriff that paid expenses that did not appear to be essential for public purposes, a municipality that did not properly account for vehicle fuel expenditures, and a special district whose lack of internal controls over expenditures resulted in an invoice being paid twice. Such expenditure/expense problems affect an entity's ability to demonstrate compliance with legal requirements, and increase the risk of inappropriate or inefficient use of public resources.

Detail of Audit Findings

Chapter 10.550, Rules of the Auditor General, prescribes the required elements of audit report findings. Of the 2,821 findings in the audit reports reviewed, 1,330 (47 percent) did not include one or more of the required elements. As shown in Table 10, the total number of insufficiently detailed findings reported for the 2007-08 fiscal year decreased compared to the prior fiscal year.

**Table 10
Insufficiently Detailed Findings**



Source: Auditor General

The total percentage of insufficiently detailed findings for the 2007-08 fiscal year decreased from 53 to 47 percent compared to the prior fiscal year. However, the total number and percentage of insufficiently detailed findings remains high. Most such findings did not adequately provide one or more of the following, contrary to Section 10.557(6), Rules of the Auditor General:

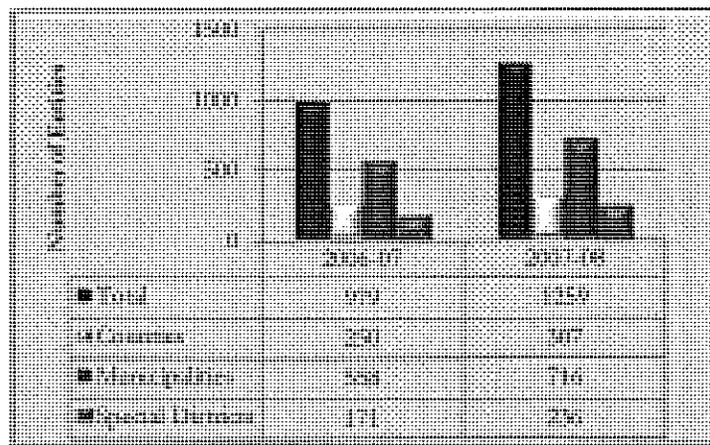
- A description of the criteria or specific requirement upon which the audit finding was based (e.g., statutory, regulatory, or other citation).
- A description of the condition found, including facts that support the deficiency identified in the finding.
- A proper perspective for judging the prevalence and consequences of the finding, such as whether the findings represent an isolated instance or a systemic problem (e.g., the number of records examined and the quantity or dollar value of deficiencies noted).

Inadequately written audit findings make it difficult for audit report users to determine the exact nature of the problem addressed in the finding and necessary corrective action. This may have contributed to the percentage of repeated findings discussed below.

RECOMMENDATION FOR THE LEGISLATURE

A significant number of the findings included in audit reports for the 2007-08 fiscal year were also included in audit reports for the prior fiscal year. Of the 2,821 findings included in the audit reports reviewed, 1,259 (45 percent) were repeated from the prior fiscal year audit reports. In addition, of the 1,104 findings identified as significant deficiencies, and the 542 identified as material weaknesses, 567 (51 percent) and 316 (58 percent), respectively, were repeated from the prior fiscal year audit reports. As shown in Table 11, there was an increase in the total number of repeated prior fiscal year findings for the 2007-08 fiscal year compared to the prior fiscal year. The percentage of repeated prior year findings to total findings increased from 36 to 45 percent.

**Table 11
Repeated Prior Fiscal Year Findings**



Source: Audit reports

Many of these repeated findings for the 2007-08 fiscal year were also included in 2005-06 fiscal year audit reports. The percentage of repeated findings indicates that some county agencies, municipalities, and special districts are not addressing audit findings in a timely manner.

Recommendation: The Legislature should consider amending Section 218.39, Florida Statutes, to include provisions that encourage local governmental entities to take timely and appropriate action to address audit findings.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this project, for the audit reports submitted to us from local governmental entities, and the annual financial reports obtained from the Florida Department of Financial Services (FDPS), were to:

- Identify significant financial trends and findings based on our review of the audit reports; and
- Identify financial trends using information from the annual financial reports. Although all local governmental entities are required to file annual financial reports with the FDPS, all references to annual financial reports in

this report pertain only to those we used in determining financial trends for unaudited entities. As a result, financial trends based on annual financial reports included herein are based, in part, on unverified amounts.

The scope of this project included a review of 2007-08 fiscal year audit reports for 66 counties (which included 388 individual county agency reports), 381 municipalities, and 757 special districts prepared by independent CPAs and submitted to us by February 1, 2010. The scope also included 6 municipality and 202 special district annual financial reports submitted to FDFS pursuant to Section 218.32(1)(e), Florida Statutes, by entities that were not required to provide for an audit. In addition, the scope included a review of audit reports received through February 15, 2010, for the purpose of identifying entities that were reported as having met a condition specified in Section 218.503(1), Florida Statutes, and to accumulate selected information for community development districts.

Our methodology included a review of applicable audit reports and annual financial reports and a compilation of significant financial trends and findings. We conducted this review in accordance with applicable generally accepted government auditing standards. We believe that the procedures performed provide a reasonable basis for the summaries of significant financial trends and findings included in this report.

AUTHORITY

Pursuant to the provisions of Section 11.45(7)(f), Florida Statutes, I have directed that this report be prepared to present the summary of significant financial trends and findings identified in local governmental entity audit reports prepared by independent certified public accountants or, for entities not required to provide for an audit, local governmental entity annual financial reports, for the fiscal year ended September 30, 2008.



David W. Martin, CPA
Auditor General

Exhibit A - Community Development Districts
For Which Auditors Indicated a Condition in Section 218.503(1), F.S., was Met
Or Indicated Other Serious Matters Affecting Financial Condition at or Subsequent to September 30, 2008
As Noted in 2007-08 Audit Reports Received as of February 15, 2010

CDD Name	Creation Year	County	9/30/08 Unreserved/ Unrestricted Fund Balance/ Net Assets Deficit	9/30/08 Bonds Outstanding	Going Concern	Failure to Pay Claims within 90 days	Failure to Make Bond Payment or Paid From Reserves	Failure of Developer or Significant Landowner to Provide Funding	Bankruptcy, Foreclosure, or Similar Issues
Arborwood CDD	2004	Lee		\$186,909,850				X	X
Arlington Ridge CDD	2003	Lake	\$ (94,250)	15,450,000			X		X
Avenues Walk CDD	2007	Duval		0					
Belmont CDD	2006	Hillsborough		29,455,000	X		X	X	X
Capron Trail CDD	1988	St. Lucie	(90,027)	0					
ChampionsGate CDD	1998	Osceola	(56,042)	13,955,000					
Clearwater Cay CDD	2005	Pinellas		33,385,000			X	X	X
Coral Keys Homes CDD	2005	Miami-Dade	(14,060)	0				X	X
Cordoba Ranch CDD	2005	Hillsborough	(122,764)	10,085,000	X	X	X	X	X
Creeside CDD	2005	St. Lucie	(43,527)	10,445,000			X	X	X
Crossings at Fleming Island CDD	1989	Clay	(8,519,777)	90,865,000					
East Bonita Beach Road CDD	2008	Lee	(11,084)	0					
Enclave at Black Point Marina CDD	2006	Miami-Dade	(8,752)	11,125,000			X	X	X
Estates at Cherry Lake CDD	2005	Lake	(105,010)	11,385,000			X	X	X
Fiddler's Creek CDD #2	2002	Collier	(108,203)	80,610,000			X	X	
Forest Creek CDD	2005	Manatee	(976,807)	15,475,000					
Harbor Bay CDD	1999	Hillsborough	(92,644)	22,150,000					
Harrison Ranch CDD	2007	Manatee	(3,840)	12,720,000					
Heritage Isles CDD	1997	Hillsborough	(646,800)	6,990,000					
Heritage Lake Park CDD	2004	Charlotte	(12,560)	6,640,000					
Highlands CDD	2003	Hillsborough		24,600,000			X	X	X
K-Bar Ranch CDD	2005	Hillsborough		5,470,000			X	X	
Lakeside CDD	2007	Pasco	(22,005)	0					
Lakewood Ranch CDD #6	2003	Manatee	(35,716)	13,890,000					
Landmark at Doral CDD	2005	Miami-Dade	(57,710)	71,500,000	X		X	X	
Midtown Miami CDD	2003	Miami-Dade	(11,461,841)	103,015,000					
Naturewalk CDD	2005	Walton		19,820,000		X		X	
New Port - Tampa Bay CDD	2005	Hillsborough		49,565,000			X	X	X
Old Palm CDD	2002	Palm Beach		20,950,000	X		X	X	X

**Exhibit A (Continued) - Community Development Districts
For Which Auditors Indicated a Condition in Section 218.503(1), F.S., was Met
Or Indicated Other Serious Matters Affecting Financial Condition at or Subsequent to September 30, 2008
As Noted in 2007-08 Audit Reports Received as of February 15, 2010**

CDD Name	Creation Year	County	9/30/08 Unreserved/Unrestricted Fund Balance/Net Assets/Deficit	9/30/08 Bonds Outstanding	Going Concern	Failure to Pay Claims within 90 days	Failure to Make Bond Payment or Paid From Reserves	Failure of Developer or Significant Landowner to Provide Funding	Bankruptcy, Foreclosure, or Similar Issues
Palm Bay CDD	1993	Hillsborough	\$ (43,055)	\$ 340,000					
Palm River CDD	2006	Hillsborough	(14,196)	6,490,000			X	X	X
Panther Trace II CDD	2003	Hillsborough	(49,701)	34,485,000					
Pine Island CDD	2004	Lake		25,845,000				X	X
Portofino Cove CDD	2006	Lee	(9,123)	6,265,000			X	X	X
Portofino Isles CDD	2002	St. Lucie	(12,943)	12,845,000			X	X	X
Portofino Landings CDD	2006	St. Lucie	(7,192)	7,280,000			X	X	
Portofino Vineyards CDD	2006	Lee	(28,290)	0				X	
River Glen CDD	2005	Nassau		10,390,000			X	X	
River Hall CDD	2005	Lee		25,745,000			X	X	
Riverwood Estates CDD	2006	Pasco	(209,983)	22,805,000	X	X	X	X	X
South Bay CDD	2004	Hillsborough	(7,448)	55,215,000			X	X	X
Southern Hills Plantation I CDD	2004	Hernando		11,895,000			X	X	X
Southern Hills Plantation II CDD	2004	Hernando		3,320,000				X	X
Southern Hills Plantation III CDD	2004	Hernando		0					X
Spring Ridge CDD	2000	Hernando		5,710,000			X	X	X
Stoneybrook CDD	1998	Lee	(280,098)	10,775,000			X		
Stoneybrook South CDD	2006	Osceola	(27,007)	48,470,000				X	
Tern Bay CDD	2004	Charlotte	(336,282)	56,455,000			X	X	X
Tison's Landing CDD	2005	Duval		36,715,000			X	X	X
Viera East CDD	1991	Brevard	(859,390)	28,750,000					
Villages of Avignon CDD	2006	Manatee	(129,258)	2,485,000	X	X	X	X	X
Waterford Estates CDD	2006	Charlotte	(20,518)	12,715,000			X	X	X
Waterlefe CDD	2000	Manatee	(10,943,701)	12,370,000			X		X
Waterstone CDD	2006	St. Lucie		16,585,000			X	X	X
Westridge CDD	2003	Polk	(20,109)	25,495,000	X	X	X	X	X
Woodland Hammock CDD	2006	Manatee	(5,977)	0					
Woodlands CDD	2004	Sarasota	(6,945)	30,285,000			X	X	X
Wyld Palms CDD	2006	Citrus		15,535,000				X	
Zephyr Ridge CDD	2005	Pasco		10,375,000		X			

EXHIBIT B
FINANCIAL INDICATORS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

Financial Indicator	Warning Trend
Unreserved Fund Balance + Unrestricted Net Assets (Constant \$)	Declining results may indicate that the entity could have difficulty maintaining a stable tax and revenue structure or adequate level of services. Deficits may indicate a financial emergency.
Unreserved Fund Balance/Total Expenditures	Percentages decreasing over time may indicate unstructured budgets that could lead to future budgetary problems for the entity even if current fund balance is positive.
Cash & Investments/Current Liabilities Cash & Investments/Total Expenditures or Expenses Divided by 12	Percentages decreasing over time may indicate that the entity has overextended itself in the long run or may be having difficulty raising the cash needed to meet current needs.
Current Liabilities/Total Revenues or Total Operating Revenues	Increasing results may indicate liquidity problems, deficit spending, or both.
Long-Term Debt/Population	Percentages increasing over time may indicate that the entity has a decreasing level of flexibility in how resources are allocated or decreasing ability to pay long-term debt.
Excess of Revenues Over (Under) Expenditures/Total Revenues	Decreasing surpluses or increasing deficits may indicate that current revenues are not supporting current expenditures.
Operating Income(Loss)/Total Operating Revenues	Decreasing income or increasing losses may indicate that current revenues are not supporting current expenses.
Intergovernmental Revenues/Total Revenues or Total Operating Revenues	Percentages increasing over time indicate a greater risk assumed by the entity due to increased dependence on outside revenues.
Unreserved Fund Balances or Unrestricted Net Assets/Total Revenues or Total Operating Revenues	Decreasing results may indicate a reduction in the entity's ability to withstand financial emergencies or fund capital purchases without having to borrow.
Total Revenues (Constant \$)/Population	Decreasing results indicate that the entity may be unable to maintain existing service levels with current revenue sources.
Debt Service/Total Expenditures	Percentages increasing over time may indicate the entity has declining flexibility to respond to economic changes.
Total Expenditures or Expenses (Constant \$)/Population	Increasing results may indicate that costs of providing services are outstripping the entity's ability to pay (i.e., entity may be unable to maintain services at current levels).
Millage Rate	Millage rates approaching the statutory limit may indicate that the entity has a reduced ability to raise additional funds when needed.

Note: For some of the financial indicators, it is necessary to adjust for inflation by translating current dollars into constant dollars.

EXHIBIT C
SUMMARY OF NUMBER OF REPORTS INCLUDING SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
BY FINDING CATEGORY BY LOCAL GOVERNMENTAL ENTITY TYPE
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

Category	Counties		Municipalities		Special Districts		Total	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
<i>Separation of Duties</i> – Findings related to inadequate separation of duties	62	41	64	36	40	14	166	91
<i>Policies and Procedures</i> – Findings related to general lack of policies and procedures	5	1	16	0	3	1	24	2
<i>Budget Administration</i> – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	5	1	5	0	1	0	11	1
<i>General Accounting Records</i> – Findings related to inadequate accounting or other records, failure to timely reconcile subsidiary records to control accounts, or inadequate recording of transactions (excludes capital assets)	41	23	82	54	41	20	164	97
<i>Financial Reporting</i> – Findings related to reporting of financial data externally or within the local governmental entity	53	30	76	43	52	40	181	113
<i>Cash</i> – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	7	4	20	9	1	1	28	14
<i>Capital Assets</i> - Findings related to noncompliance with legal requirements pertaining to capital assets and the improper use of, and lack of accountability for, capital assets	16	7	49	29	13	7	78	43
<i>Revenues/Collections</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	6	3	34	19	8	5	48	27
<i>Payroll and Personnel Administration</i> - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	7	2	17	8	2	0	26	10
<i>Purchasing/Contract Management</i> - Findings related to problems with procurement of goods or services and contract or grant management	12	4	21	10	4	1	37	15
<i>Expenditures/Expenses</i> - Findings related to the expenditure of public funds	10	1	21	6	4	2	35	9

(1) Significant Deficiencies (2) Material Weaknesses

EXHIBIT D
SUMMARY OF NUMBER OF REPORTS INCLUDING PREDOMINANT AND SIGNIFICANT AUDIT FINDINGS
BY FINDING CATEGORY BY LOCAL GOVERNMENTAL ENTITY TYPE
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2007 AND 2008

Category	Counties		Municipalities		Special Districts		Total	
	Fiscal Year		Fiscal Year		Fiscal Year		Fiscal Year	
	2007	2008	2007	2008	2007	2008	2007	2008
Separation of Duties – Findings related to inadequate separation of duties	56	72	69	80	50	48	175	200
Policies and Procedures – Findings related to general lack of policies and procedures	9	15	40	45	23	21	72	81
Budget Administration – Findings related to noncompliance with legal requirements relating to budgets or inadequate budgetary controls	27	23	64	66	40	37	131	126
General Accounting Records – Findings related to inadequate accounting or other records, failure to timely reconcile subsidiary records to control accounts, or inadequate recording of transactions (excludes capital assets)	64	55	117	141	67	83	248	279
Financial Reporting – Findings related to reporting of financial data externally or within the local governmental entity	44	59	89	93	53	56	186	208
Cash – Findings related to inadequate controls or noncompliance with legal requirements pertaining to cash on hand or held by banks	20	15	49	57	24	14	93	86
Capital Assets - Findings related to noncompliance with legal requirements pertaining to capital assets and the improper use of, and lack of accountability for, capital assets	27	28	90	104	46	46	163	178
Revenues/Collections - Findings related to inadequate controls or noncompliance with legal requirements pertaining to revenues and accounts receivable	31	33	82	100	25	28	138	161
Payroll and Personnel Administration - Findings related to inadequate controls or noncompliance with legal requirements pertaining to payroll and personnel administration	19	38	66	71	17	15	102	124
Purchasing/Contract Management - Findings related to problems with procurement of goods or services and contract or grant management	33	29	77	72	27	15	137	116
Expenditures/Expenses - Findings related to the expenditure of public funds	24	27	66	65	23	28	113	120

Local Government
Financial Emergencies



Financial Emergencies

Duties of the
Chief Inspector General
Executive Office of the
Governor

Presentation
Joint Legislative Auditing
Committee
March 8, 2010



Governor's Authority

- Section 218.503, Florida Statutes, provides that local governmental entities (counties, municipalities or special districts) shall be subject to the review and oversight by the Governor when one of the conditions described in subsection (1)



Financial Emergency Conditions

- Failure to pay short-term loans or make long-term debt service payments due to a lack of funds
- Failure to pay uncontested claims from creditors within 90 days, as a result of a lack of funds
- Failure to pay employees taxes or benefits, due to a lack of funds
- Fund balance or net assets deficit for which sufficient resources are not available to cover



Governor's Designee

The Chief Inspector General has been designated by the Governor to:

- Receive notifications from the local governmental entities and the Auditor General
- Contact entity officials to determine what actions have been taken to resolve the condition
- Determine if state assistance is needed by an entity
- For financial emergency entities, determine if state assistance is no longer needed
- Determine if an entity is eligible for release from financial emergency status
- Recommend to the Governor entities to be released from financial emergency status



Notification to the Governor

- **Local Governmental Entity**
 - when one or more of the conditions specified in subsection (1) have occurred or will occur if action is not taken

- **Auditor General**
 - when audit report reviewed which contains a statement that a local governmental entity has a financial emergency



Financial Emergency Determination

- **Prior to 2004**
 - If an entity met a financial emergency condition, they were automatically declared to be in a state of financial emergency, regardless of the reason for the deficit.

- **After 2004**
 - If an entity meets a financial emergency condition, the Governor's designee will determine what actions have been taken to resolve the condition. If it is determined that State assistance is needed, the entity will be declared to be in a state of financial emergency.



Chief Inspector General's Financial Emergency Committee

- Legislative Auditing Committee -
Debbie White
- Legislative Committee on
Intergovernmental Relations -
Rip Colvin
- Department of Financial Services -
Burton Marshall



Financial Emergency Committee (cont.)

- Auditor General's Office
- Department of Community Affairs
- Department of Revenue
- Department of Environmental Protection
- Office of Policy and Budget
- Office of Tourism, Trade and Economic
Development



State Assistance

- Requiring approval of the entity's budget;
- Prohibiting an entity from issuing bonds or notes;
- Reviewing records and reports;
- Consulting with officials and auditors regarding steps to bring entity into compliance with State laws;
- Requiring and approving a plan to remove the entity from financial emergency status; *and/or*
- Establishing a financial emergency board



Governor's Financial Emergency Board

- Members appointed by and Chair selected by the Governor
- Reviews records, reports and assets
- Reviews operations, management, efficiency, productivity and financing functions
- Submits recommendations to the Governor



Release from Financial Emergency Status

■ Requirements

- The original financial emergency condition has been resolved,
- No new financial emergency conditions exist, *and*
- The entity has established and is operating an effective financial accounting and reporting system.



Entities Released

- City of Bowling Green
- City of Ponce de Leon
- City of Minneola
- City of Sneads
- Gateway Services District
- Hendry-Hilliard Water Control District
- Performing Arts Center Authority - Broward County
- Tampa-Hillsborough Expressway Authority

2008-2009 Fiscal



**Executive Office of the
Governor**

Governor Charlie Crist

Melinda M. Miguel

Chief Inspector General

(850) 922-4637

melinda.miguel@eog.myflorida.com

**Local Governmental Entities in Financial Emergency Status
As of June 30, 2009**

LOCAL GOVERNMENTAL ENTITIES	
1.	Caryville, Town of
2.	Crossings at Fleming Island Community Development District
3.	Cypress Cove Community Development District
4.	Deer Island Community Development District *
5.	Disston Island Conservancy District
6.	East Manatee Fire Rescue District (formerly Braden River) *
7.	Eastpoint Sewer and Water District *
8.	Eatonville, Town of
9.	Escambia-Pensacola Human Relations Commission *
10.	Falls Chase Community Development District
11.	Gretna, City of
12.	Hamilton County Development Authority
13.	Hampton, City of
14.	Hawthorne, City of
15.	Hendry County Hospital Authority
16.	Heritage Harbor Community Development District
17.	Heritage Isles Community Development District
18.	Horseshoe Beach, Town of *
19.	Indian Creek Village
20.	Indian River County Hospital District
21.	Lake Bernadette Community Development District *
22.	Lanark Village Water and Sewer District
23.	Laurel Hill, City of
24.	Leon County Educational Facilities Authority
25.	Noma, Town of
26.	Ocean Highway and Port Authority of Nassau County
27.	Pahokee, City of
28.	Paxton, City of
29.	Port of the Islands Community Improvement District *
30.	Reserve Community Development District
31.	Sebastian River Water Control District
32.	South Bay, City of
33.	St. John's Water Control District
34.	St. Lucie County Expressway and Bridge Authority
35.	St. Lucie West Services District
36.	Stoneybrook Community Development District
37.	Stoneybrook West Community Development District *
38.	Suwannee Valley Transit Authority
39.	Suwannee Water and Sewer District
40.	Viera East Community Development District
41.	Wausau, Town of *
42.	Webster, City of
43.	Welaka, Town of
44.	West Palm Beach Downtown Development Authority
45.	Westville, Town of
46.	Yankeetown, Town of

* entities currently being analyzed to determine if they are eligible for release

Harrell, Jason

From: Harrell, Jason
Sent: Tuesday, February 16, 2010 3:24 PM
To: 'sconnolly@dms-us.com'
Subject: Panther Trace II Community Development District - Financial Emergency Information Request

Stephen R Connolly
Treasurer
Panther Trace II Community Development District
Sconnolly@dms-us.com

The Auditor General notified the Office of the Governor on February 15, 2010 that the audit report for Panther Trace II Community Development District for the fiscal year ended September 30, 2008, indicated that the District met the condition described in Section 218.503(1), Florida Statutes. The condition is described as an unreserved fund balance deficit of \$49,701. Additionally, the auditors indicated that the condition was not the result of deteriorating financial conditions.

Section 218.503, Florida Statutes, requires the Governor or his designee (the Office of the Chief Inspector General) to determine whether the District needs state assistance as listed in that Section to resolve the condition. Please provide the following information for our review and assessment:

1. What was the cause of the unreserved fund balance deficit of \$49,701?
2. What specific actions have been taken by the District to resolve the condition?
3. What additional actions are planned to resolve the condition?
4. What is the estimated time frame for resolution?
5. Did the District meet a financial emergency condition as of September 30, 2009? If so, what was the amount?
6. Is state assistance needed to resolve the condition? If so, please describe in detail.

Please respond to these questions by February 23, 2010. You may provide your response to me at Jason.Harrell@myflorida.com, or via regular mail at Office of the Chief Inspector General, Executive Office of the Governor, The Capitol, Room 2103, Tallahassee, FL 32399-0001. If you have any questions, please contact Kim Mills, Director of Auditing at Kim.Mills@Myflorida.com or (850) 414-8369. Thank you for your attention to this matter.

Jason Harrell
Executive Office of the Governor
Office of the Chief Inspector General
(850) 487-0115

Harrell, Jason

From: Harrell, Jason
Sent: Tuesday, February 16, 2010 3:38 PM
To: 'SBloom@SevernTrentMS.com'
Subject: Heritage Isles Community Development District - Financial Emergency Information Request

Stephen Bloom
Accounting Manager
Heritage Isles Community Development District
Sbloom@severntrentms.com

The Auditor General notified the Office of the Governor on February 10, 2010 that the audit report for Heritage Isles Community Development District for the fiscal year ended September 30, 2008, indicated that the District met the condition described in Section 218.503(1) (e), Florida Statutes. The condition is described as an unreserved fund balance and unrestricted net assets deficit of \$646,800.

Section 218.503(3), Florida Statutes, requires the Governor or his designee (the Office of the Chief Inspector General) to determine whether the City needs state assistance as listed in that Section to resolve the condition. *The District has been in a state of financial emergency since 2002 and, as long as deficits occur, will continue to be designated as an entity in financial emergency. However, we must continue to monitor the financial condition of the District.* Please provide the following information for our review and assessment:

1. What was the cause of the unreserved fund balance and unrestricted net assets deficit of \$646,800?
2. What specific actions have been taken by the District to resolve the condition?
3. What additional actions are planned to resolve the condition?
4. What is the estimated time frame for resolution?
5. Did the District meet a financial emergency condition as of September 30, 2009? If so, what was the amount?
6. Is state assistance needed to resolve the condition? If so, please describe in detail.

Please respond to these questions by February 23, 2010. You may provide your response to me at Jason.Harrell@myflorida.com, or via regular mail at Office of the Chief Inspector General, Executive Office of the Governor, The Capitol, Room 2103, Tallahassee, FL 32399-0001. If you have any questions, please contact Kim Mills, Director of Auditing at Kim.Mills@Myflorida.com or (850) 414-8369. Thank you for your attention to this matter.

Jason Harrell
Executive Office of the Governor
Office of the Chief Inspector General
(850) 487-0115

2/16/2010

Executive Office of the Governor
Office of the Chief Inspector General
EFFECTIVE ACCOUNTING AND REPORTING SYSTEM QUESTIONNAIRE

Entity _____

Please provide a detailed description of how the entity operates as it relates to EACH of the following attributes. Attach documentation as appropriate.

1. **Policies and Procedures** - An Accounting Procedures Manual exists that documents the organization's policies and procedures for handling financial transactions. The Manual includes a description of the tasks required and identifies the position responsible for performing those tasks.
2. **Cash Receipts** – Procedures are in place to ensure:
 - All cash intended for the organization is received.
 - Cash and other receipts are kept adequately secured.
 - Cash is promptly deposited.
 - Cash is properly recorded.
 - Accounting records are reconciled monthly with bank statements.
 - There is a proper segregation of duties.
3. **Cash Disbursements** - Procedures are in place to ensure:
 - Disbursements are made only upon proper authorization of management.
 - Disbursements are made only for valid business reasons.
 - Disbursements are properly recorded in the accounting records (general ledger).
 - There is a proper segregation of duties.
4. **Payroll** - Procedures are in place to ensure:
 - Payroll disbursements are made only upon proper authorization of management.
 - Payroll disbursements are made only to bona-fide employees.
 - Payroll disbursements are properly recorded in the accounting system.
 - Payroll disbursements are made in compliance with related legal requirements, such as timely and appropriate payroll tax deposits.
 - Payroll disbursements are properly recorded on the quarterly payroll 941 forms and that those amounts are reconciled to the financial system (general ledger).
5. **Grants** - Procedures are in place to ensure that all grants are:
 - Received when due.
 - Properly recorded in the accounting records.
6. **Fixed Assets** - Procedures are in place to ensure:
 - Fixed assets are acquired only upon authorized approval.
 - Fixed assets are timely recorded in the FA subsidiary ledger and general ledger upon acquisition.
 - Fixed assets are disposed of only upon authorized approval.
 - Fixed assets are timely recorded in the FA subsidiary ledger and general ledger upon disposal.
 - The fixed assets subsidiary records are regularly reconciled to the general ledger.

Executive Office of the Governor
Office of the Chief Inspector General
EFFECTIVE ACCOUNTING AND REPORTING SYSTEM QUESTIONNAIRE

Entity _____

- A complete physical inventory of all property is taken annually and whenever there is a change of custodian.
- 7. A system of checks and balances exists such that no financial transaction is handled by only one person from beginning to end.
- 8. Staff members are aware of the criteria that must be met before moneys can be transferred to the General Fund from another fund.
- 9. Accounts receivable are aged and subsidiary records are reconciled monthly to the general ledger. Management periodically reviews a detailed listing of receivables.
- 10. Past due accounts receivable are managed through in-house collection procedures (letters, phone calls, monthly billings) and/or turned over to a collection agency for more rigorous collection efforts.
- 11. Accounts payable are aged and subsidiary records are reconciled monthly to the general ledger. Management periodically reviews a detailed listing of payables.
- 12. Bank transfer schedules are completed and balanced monthly.
- 13. Fund "due from" and "due to" accounts are balanced and reconciled with the general ledger monthly.
- 14. Standard journal entries are approved by the finance director or other responsible person and assigned a standard reference for ease of recognition in detailed financial records.
- 15. Non-standard journal entries are reviewed and approved in writing by the finance director or other responsible person in a timely manner.
- 16. Journal entries are adequately supported and supporting documentation is filed for ease of recovery and review.
- 17. Procedures are in place to ensure timely and effective month-end closeout and report generation.
- 18. Budgeted revenue and expenditures amount are compared monthly to actual revenue and expenditure amounts and adjustments or other appropriate action is taken in a timely manner to control spending.
- 19. Financial statements/reports are reviewed, and approved in writing by management (Board of Directors, Mayor, Council Members/Commissioners, etc.).
- 20. Accounting staff members are appropriately educated, and have the tools and experience to perform their assigned functions.

Executive Office of the Governor
Office of the Chief Inspector General
EFFECTIVE ACCOUNTING AND REPORTING SYSTEM QUESTIONNAIRE

Entity _____

21. Accounting system components are integrated for efficient processing and control.
22. Access to accounting systems and information is adequately controlled.
23. The accounting and reporting system is regularly reviewed by management and monitored for its financial safeguards and adherence to financial policies and procedures.
24. Provisions of Chapter 218, Florida Statutes, Financial Matters Related to Political Subdivisions, are adhered to, where appropriate.
25. The independent auditor's annual management letter is reviewed for significant weaknesses in the accounting and reporting system. Corrective action is taken in a timely manner.

CONCLUSION:

Based on responses given, please describe the processes and procedures designed and in operation to ensure the following:

- Effectiveness and efficiency of operation;
- Reliability of financial reporting; and,
- Compliance with applicable laws and regulations.

Prepared by: _____ Date: _____

Verified by: _____ Date: _____

**Executive Office of the Governor – Office of the Chief Inspector General
Financial Emergency Entities
JUSTIFICATION FOR CESSATION OF STATE ACTION FORM**

Entity: Gateway Services Community Development District

Financial Emergency Notification Date: December 1997

Statutory Criteria: Sec. 218.503(1)(d), F.S. (1997) - As of September 30, 1997, the District had reported deficit unreserved retained earnings for two consecutive years.

Pursuant to Section 218.504, Florida Statutes, the Governor has the authority to terminate all state actions pursuant to ss. 218.50-218.504. Cessation of state action must not occur until the Governor has determined the following:

(1) The local governmental entity:

(a) Has established and is operating an effective financial accounting and reporting system.

YES XX NO _____

Comments: The Director of Accounting for the District's management firm provided detailed responses to the Effective Accounting System Questionnaire indicating the District has an effective system.

(b) Has resolved the conditions outlined in s. 218.503(1), F.S.

YES _____ NO XX

Comments: The District's financial statements have not shown a deficit unreserved retained earnings/net assets balance since 2004. As of September 30, 2007, the District had an unrestricted net assets balance of \$210,104 (business-type activities) and an unreserved fund balance of \$4,376,088 (governmental funds).

(2) None of the conditions outlined in s. 218.503(1), F.S. exists.

YES _____ NO XX

Comments: We have not received any recent notifications from the Auditor General indicating that the District has met any financial emergency condition outlined in s. 218.503(1), F.S. In addition, the District's audited financial report for fiscal year 2006-2007, issued September 10, 2008, indicated that no new conditions existed.

Recommendation: Based on information provided to the Office of the Chief Inspector General regarding the local governmental entity, Gateway Services Community Development District, it appears that the entity meets the requirements of s. 218.504, F.S. Therefore, this entity will no longer be deemed to be in a "state of financial emergency" as defined in s. 218.503, F.S.

Prepared by: _____

Date: _____

Reviewed by: _____
Chief Inspector General

Date: _____

Reviewed by: _____
Chief of Staff

Date: _____

Approved by: _____
Governor

Date: _____

**State and Local Agreement of Cooperation
Between
The Governor and the Town of Eatonville**

THIS STATE AND LOCAL AGREEMENT OF COOPERATION (the "Agreement ") is made and entered into as of the 6th day of July, 2004, between the Governor of the State of Florida ("Governor") and the Town of Eatonville ("Town"), Orange County, Florida.

WHEREAS, in July, 2002, pursuant to Chapter 218, Florida Statutes ("F.S."), the Town Council passed a resolution declaring that the Town was in a state of financial emergency, and

WHEREAS, the Governor has the authority under Section 218.503, F.S., to implement measures to resolve the financial emergency, and provide technical assistance to the Town, including but not limited to approving the Town's annual budget, and

WHEREAS, the Town and the Governor's Office intend to cooperate with each other so that the Town is no longer in a state of financial emergency, and

WHEREAS, the Governor has designated the Office of the Chief Inspector General as the lead entity responsible for coordinating the state's efforts in providing intervention and assistance,

NOW, THEREFORE, the Governor and the Town agree as follows:

1. APPROVAL OF TOWN BUDGET.

a. On or before August 1st of each year the Town shall submit to the Governor the Annual Budget as preliminarily approved by the Mayor and Town Council. The underlying assumptions for all revenue and expenditure estimates contained in the Annual Budget shall be documented and included with the budget submission. Within 20 business days of receipt, the Governor's Designee shall review the Annual Budget and, after consultation with the Town, notify the Town in writing if alterations to the budget are necessary. The Town shall approve the budget as altered by the Governor's Designee within 30 business days of receiving it from the Governor's Designee.

b. The Town may request amendments to the Annual Budget by submitting such requests in writing to the Governor's Designee. Within 20 business days of receiving the request, the Governor's Designee shall respond in writing to the Town's request by either rejecting the amendment, approving the amendment, or approving the amendment with changes. The Town shall accept the response of the Governor's Designee.

2. COMPONENTS OF ANNUAL BUDGET. The Annual Budget documents shall contain the level of detail necessary for the Governor's Designee to analyze the underlying assumptions contained in all estimates of revenues and expenditures. These documents shall be prepared using the following guidelines:

- a. Reasonable estimates of revenues and expenditures shall be made based on historical trends, conditions, and anticipated events;
 - b. Current expenditures and current revenues shall be balanced for the fiscal year;
 - c. Provisions shall be made for avoiding financial emergency conditions in the future, including establishing adequate cash reserves and fund reserves to cover unfunded liabilities;
 - d. Managerial and operational efficiencies and accountability shall be improved. Improvements must be approved by the Governor's designee;
 - e. Town programs and services that the Town cannot afford shall be modified or eliminated;
 - f. Enterprise funds of the Town shall be operated as a business and operating revenues shall be sufficient to cover all costs of the operation, including depreciation;
 - g. Efforts to collect all existing revenues due the Town shall be improved;
 - h. Compensation and benefits for Town employees and the Town's union contracts and negotiating practices shall be reviewed by the Governor's designee and modified as appropriate;
 - i. The Town's organizational structure shall be reviewed by the Governor's designee and improved, if necessary; and,
 - j. A Capital Improvement Plan for the Town shall be developed and updated annually.
3. **INCURRING DEBT.** The Town agrees not to enter into any form of debt or liability, which exceeds twelve months for repayment, without the prior written approval of the Governor's Designee.
4. **APPROVAL OF ANNUAL FINANCIAL STATEMENTS.** The Town will submit to the Governor's Designee, on or before March 15 after the close of the fiscal year, a final draft of the Town's audited financial statements for approval. The Governor's Designee will submit, within 20 days, any required corrections or changes to the financial statements, which must be made before final approval by the Town Council.
5. **REPORTING TO THE GOVERNOR'S OFFICE.** Beginning August 1, 2004, and every month thereafter, the Town shall provide the Governor's Designee with the following reports:
1. Monthly statement of revenues and expenditures for each fund, comparing actual revenues and expenditures to budgeted revenues and expenditures;
 2. Monthly balance sheets;
 3. Monthly detailed listing of accounts receivable and accounts payable at the end of the month, with notations as to the age of the receivables and payables. These detailed aging reports must agree to the receivables and payables balances as submitted in the monthly balance sheets contained in #2 above;
 4. Detailed bank account reconciliations that agree with cash balances contained in the monthly balance sheets in #2 above and have been balanced to the ledger;
 5. A listing of any obligations that cannot be paid due to insufficient cash;

6. A quarterly status report outlining actions taken to resolve the deficiencies noted in Auditor General Report No. 2004-178; and
7. A quarterly updated listing of bank accounts used by the Town, indicating the purpose for which each account was opened and is currently used.

All items required to be reported to the Governor's Office must be received no later than the last day of the month following the dates of the reports.

6. **FINANCIAL INTEGRITY ORDINANCE.** Within six months after execution of the Agreement, the Town Council shall adopt a Financial Integrity Ordinance, which shall set forth the necessary procedures to be followed by the Town in carrying out its financial affairs. The Town shall submit a copy of the proposed ordinance to the Governor's Designee. Within 20 business days after receiving the proposed ordinance, the Governor's Designee shall review the proposed ordinance, and after consultation with the Town, the Governor's Designee may, in writing, direct changes to the proposed ordinance. The Town shall make such changes to the proposed ordinance before its adoption.

7. **FINANCIAL AND CONTRACTUAL OBLIGATIONS.** The Town shall be prohibited from entering into any financial or contractual obligations that are not specifically authorized by the Annual Budget or this Agreement.

8. **FAILURE TO COMPLY.** The Town shall notify the Governor's Designee immediately, in writing, if the Town, the Mayor, or any Town Council member determines that the Town has violated or anticipates a violation of any of the terms or conditions of this Agreement, including but not limited to: (a) the failure of the Town to submit any plan or document under this Agreement; (b) an act of commission or omission by the Town that jeopardizes the Town's financial recovery; or (c) deviation by the Town from any plan or document hereunder approved by the Governor's Designee. The notification of a violation or anticipated violation shall contain sufficient detail for a determination of what actions are necessary to remedy the non-compliance. If the Governor's Designee determines the Town has failed to comply with any term or condition of the Agreement, the Governor may then take any action necessary to protect the health, safety and welfare of the citizens of the Town, including but not limited to, the appointment of a Financial Emergency Oversight Board.

9. **INDEPENDENT REVIEW BY THE GOVERNOR'S OFFICE.** The Town agrees that the Governor's Designee may assign staff to conduct or cause to be conducted such audits, examinations, or studies of the Town as the Governor's Designee may deem necessary.

10. **GOVERNOR'S DESIGNEE.** The Governor delegates to the Office of the Chief Inspector General the authority to implement the terms and conditions of this Agreement and act as the Governor's Designee as set forth herein.

11. **DURATION OF THIS AGREEMENT.** The terms and conditions of this agreement shall remain in effect for six months, or until such time as the Governor concludes that the state of financial emergency no longer exists, pursuant to Section 218.504, F.S.

12. **AMENDMENTS OR MODIFICATIONS.** All requests by the parties for an amendment or modification to this Agreement shall be submitted in writing to the Governor's Designee and shall only become effective with the prior written consent of the Governor or his Designee. Consent to an amendment shall not be unreasonably withheld.

13. **NOTICES AND COMMUNICATIONS.** Any and all notices and other forms of communication related to this Agreement shall be served in writing by facsimile transmission, electronic mail, personal delivery, or overnight courier, as follows:

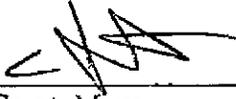
To the Town: Dr. Ruth Barnes, Chief Administrative Officer
Town of Eatonville, Florida
307 East Kennedy Blvd.
Eatonville, Florida 32754
Telephone: (407) 623-1313
Fax: (407) 623-1319

To the Governor: Mr. Derry Harper, Esquire
Chief Inspector General
Office of Governor Jeb Bush
The Capitol, Room 2103
Tallahassee, Florida 32399-0001
Telephone: (850) 922-4637
Fax: (850) 921-0817

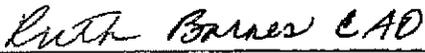
14. **BINDING EFFECT.** This Agreement shall be binding upon and enforceable against any successors of the Town, including but not limited to, successive Chief Administrative Officers, Mayors, or Town Council members.

15. **ACKNOWLEDGEMENT.** By signing this Agreement, the parties hereto confirm and state that they have carefully read the Agreement, they know the contents thereof, and that they fully expect to carry out each and every obligation set forth herein. Further, the Mayor and the Chief Administrative Officer affirm by their signature affixed hereto that the Agreement has been approved by resolution of the Town.

IN WITNESS WHEREOF, the parties hereto execute this agreement, and they affirm that they have the power to do so on behalf of the Town and the Governor's Office.



Anthony Grant, Mayor
Town of Eatonville



Ruth Barnes, Chief Administrative Officer
Town of Eatonville



Jeb Bush, Governor
State of Florida

218.503 Determination of financial emergency.--

(1) Local governmental entities, charter schools, charter technical career centers, and district school boards shall be subject to review and oversight by the Governor, the charter school sponsor, the charter technical career center sponsor, or the Commissioner of Education, as appropriate, when any one of the following conditions occurs:

(a) Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds.

(b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.

(c) Failure to transfer at the appropriate time, due to lack of funds:

1. Taxes withheld on the income of employees; or
2. Employer and employee contributions for:
 - a. Federal social security; or
 - b. Any pension, retirement, or benefit plan of an employee.

(d) Failure for one pay period to pay, due to lack of funds:

1. Wages and salaries owed to employees; or
2. Retirement benefits owed to former employees.

(e) An unreserved or total fund balance or retained earnings deficit, or unrestricted or total net assets deficit, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, for which sufficient resources of the local governmental entity, charter school, charter technical career center, or district school board, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, are not available to cover the deficit. Resources available to cover reported deficits include net assets that are not otherwise restricted by federal, state, or local laws, bond covenants, contractual agreements, or other legal constraints. Fixed or capital assets, the disposal of which would impair the ability of a local governmental entity, charter school, charter technical career center, or district school board to carry out its functions, are not considered resources available to cover reported deficits.

(2) A local governmental entity shall notify the Governor and the Legislative Auditing Committee; a charter school shall notify the charter school sponsor, the Commissioner

of Education, and the Legislative Auditing Committee; a charter technical career center shall notify the charter technical career center sponsor, the Commissioner of Education, and the Legislative Auditing Committee; and a district school board shall notify the Commissioner of Education and the Legislative Auditing Committee, when one or more of the conditions specified in subsection (1) have occurred or will occur if action is not taken to assist the local governmental entity, charter school, charter technical career center, or district school board. In addition, any state agency must, within 30 days after a determination that one or more of the conditions specified in subsection (1) have occurred or will occur if action is not taken to assist the local governmental entity, charter school, charter technical career center, or district school board, notify the Governor, charter school sponsor, charter technical career center sponsor, or the Commissioner of Education, as appropriate, and the Legislative Auditing Committee.

(3) Upon notification that one or more of the conditions in subsection (1) have occurred or will occur if action is not taken to assist the local governmental entity or district school board, the Governor or his or her designee shall contact the local governmental entity or the Commissioner of Education or his or her designee shall contact the district school board to determine what actions have been taken by the local governmental entity or the district school board to resolve or prevent the condition. The Governor or the Commissioner of Education, as appropriate, shall determine whether the local governmental entity or the district school board needs state assistance to resolve or prevent the condition. If state assistance is needed, the local governmental entity or district school board is considered to be in a state of financial emergency. The Governor or the Commissioner of Education, as appropriate, has the authority to implement measures as set forth in ss. 218.50-218.504 to assist the local governmental entity or district school board in resolving the financial emergency. Such measures may include, but are not limited to:

(a) Requiring approval of the local governmental entity's budget by the Governor or approval of the district school board's budget by the Commissioner of Education.

(b) Authorizing a state loan to a local governmental entity and providing for repayment of same.

(c) Prohibiting a local governmental entity or district school board from issuing bonds, notes, certificates of indebtedness, or any other form of debt until such time as it is no longer subject to this section.

(d) Making such inspections and reviews of records, information, reports, and assets of the local governmental entity or district school board. The appropriate local officials shall cooperate in such inspections and reviews.

(e) Consulting with officials and auditors of the local governmental entity or the district school board and the appropriate state officials regarding any steps necessary

to bring the books of account, accounting systems, financial procedures, and reports into compliance with state requirements.

(f) Providing technical assistance to the local governmental entity or the district school board.

(g)1. Establishing a financial emergency board to oversee the activities of the local governmental entity or the district school board. If a financial emergency board is established for a local governmental entity, the Governor shall appoint board members and select a chair. If a financial emergency board is established for a district school board, the State Board of Education shall appoint board members and select a chair. The financial emergency board shall adopt such rules as are necessary for conducting board business. The board may:

a. Make such reviews of records, reports, and assets of the local governmental entity or the district school board as are needed.

b. Consult with officials and auditors of the local governmental entity or the district school board and the appropriate state officials regarding any steps necessary to bring the books of account, accounting systems, financial procedures, and reports of the local governmental entity or the district school board into compliance with state requirements.

c. Review the operations, management, efficiency, productivity, and financing of functions and operations of the local governmental entity or the district school board.

2. The recommendations and reports made by the financial emergency board must be submitted to the Governor for local governmental entities or to the Commissioner of Education and the State Board of Education for district school boards for appropriate action.

(h) Requiring and approving a plan, to be prepared by officials of the local governmental entity or the district school board in consultation with the appropriate state officials, prescribing actions that will cause the local governmental entity or district school board to no longer be subject to this section. The plan must include, but need not be limited to:

1. Provision for payment in full of obligations outlined in subsection (1), designated as priority items, that are currently due or will come due.

2. Establishment of priority budgeting or zero-based budgeting in order to eliminate items that are not affordable.

3. The prohibition of a level of operations which can be sustained only with nonrecurring revenues.

(4)(a) Upon notification that one or more of the conditions in subsection (1) have occurred or will occur if action is not taken to assist the charter school, the charter school sponsor or the sponsor's designee and the Commissioner of Education shall contact the charter school governing body to determine what actions have been taken by the charter school governing body to resolve or prevent the condition. The Commissioner of Education has the authority to require and approve a financial recovery plan, to be prepared by the charter school governing body, prescribing actions that will resolve or prevent the condition.

(b) Upon notification that one or more of the conditions in subsection (1) have occurred or will occur if action is not taken to assist the charter technical career center, the charter technical career center sponsor or the sponsor's designee and the Commissioner of Education shall contact the charter technical career center governing body to determine what actions have been taken by the governing body to resolve or prevent the condition. The Commissioner of Education may require and approve a financial recovery plan, to be prepared by the charter technical career center governing body, prescribing actions that will resolve or prevent the condition.

(c) The Commissioner of Education shall determine if the charter school or charter technical career center needs a financial recovery plan to resolve the condition. If the Commissioner of Education determines that a financial recovery plan is needed, the charter school or charter technical career center is considered to be in a state of financial emergency.

The Department of Education, with the involvement of sponsors, charter schools, and charter technical career centers, shall establish guidelines for developing a financial recovery plan.

(5) A local governmental entity or district school board may not seek application of laws under the bankruptcy provisions of the United States Constitution except with the prior approval of the Governor for local governmental entities or the Commissioner of Education for district school boards.

History.--s. 8, ch. 79-183; s. 54, ch. 89-169; s. 1180, ch. 95-147; s. 27, ch. 96-324; s. 29, ch. 97-96; s. 132, ch. 99-251; s. 1, ch. 2001-354; s. 35, ch. 2004-305; s. 5, ch. 2006-190; s. 6, ch. 2007-6; s. 5, ch. 2009-214.

Local Government
Community Development Districts

Overview of Community Development Districts (CDDs)

One type of special district; units of special purpose government

CDDs have been authorized since 1980 by Ch. 190, F.S.

Provides developer/builder access to tax-free municipal bonds to finance the cost of infrastructure and amenities; referred to as "dirt bonds"

576 of Florida's 1622 special districts (35.5%) are CDDs¹

Generally, created by counties or municipalities

Created by the Governor and Cabinet if 1,000 acres or more

Most CDDs have been created since 2000²

- total of 99 created during 1980s and 1990s
- 316 created in 2004-07
- peak year 2006, 102 created

30+ CDDs have been dissolved; majority of them since January 2007

Landowners pay assessments to pay the cost of the bonds

- initially assessment payment made by developer/builder
- as lots sell, homeowners pay assessment

Assessments are paid to the CDD and the CDD makes the bond payments

- bond payments are due May 1 and November 1
- if assessment are not paid, or not timely paid, CDD may use debt service reserves, if available, to make bond payment
- use of reserves may qualify as a bond default; a bond default is defined in the bond covenant

Developers may not have the resources to pay assessments if:

- properties sell at prices substantially less than anticipated
- properties don't sell as fast as anticipated

¹ As of March 7, 2010.

² These counts exclude CDDs that have been dissolved since creation.

In some instances, the following has occurred:

- developers have quit paying the assessment; some of these developers own all of the land in the district
- developers file for bankruptcy protection
- developers walk away from the project
- CDDs have had to draw on bond debt reserves to make bond payments & are unable to replenish the reserves
- CDDs have failed to make bond debt service payments
- banks foreclose on developers for mortgages and other loans used to finance the project
- CDDs initiate foreclosure against developer (land owned within the CDD)
- CDDs attempt to restructure the debt with bondholders

Most bonds are held by large institutions such as Oppenheimer and Goldman Sachs

If project is foreclosed on, bondholders are paid first

Of the approximate \$10 billion in debt over the past 10 years, an estimated \$3 billion shows some sort of distress

- Florida appears to lead the nation in the number of recent defaults on municipal bonds
- Neither the state nor local governments are liable for bond debt incurred by CDDs
- Other states with similar arrangements had difficulties in the 1980s and 1990s

Various state agencies have some authority/responsibility related to CDDs:

- Attorney General
- Division of Bond Finance
- Department of Community Affairs
- Department of Financial Services, Auditor General, JLAC
- Office of the Governor

Many are waiting to see what will happen May when the next bond principal and interest payments are due; some expect a large surge in defaults

REPORT ON THE STATUS OF FLORIDA COMMUNITY DEVELOPMENT DISTRICT BONDS

Since 2008, Florida CDD bonds have suffered a dramatic decline in value due to the nationwide collapse of the housing market. As of March 1, 2010, 122 districts have defaulted on \$2.997 billion in bonds. A further 78 districts representing \$2.705 billion are on our watch list of bonds likely to default in 2010. To put this into perspective, we have been tracking municipal defaults since 1980 and have accumulated histories for over 3,200 defaults since then. We can say without hesitation that in the last 30 years, Florida CDD defaults is the single biggest default wave in the history of municipal bonds. California, Texas, Colorado, Arizona and Nevada have had similar events, but their magnitude does not approach what is happening in Florida.

It would be easy to attribute the problem to Florida's size and to the nationwide problem in housing, but this would ignore that there may be structural problems with the CDD enabling legislation. Some of these problems are similar to those faced by the other states cited above and it would be worthwhile for Florida to study those default cycles and see what actions were taken. This is especially relevant for Texas and California since their default waves took place many years earlier and only a modest recurrence is being experienced in the current housing meltdown. Clearly, some corrective actions were taken from which Florida could learn.

While the state and its municipalities are not liable on any of these bonds issues, they do have an effect on the perception of the state as a safe place to invest. Florida does not have a large body of captive investors buying its bonds to avoid high state and local income taxes. Added to this, dirt bonds are normally considered safer because they have such strong collateral backing, i.e. the tax assessments on the land has a higher priority than even the first mortgages. This perception will be sorely tested before this crisis is over since a reduction of the bond assessments per lot is one remedy for completion of most CDD projects. While Florida has had a number of real estate meltdowns over the last 50 years, they have always been remedied by vigorous growth. That growth cannot be counted on to resolve the current crisis, so some projects will inevitably fail and others will only revive with shared concessions.

The audience of buyers for CDD bonds have principally been large mutual fund families. These buyers will look for the state to tighten its standards for CDD bond issuance in the future or demand significantly higher rates of return to offset the perceived higher risk. They may also look to the state to provide other remedies. The state has both an interest and an obligation to address these issues, both to reassure the bond market and to help resolve the current crisis.

This report is submitted by Income Securities Advisor, Inc., a Florida based publisher of various investment advisory newsletters; the *Forbes/Lehmann Income Securities Advisor*, the *Forbes/ISA Closed End Fund & ETF Report* and *The Distressed Debt Securities Newsletter*. ISA maintains a website on all Florida CDDs at www.floridacddreport.com and maintains the only historical database of all municipal and corporate defaults since 1980. Richard Lehmann is the publisher of these newsletters, a registered investment advisor and a columnist with Forbes magazine.

Local Government

Status Update

**STATUS RELATING TO JLAC ACTION TAKEN IN OCTOBER 2009
 LOCAL GOVERNMENTAL ENTITIES NOT IN COMPLIANCE WITH REPORTING
 REQUIREMENTS OF S. 218.32 AND/OR S. 218.39, F.S.**

LOCAL GOVERNMENTAL ENTITY NAME	REQUIRED REPORTS NOT SUBMITTED	COMMENTS
<p>Highlands Road and Bridge District (Pasca County)</p>	<p>FY 2007-08 AFR & Audit# FY 2006-07 AFR & Audit# (# – if threshold met for audit)</p>	<p><u>Current Status per DCA:</u> Since no registered agent or office information had been provided to DCA, a petition for writ of certiorari could not be filed in accordance with s. 189.421, F.S.</p> <p>Therefore, pursuant to the provisions of s. 189.4044, F.S., DCA published the required “Notice of Proposed Declaration of Inactive Status” of the district in two local newspapers. No objections were received.</p> <p>On December 23, 2009, DCA changed the districts status from “active” to” inactive.” In a letter dated January 28, 2010, DCA notified the Pasco County Board of County Commissioners that, as the entity that created the district, they are required pursuant to s. 189.4044(4), F.S., to dissolve the district by repealing its enabling laws. (See DCA letter dated January 28, 2010, for further details.)</p>
<p>Magnolia Bluff Community Development District (Walton County)</p>	<p>FY 2007-08 AFR & Audit# FY 2006-07 AFR & Audit# (# = if threshold met for audit)</p>	<p><u>Current Status per DCA:</u> Since no registered agent or office information had been provided to DCA, a petition for writ of certiorari could not be filed in accordance with s. 189.421, F.S.</p> <p>Therefore, pursuant to the provisions of s. 189.4044, F.S., DCA published the required “Notice of Proposed Declaration of Inactive Status “ of the district in the local newspaper. No objections were received.</p> <p>On December 24, 2009, DCA changed the districts status from “active” to” inactive.” In a letter dated January 28, 2010, DCA notified the Walton County Board of County Commissioners that, as the entity that created the district, they are required pursuant to s. 189.4044(4), F.S., to dissolve the district by repealing its enabling laws. (See DCA letter dated January 28, 2010, for further details.)</p>

**STATUS RELATING TO JLAC ACTION TAKEN IN MARCH 2009
 LOCAL GOVERNMENTAL ENTITIES NOT IN COMPLIANCE WITH REPORTING
 REQUIREMENTS OF S. 218.32 AND/OR S. 218.39, F.S.**

LOCAL GOVERNMENTAL ENTITY NAME	REQUIRED REPORTS NOT SUBMITTED	COMMENTS
Caryville, Town of (Washington County)	FY 2007-08 AFR & Audit* FY 2006-07 AFR & Audit* FY 2005-06 Audit FY 2004-05 AFR & Audit* FY 2003-04 Audit* FY 2002-03 Audit (*may meet threshold to have audit performed once every 3 years) [Last audit submitted to Auditor General's Office was for FY 1999-2000.]	Per letter dated March 24, 2009, Department of Revenue stated that the Half-Cent Sales Tax funds and the Municipal Revenue Sharing funds in excess of the guaranteed entitlement would be withheld beginning on April 15, 2009, as requested by JLAC. \$9,099.98 withheld as of 3/4/2010 No correspondence (letters, e-mails, or phone calls) from town has been received by either JLAC or DOR. 10/1/2009: Called town - no answer and no voice mail message option (note: phone rang numerous times and then call was disconnected by telephone system after recorded message played).
Islandia, City of (Miami-Dade County)	FY 2007-08 AFR & Audit# FY 2006-07 AFR & Audit# FY 2005-06 AFR & Audit# FY 2004-05 AFR & Audit# FY 2003-04 AFR & Audit# FY 2002-03 AFR & Audit# FY 2001-02 AFR & Audit# FY 2000-01 AFR & Audit# (# = if audit threshold met for audit)	Motion approved at January 11, 2010, JLAC meeting to send letter to officials in Miami-Dade County stating that JLAC members encourage the county to take action to dissolve City of Islandia. Letter mailed on January 13, 2010. On March 5, 2010, JLAC staff received e-mail from Assistant County Attorney for Miami-Dade County regarding the issues involved in trying to dissolve the City. The county manager is expected to propose to the Board of County Commissioners an amendment to the county charter that would authorize the Board to abolish a municipality with 20 or less electors. Such an amendment would require a county-wide vote and be submitted to the electorate during the state primary on August 24, 2010. (Note: Per letter dated March 24, 2009, Department of Revenue stated that the City of Islandia currently receives no funds from the Department of Revenue.)
Weeki Wachee, City of (Hernando County)	FY 2007-08 AFR & Audit* FY 2006-07 Audit FY 2005-06 Audit FY 2004-05 Audit FY 2003-04 Audit FY 2002-03 Audit (*may meet threshold to have audit performed once every 3 years)	Per letter dated March 24, 2009, Department of Revenue stated that the City of Weeki Wachee only participates in the Municipal Revenue Sharing program and the funds in excess of the guaranteed entitlement would be withheld as requested by JLAC. \$381 withheld as of 3/4/2010 No correspondence (letters, e-mails, or phone calls) from city has been received by either JLAC or DOR.

**STATUS RELATING TO JLAC ACTION TAKEN IN MARCH 2009
 LOCAL GOVERNMENTAL ENTITIES NOT IN COMPLIANCE WITH REPORTING
 REQUIREMENTS OF S. 218.32 AND/OR S. 218.39, F.S.**

LOCAL GOVERNMENTAL ENTITY NAME	REQUIRED REPORTS NOT SUBMITTED	COMMENTS
<p>Westville, Town of (Holmes County)</p>	<p>FY 2007-08 AFR & Audit* FY 2006-07 AFR & Audit* FY 2005-06 AFR & Audit* FY 2004-05 AFR & Audit</p> <p>(*may meet threshold to have audit performed once every 3 years)</p> <p>[Last audit submitted to Auditor General's Office was for FY 2001-02.]</p>	<p>Per letter dated March 24, 2009, Department of Revenue stated that the Half-Cent Sales Tax funds and the Municipal Revenue Sharing funds in excess of the guaranteed entitlement would be withheld beginning on April 15, 2009, as requested by JLAC.</p> <p><u>\$11,596.78 withheld as of 3/4/2010</u> (Note: Per DOR, there was one payment sent to Town this year that should have been withheld, totaling approximately \$1,000.)</p> <p>No correspondence (letters, e-mails, or phone calls) from town has been received by either JLAC or DOR.</p> <p><u>10/1/2009:</u> Called and spoke with town clerk regarding status of late financial reports. Nothing has been done – did not even realize that DOR was withholding funds. Told her that a letter was sent to the mayor, dated March 13, 2009, regarding JLAC's decision to subject Town to state action pursuant to s. 11.40(5), F.S. Explained that DOR would continue to withhold funds until the late reports were submitted. She stated that she would talk with the mayor; she also asked about finding a CPA.</p>
<p>Baker Fire District (Okaloosa County)</p>	<p>FY 2007-08 AFR & Audit FY 2006-07 AFR</p>	<p>Case No.: 2009 CA 1536 State of Florida, Department of Community Affairs vs. Baker Fire District</p> <p><u>Current Status per DCA:</u> District submitted the FY 2004-05 audit report to the Auditor General's Office on January 12, 2010. A case management conference is scheduled for April 29, 2010, at which time the case can probably be concluded. (See DCA letter dated March 5, 2010.)</p> <p>(Note: The FY 2007-08 audit is in progress.)</p>
<p>Belmont Lakes Community Development District (Broward County)</p>	<p>FY 2006-07 AFR & Audit (submitted 4/20/2009 and 5/4/2009, respectively) FY 2005-06 AFR & Audit (submitted 4/14/2009 and 4/17/2009, respectively) FY 2004-05 AFR (submitted 3/13/2009)</p>	<p>Case No.: 2009 CA 1534 State of Florida, Department of Community Affairs vs. Belmont Lakes Community Development District</p> <p><u>Current Status per DCA:</u> District has submitted all of the late financial reports to DFS and the Auditor General. Court case was dismissed on December 15, 2009. (See DCA letter dated March 5, 2010.)</p>

**STATUS RELATING TO JLAC ACTION TAKEN IN MARCH 2009
 LOCAL GOVERNMENTAL ENTITIES NOT IN COMPLIANCE WITH REPORTING
 REQUIREMENTS OF S. 218.32 AND/OR S. 218.39, F.S.**

LOCAL GOVERNMENTAL ENTITY NAME	REQUIRED REPORTS NOT SUBMITTED	COMMENTS
Pasco Heights Road & Bridge District (Pasco County)	FY 2006-07 AFR & Audit FY 2005-06 Audit FY 2004-05 AFR & Audit	<p>Case No.: 2009 CA 1535 State of Florida, Department of Community Affairs vs. Pasco Heights Road and Bridge District</p> <p><u>Current Status per DCA:</u> A case management conference was held on November 10, 2009, and judge ordered the district to file its FY 2004-05 audit report by December 31, 2009, and its other outstanding reports by March 31, 2010. The judge also announced her intention to enter a Writ of Certiorari in the case, but as yet, no Orders or Writs have been entered. DCA has also been contacted by Pasco County attorney regarding dissolving the district. (See DCA letter dated March 5, 2010.)</p>

Local Government

Non-Filers

LOCAL GOVERNMENTAL ENTITIES NOT IN COMPLIANCE
WITH S. 218.32, F.S. AND/OR S. 218.39, F.S.

<u>LIST 1:</u>	
<u>MUNICIPALITIES</u>	
<u>ACTION SHOULD BE TAKEN NOW</u>	
Altha, Town of (Calhoun County)	FY 2007-08 AFR
Belle Glade, City of (Palm Beach County)	FY 2007-08 AFR & AUDIT
Belleair, Town of (Pinellas County)	FY 2007-08 AFR
Belleair Shore, Town of (Pinellas County)	FY 2007-08 AFR & AUDIT
Bonifay, City of (Holmes County)	FY 2007-08 AFR
Century, Town of (Escambia County)	FY 2007-08 AFR & AUDIT
Esto, Town of (Holmes County)	FY 2007-08 AFR & AUDIT
Fort White, Town of (Columbia County)	FY 2007-08 AFR
Gulf Breeze, City of (Santa Rosa County)	FY 2007-08 AFR
Hampton, City of (Bradford County)	FY 2007-08 AFR
Mangonia Park, Town of (Palm Beach County)	FY 2007-08 AFR & AUDIT
Miami Shores, Village of (Miami-Dade County)	FY 2007-08 AFR
Port Richey, City of (Pasco County)	FY 2007-08 AFR & AUDIT
Sewall's Point, Town of (Martin County)	FY 2007-08 AFR & AUDIT
Southwest Ranches, Town of (Broward County)	FY 2007-08 AFR
St. Lucie Village, Town of (St. Lucie County)	FY 2007-08 AFR & AUDIT
Webster, City of (Sumter County)	FY 2007-08 AFR

<u>LIST 2:</u>	
<u>MUNICIPALITIES</u>	
<u>ENTITY IN PROCESS OF COMPLYING – DELAY ACTION</u>	
Cottondale, City of (Jackson County)	FY 2007-08 AFR & AUDIT FY 2006-07 AFR & AUDIT
Eatonville, Town of (Orange County)	FY 2007-08 AFR & AUDIT
Jupiter Island, Town of (Martin County)	FY 2007-08 AFR
Laurel Hill, City of (Okaloosa County)	FY 2007-08 AFR & AUDIT
Pahokee, City of (Palm Beach)	FY 2007-08 AFR & AUDIT FY 2006-07 AFR & AUDIT
Polk City, City of (Polk County)	FY 2007-08 AFR & AUDIT
Umatilla, City of (Lake County)	FY 2007-08 AFR

LOCAL GOVERNMENTAL ENTITIES NOT IN COMPLIANCE
WITH S. 218.32, F.S. AND/OR S. 218.39, F.S.

<u>LIST 3:</u>	
<u>SPECIAL DISTRICTS</u>	
<u>ACTION SHOULD BE TAKEN NOW</u>	
<u>INDEPENDENT:</u>	
Almarante Fire District (Okaloosa County)	FY 2007-08 AFR & AUDIT FY 2006-07 AUDIT FY 2005-06 AUDIT
Bermont Drainage District (Charlotte County)	FY 2007-08 AFR & AUDIT
Collier Soil & Water Conservation District (Collier County)	FY 2007-08 AFR & AUDIT
Cypress Club Recreation District (Broward County)	FY 2007-08 AFR
DeSoto County Hospital District (DeSoto County)	FY 2007-08 AFR
Dorcas Fire District (Okaloosa County)	FY 2007-08 AFR & AUDIT FY 2006-07 AFR & AUDIT
Downtown Development Authority City of Miami (Miami-Dade County)	FY 2007-08 AFR
Hardee County Housing Authority (Hardee County)	FY 2007-08 AFR
Heights Community Development District, The (Hillsborough County)	FY 2007-08 AFR
Hernando County Housing Authority (Hernando County)	FY 2007-08 AFR
Kenmare at Lake Annie Community Development District (Polk County)	FY 2007-08 AFR
Kindlewood Community Development District (Clay County)	FY 2007-08 AFR & AUDIT
Naples Reserve Community Development District (Collier County)	FY 2007-08 AFR & AUDIT
Nassau Soil and Water Conservation District (Nassau County)	FY 2007-08 AFR & AUDIT
Pembroke Harbor Community Development District (Brevard County)	FY 2007-08 AUDIT
Seminole County Housing Authority (Seminole County)	FY 2007-08 AFR
<u>DEPENDENT:</u>	
Apalachicola Housing Authority (Franklin County)	FY 2007-08 AFR
Housing Authority of the City of Arcadia (DeSoto County)	FY 2007-08 AFR
Housing Authority of the City of Fernandina Beach (Nassau County)	FY 2007-08 AFR
Melbourne Housing Authority (Brevard County)	FY 2007-08 AFR
Ormond Beach Housing Authority (Volusia County)	FY 2007-08 AFR
Volusia County Industrial Development Authority (Volusia County)	FY 2007-08 AFR & AUDIT

LOCAL GOVERNMENTAL ENTITIES NOT IN COMPLIANCE
WITH S. 218.32, F.S. AND/OR S. 218.39, F.S.

<u>LIST 4:</u>	
<u>INDEPENDENT SPECIAL DISTRICTS</u>	
<u>ENTITY IN PROCESS OF COMPLYING – DELAY ACTION</u>	
Broward Soil & Water Conservation District (Broward County)	FY 2007-08 AFR & AUDIT
Forest Brooke Community Development District (Hillsborough County)	FY 2007-08 AFR & AUDIT
Lanark Village Water & Sewer District (Franklin County)	FY 2007-08 AFR & AUDIT FY 2006-07 AFR & AUDIT
Ochlockonee River Soil and Water Conservation District (Leon County)	FY 2007-08 AUDIT
Palm Vista Preserve East Community Development District (Brevard County)	FY 2007-08 AUDIT
Peace River Soil & Water Conservation District (DeSoto County)	FY 2007-08 AFR & AUDIT FY 2006-07 AFR & AUDIT
Portofino Springs Community Development District (Lee County)	FY 2007-08 AFR & AUDIT
Santa Rosa Bay Bridge Authority (Santa Rosa County)	FY 2007-08 AFR & AUDIT
Seminole County Expressway Authority (Seminole County)	FY 2007-08 AFR
Shingle Creek Community Development District (Osceola County)	FY 2007-08 AUDIT
South Dade Soil and Water Conservation District (Miami-Dade County)	FY 2007-08 AFR
Tidewater Preserve Community Development District (Manatee County)	FY 2007-08 AUDIT
Treeline Preserve Community Development District (Lee County)	FY 2007-08 AFR & AUDIT
Verandahs Community Development District (Pasco County)	FY 2007-08 AFR & AUDIT
Verona Community Development District (Lee County)	FY 2007-08 AFR & AUDIT
Vizcaya in Kendall Community Development District (Miami-Dade County)	FY 2007-08 AFR & AUDIT
Willford Place Community Development District (Clay County)	FY 2007-08 AFR & AUDIT

LOCAL GOVERNMENTAL ENTITIES NOT IN COMPLIANCE
WITH S. 218.32, F.S. AND/OR S. 218.39, F.S.

<u>LIST 4 (CONTINUED):</u>	
<u>INDEPENDENT SPECIAL DISTRICTS:</u>	
<u>DCA GRANTED ADDITIONAL 30 DAY EXTENSIONS</u>	
<u>(APRIL 2010 DEADLINES) – DELAY ACTION</u>	
Bella Verde Golf Community Development District (Pasco County)	FY 2007-08 AFR & AUDIT
Blackman Fire District (Okaloosa County)	FY 2007-08 AFR & AUDIT FY 2006-07 AFR & AUDIT
Buckeye Park Community Development District (Manatee County)	FY 2007-08 AFR & AUDIT
Chapel Creek Community Development District (Pasco County)	FY 2007-08 AFR & AUDIT
Holt Fire District (Okaloosa County)	FY 2007-08 AFR & AUDIT
New River Community Development District (Pasco County)	FY 2007-08 AFR & AUDIT
Orange Hill Soil & Water Conservation District (Washington County)	FY 2007-08 AFR & AUDIT
Sanctuary Cove Community Development District (Manatee County)	FY 2007-08 AFR & AUDIT
South Dade Soil and Water Conservation District (Miami-Dade County)	FY 2007-08 AUDIT
Southbay Community Development District (Manatee County)	FY 2007-08 AFR & AUDIT
Tri-County Airport Authority (multi - Holmes, Jackson, Washington Counties)	FY 2007-08 AFR & AUDIT

11.40 Legislative Auditing Committee.—

* * * * *

(5) Following notification by the Auditor General, the Department of Financial Services, or the Division of Bond Finance of the State Board of Administration of the failure of a local governmental entity, district school board, charter school, or charter technical career center to comply with the applicable provisions within s. 11.45(5)-(7), s. 218.32(1), or s. 218.38, the Legislative Auditing Committee may schedule a hearing. If a hearing is scheduled, the committee shall determine if the entity should be subject to further state action. If the committee determines that the entity should be subject to further state action, the committee shall:

(a) In the case of a local governmental entity or district school board, direct the Department of Revenue and the Department of Financial Services to withhold any funds not pledged for bond debt service satisfaction which are payable to such entity until the entity complies with the law. The committee shall specify the date such action shall begin, and the directive must be received by the Department of Revenue and the Department of Financial Services 30 days before the date of the distribution mandated by law. The Department of Revenue and the Department of Financial Services may implement the provisions of this paragraph.

(b) In the case of a special district, notify the Department of Community Affairs that the special district has failed to comply with the law. Upon receipt of notification, the Department of Community Affairs shall proceed pursuant to the provisions specified in s. 189.421.

(c) In the case of a charter school or charter technical career center, notify the appropriate sponsoring entity, which may terminate the charter pursuant to ss. 1002.33 and 1002.34.

* * * * *

218.32 Annual financial reports; local governmental entities.--

(1)(a) Each local governmental entity that is determined to be a reporting entity, as defined by generally accepted accounting principles, and each independent special district as defined in s. 189.403, shall submit to the department a copy of its annual financial report for the previous fiscal year in a format prescribed by the department. The annual financial report must include a list of each local governmental entity included in the report and each local governmental entity that failed to provide financial information as required by paragraph (b). The chair of the governing body and the chief financial officer of each local governmental entity shall sign the annual financial report submitted pursuant to this subsection attesting to the accuracy of the information included in the report. The county annual financial report must be a single document that covers each county agency.

(b) Each component unit, as defined by generally accepted accounting principles, of a local governmental entity shall provide the local governmental entity, within a reasonable time period as established by the local governmental entity, with financial information necessary to comply with the reporting requirements contained in this section.

(c) Each regional planning council created under s. 186.504, each local government finance commission, board, or council, and each municipal power corporation created as a separate legal or administrative entity by interlocal agreement under s. 163.01(7) shall submit to the department a copy of its audit report and an annual financial report for the previous fiscal year in a format prescribed by the department.

(d) Each local governmental entity that is required to provide for an audit in accordance with s. 218.39(1) must submit the annual financial report with the audit report. A copy of the audit report and annual financial report must be submitted to the department within 45 days after the completion of the audit report but no later than 12 months after the end of the fiscal year.

(e) Each local governmental entity that is not required to provide for an audit report in accordance with s. 218.39 must submit the annual financial report to the department no later than April 30 of each year. The department shall consult with the Auditor General in the development of the format of annual financial reports submitted pursuant to this paragraph. The format shall include balance sheet information to be utilized by the Auditor General pursuant to s. 11.45(7)(f). The department must forward the financial information contained within these entities' annual financial reports to the Auditor General in electronic form. This paragraph does not apply to housing authorities created under chapter 421.

(f) If the department does not receive a completed annual financial report from a local governmental entity within the required period, it shall notify the Legislative Auditing Committee of the local governmental entity's failure to comply with the reporting requirements. The committee shall proceed in accordance with s. 11.40(5).

(2) The department shall annually by December 1 file a verified report with the Governor, the Legislature, the Auditor General, and the Special District Information Program of the Department of Community Affairs showing the revenues, both locally derived and derived from intergovernmental transfers, and the expenditures of each local governmental entity, regional planning council, local government finance commission, and municipal power corporation that is required to submit an annual financial report. The report must include, but is not limited to:

(a) The total revenues and expenditures of each local governmental entity that is a component unit included in the annual financial report of the reporting entity.

(b) The amount of outstanding long-term debt by each local governmental entity. For purposes of this paragraph, the term "long-term debt" means any agreement or series of agreements to pay money, which, at inception, contemplate terms of payment exceeding 1 year in duration.

(3) The department shall notify the President of the Senate and the Speaker of the House of Representatives of any municipality that has not reported any financial activity for the last 4 fiscal years. Such notice must be sufficient to initiate dissolution procedures as described in s. 165.051(1)(a). Any special law authorizing the incorporation or creation of the municipality must be included within the notification.

History.--s. 2, ch. 73-349; s. 15, ch. 77-165; s. 46, ch. 79-164; s. 5, ch. 79-183; s. 4, ch. 79-589; s. 42, ch. 80-274; s. 18, ch. 81-167; s. 16, ch. 83-55; s. 2, ch. 83-106; s. 43, ch. 89-169; s. 55, ch. 91-45; s. 93, ch. 92-152; s. 90, ch. 92-279; s. 55, ch. 92-326; s. 36, ch. 94-249; s. 18, ch. 96-324; s. 8, ch. 2000-152; s. 5, ch. 2000-264; s. 62, ch. 2001-266; s. 26, ch. 2004-305.

218.39 Annual financial audit reports.--

(1) If, by the first day in any fiscal year, a local governmental entity, district school board, charter school, or charter technical career center has not been notified that a financial audit for that fiscal year will be performed by the Auditor General, each of the following entities shall have an annual financial audit of its accounts and records completed within 12 months after the end of its fiscal year by an independent certified public accountant retained by it and paid from its public funds:

(a) Each county.

(b) Any municipality with revenues or the total of expenditures and expenses in excess of \$250,000.

(c) Any special district with revenues or the total of expenditures and expenses in excess of \$100,000.

(d) Each district school board.

(e) Each charter school established under s. 1002.33.

(f) Each charter technical center established under s. 1002.34.

(g) Each municipality with revenues or the total of expenditures and expenses between \$100,000 and \$250,000 that has not been subject to a financial audit pursuant to this subsection for the 2 preceding fiscal years.

(h) Each special district with revenues or the total of expenditures and expenses between \$50,000 and \$100,000 that has not been subject to a financial audit pursuant to this subsection for the 2 preceding fiscal years.

(2) The county audit report shall be a single document that includes a financial audit of the county as a whole and, for each county agency other than a board of county commissioners, an audit of its financial accounts and records, including reports on compliance and internal control, management letters, and financial statements as required by rules adopted by the Auditor General. In addition to such requirements, if a board of county commissioners elects to have a separate audit of its financial accounts and records in the manner required by rules adopted by the Auditor General for other county agencies, such separate audit shall be included in the county audit report.

(3)(a) A dependent special district may make provision for an annual financial audit by being included within the audit of another local governmental entity upon which it is dependent. An independent special district may not make provision for an annual

financial audit by being included within the audit of another local governmental entity.

(b) A special district that is a component unit, as defined by generally accepted accounting principles, of a local governmental entity shall provide the local governmental entity, within a reasonable time period as established by the local governmental entity, with financial information necessary to comply with this section. The failure of a component unit to provide this financial information must be noted in the annual financial audit report of the local governmental entity.

(4) A management letter shall be prepared and included as a part of each financial audit report.

(5) At the conclusion of the audit, the auditor shall discuss with the chair of each local governmental entity or the chair's designee, or with the elected official of each county agency or with the elected official's designee, or with the chair of the district school board or the chair's designee, or with the chair of the board of the charter school or the chair's designee, or with the chair of the charter technical career center or the chair's designee, as appropriate, all of the auditor's comments that will be included in the audit report. If the officer is not available to discuss the auditor's comments, their discussion is presumed when the comments are delivered in writing to his or her office. The auditor shall notify each member of the governing body of a local governmental entity, district school board, charter school, or charter technical career center for which deteriorating financial conditions exist that may cause a condition described in s. 218.503(1) to occur if actions are not taken to address such conditions.

(6) The officer's written statement of explanation or rebuttal concerning the auditor's findings, including corrective action to be taken, must be filed with the governing body of the local governmental entity, district school board, charter school, or charter technical career center within 30 days after the delivery of the auditor's findings.

(7) The predecessor auditor of a district school board shall provide the Auditor General access to the prior year's working papers in accordance with the Statements on Auditing Standards, including documentation of planning, internal control, audit results, and other matters of continuing accounting and auditing significance, such as the working paper analysis of balance sheet accounts and those relating to contingencies.

(8) All audits conducted in accordance with this section must be conducted in accordance with the rules of the Auditor General promulgated pursuant to s. 11.45. All audit reports and the officer's written statement of explanation or rebuttal must be submitted to the Auditor General within 45 days after delivery of the audit report to the entity's governing body, but no later than 12 months after the end of the fiscal

year.

(9) Each charter school and charter technical career center must file a copy of its audit report with the sponsoring entity; the local district school board, if not the sponsoring entity; the Auditor General; and with the Department of Education.

(10) This section does not apply to housing authorities created under chapter 421.

(11) Notwithstanding the provisions of any local law, the provisions of this section shall govern.

History.--s. 65, ch. 2001-266; s. 924, ch. 2002-387; s. 28, ch. 2004-305; s. 2, ch. 2006-190; s. 2, ch. 2009-214.

OPPAGA:
Fire and EMS



Pinellas County Should Track Fire and EMS Costs to Control Costs and Evaluate Alternative Service Delivery Models

A Presentation to the Joint Legislative Auditing Committee

March 8, 2010

Kara Collins-Gomez
Staff Director

Florida Legislature Office of Program Policy Analysis & Government Accountability

Conclusions

- Pinellas County should create a countywide *planning system* for fire protection and emergency medical services
- The county should also implement a system for *collecting and tracking financial information* about these services

Florida Legislature Office of Program Policy Analysis & Government Accountability

2

Project Scope

- Describe the current service delivery systems and funding mechanisms for Pinellas fire and EMS systems
- Discuss current issues affecting these services
- Present recommendations for legislative consideration

Background

- Multiple local government units provide fire and emergency medical services to Pinellas County residents
- In recent years, there have been numerous proposals to consolidate services to increase efficiency, eliminate duplication, and lower costs

Background

- However, none of the proposals have been adopted due to
 - a lack of credible cost data
 - the absence of a countywide forum for stakeholders to discuss system changes

Two State Laws Help Define Fire and EMS Planning and Funding

- Chapter 73-600, *Laws of Florida*
 - Establishes ad valorem funding mechanism for fire services in unincorporated areas
 - Empowers the Pinellas County Commission to engage in countywide planning
- Chapter 80-585, *Laws of Florida*
 - Establishes a countywide EMS tax rate
 - Gives the county the authority to determine the EMS costs it will reimburse

Current Structure of Fire and Emergency Medical Services

- 18 municipal and special district fire departments
- 1 medical transport company
- 1 coordinated 911-dispatch system

Current Funding

- Ad valorem taxes are a primary source of fire and EMS funding
 - Municipalities and special fire districts fund fire services through local budgets
 - The county contracts with municipalities to serve unincorporated areas (collects ad valorem taxes from residents)
 - Countywide EMS ad valorem taxes fund first responder and ambulance transport services

County Lacks a Mechanism for Coordinating System Resources

- No countywide planning
 - Municipalities and special districts are independent units of local government
- Insufficient data to identify cost effective approaches to service delivery
 - Automatic aid ensures uniform service levels throughout the county, but there is no documentation of costs for providing services to other jurisdictions

Citizens Pay Varying Amounts for Fire Protection and EMS

- Residents of unincorporated areas pay for fire services based on a proportion of the budget of the department that serves their area
- All county residents pay the same tax rate for EMS, although some areas generate more calls than others

Recommendations

- Amend current state law to
 - Direct Pinellas County to establish a countywide fire and EMS advisory council
 - Empower the advisory council to implement a system for collecting and tracking fire and EMS financial information
 - Create a forum for coordinated decision making about cost-effective service delivery approaches, including consolidating operations

For More Information

Report:

www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/1025rpt.pdf

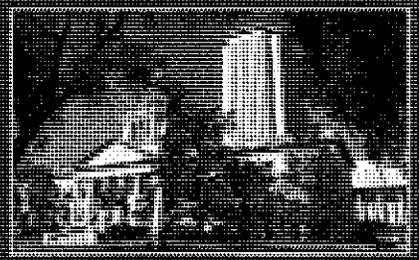
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Office of Program Policy Analysis & Government Accountability

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources.



Pinellas County Should Track Fire and EMS Costs to Set Benchmarks, Control Costs, and Evaluate Alternative Service Delivery Models

at a glance

Pinellas County residents receive fire protection and emergency medical services through a complex system requiring coordination among 18 local governments. While this system provides a uniform emergency response system, it lacks effective mechanisms to plan service levels and track system-wide costs, which makes it difficult to identify more cost-effective service delivery models.

The county would benefit from establishing a broad-based planning entity to oversee a more coordinated approach to planning for fire protection and emergency medical services. Such an entity could track costs and help plan for more efficient and cost-effective services by taking into account what resources exist beyond a single municipality's border and by adopting a countywide view of service delivery. To achieve these goals, we recommend that the Legislature modify Chs. 73-600 and 80-585, *Laws of Florida*, to establish a comprehensive countywide planning system for fire and emergency medical services and a mechanism for reporting and tracking related financial information.

Scope

As directed by the Legislature, OPPAGA examined fire protection and emergency medical services (EMS) in Pinellas County. This report

- describes the current service delivery systems and funding mechanisms for fire and EMS systems;
- discusses current issues affecting these services; and
- presents recommendations for legislative consideration.

Background

Eighteen municipal and special district fire departments provide fire protection and emergency medical services to Pinellas County residents, and medical transport services are provided through a county contract with a private vendor. This system has evolved over time with the county's development into a highly urbanized and densely developed area. In recent years, there have been several proposals to consolidate fire departments within the county and/or change the way these services are delivered and financed in order to increase efficiency, eliminate duplication, and lower costs. To date, these proposals have not

been adopted due in part to the lack of credible cost data and the absence of a countywide forum for stakeholders to discuss system changes.

Local governments in Florida and other states have considered similar proposals to consolidate fire and emergency medical operations. For example, the cities of Casselberry and New Port Richey are considering closing their fire departments and contracting with their counties or other cities for fire protection services. Local governments in Indiana, Montana, Nevada, and Oregon have recently consolidated fire department services.¹

Moreover, many local governments have established automatic aid agreements to improve service delivery and achieve cost efficiencies. For example, Seminole County has established an automatic aid agreement with the five cities in the county with fire departments under which the closest fire rescue unit goes to the fire or accident regardless of the jurisdiction; the cities of Eustis and Mount Dora have established a similar agreement. Local governments have also explored different methods of financing fire and emergency medical services. For example, Leon County contracts with the City of Tallahassee for fire service and recently agreed to participate in the city's fire assessment fee in lieu of levying ad valorem taxes to pay for these services.

¹ For example, the town of West Yellowstone has consolidated its fire department with the Hebgen Basin Fire District, and the Washington, Warren, and Perry Townships have merged their fire departments into the city of Indianapolis' department. Washington State has passed a law authorizing the creation of regional fire authorities, which are created by a vote of the citizens within the proposed region and they have taxing authority. Fire departments within the authority's boundary are transferred to the authority, including personnel, vehicles, equipment, and facilities. Some local governments in Mississippi and North Carolina use cooperative agreements to provide fire and emergency medical services, with one local government paying another for these services.

Findings

Pinellas County residents receive fire protection and emergency medical services through a complex system coordinated among 18 local governments. Due to countywide automatic aid agreements, this system provides uniform emergency responses. However, it lacks a countywide body to plan services, track costs, and identify cost efficiencies. In addition, stakeholders have raised numerous concerns about the county's cost sharing and fund allocation methods.

The county would benefit from establishing a broad-based planning entity to oversee a more coordinated approach to planning and financing fire protection and emergency medical services, tracking related costs, and identifying efficiencies. To achieve these goals, we recommend that the Legislature modify Chs. 73-600 and 80-585, *Laws of Florida*, to establish a comprehensive countywide system for planning fire protection and emergency medical services and create a mechanism for reporting and tracking related financial information.

Pinellas County residents receive fire protection and emergency medical services through a complex system requiring coordination among multiple local governments

Eighteen municipal and special district fire departments provide fire protection and emergency medical services to Pinellas County residents, and the county contracts with a private vendor for countywide medical transport services. The county also operates a 911-dispatch system, which provides coordinated, countywide emergency communications. Ad valorem taxes are a primary funding source for these services, which had an estimated countywide cost of \$210.9 million in Fiscal Year 2008-09.

Fire protection and emergency medical service delivery is decentralized. Pinellas County uses a decentralized approach to provide fire protection and emergency medical services, with 18 fire departments and an ambulance transport company providing services (see Appendix A for a map showing the fire service providers). While the county is not a direct provider, it contracts with local governments for some services and maintains a coordinated, countywide 911-dispatch system.

Fourteen cities in Pinellas County operate fire departments, as do four independent special fire districts; these departments comprise 62 fire stations, 1,325 personnel, and 112 pieces of equipment. The departments serve residents in their areas as well as those living in six municipalities that contract for these services rather than operating their own fire departments. The county also contracts with nine of the municipal fire departments to provide fire protection services to unincorporated areas as prescribed in Ch. 73-600, *Laws of Florida*, which requires these municipalities to provide fire protection to unincorporated areas that are not part of an independent special fire district.² The act also established a countywide fire protection authority (composed of the Board of County Commissioners) that is empowered to establish and implement a permanent plan of fire protection for the county and its municipalities.

Pinellas County also has a countywide emergency medical services authority that is responsible for funding and providing emergency medical services to all municipalities and unincorporated areas in the county. The authority was created by Ch. 80-585, *Laws of Florida*, which established a special taxing district and required that municipalities and special districts providing emergency medical services at the time the act was passed be fully reimbursed for these costs. The act specifies that these services be funded

through ad valorem taxes. The Board of County Commissioners comprises the authority and contracts with the 18 fire departments for first responder services and a single ambulance contractor for transport services.³

The National Emergency Number Association rated Pinellas County's coordinated 911-dispatch system as one of the best in the nation, with help dispatched within 23 seconds of answering a call. County staff and fire chiefs report that this results in average response times of 4.5 minutes for first responders to arrive. The rapid response times are due to a countywide automatic aid agreement that allows the dispatch system to send first responders from the fire unit closest to the emergency location, regardless of municipal boundaries.

Ad valorem taxes are a primary source of fire protection and EMS funding. County fire protection and emergency medical services are funded primarily with ad valorem taxes. Each of the 14 municipalities with fire departments fund these operations through ad valorem taxes levied on property within their boundaries, as do three of the independent special fire districts; the remaining special fire district raises funds through a fire services assessment.⁴

The unincorporated areas of the county that receive fire services through county contracts also pay for services via an ad valorem tax. Pursuant to Ch. 73-600, *Laws of Florida*, unincorporated property owners pay a pro rata share of the fire department budget based on a comparison of unincorporated property value to municipal property value in the fire department's contract area. Due to this formula, residents in these unincorporated areas pay different ad valorem tax rates. The

² The law calls for the creation of fire control areas, which contain the municipality providing the fire protection and the unincorporated area to be served by municipality's fire department. A majority of the electors within the district must approve the district before it can become operable.

³ Contracting with fire departments for first responder services maximizes the use of the existing fire protection infrastructure and the countywide distribution of stations. Contracting for ambulance transport services enables the fire units to focus on their first responder duties.

⁴ Chapter 2000-436, *Laws of Florida*, creating the independent special fire district, Pinellas Suncoast Fire and Rescue District, specifies its funding source as a non-ad valorem assessment.

county funds EMS through a countywide special taxing district that levies an ad valorem tax; all county residents are taxed at .5832 mills for these services.⁵

Pinellas County staff estimated that the fire and emergency medical system had a total cost of \$210.9 million for county Fiscal Year 2008-09.⁶ As no entity has responsibility or authority to collect countywide cost data, this estimate is not based on audited expenditures and may not include all costs of providing fire and emergency medical services.⁷ According to county staff, available data does not provide an accurate breakdown of costs for fire protection and first responder emergency medical services.

The county lacks a mechanism to coordinate system resources, and citizens pay varying amounts for fire protection and emergency medical services

Pinellas County does not perform countywide planning for fire and emergency medical services and lacks reliable cost data for these services, which makes it difficult to develop cost-effective strategies and best practices. In addition, citizens have asserted that the current funding mechanism for these services is not equitable and that persons living in some parts of the county pay disproportionately higher taxes for fire and emergency medical services than do others.

There is no countywide planning for fire and emergency medical services. Although Ch. 73-600, *Laws of Florida*, empowers the Pinellas County Commission, acting as the fire protection authority, to engage in countywide planning for fire protection services, the commission has not facilitated planning for critical aspects such as the equipment, personnel, and infrastructure required to implement a coordinated system. The county also lacks a formal process for assessing how

many fire stations are needed or where future stations should be located. County staff reported that they have not engaged in such planning because the act provides no authority to require the cities and independent special fire districts, independent units of local government, to implement recommendations that could produce cost savings or service improvements.

In the absence of formal planning, the county fire chiefs association meets regularly to discuss various issues, such as standardizing procedures and training across departments. However, this group does not address issues related to comprehensive countywide service delivery and funding, which are important to providing uniform countywide services and maximizing the cost-effective use of resources.

The county lacks data needed to identify cost-effective approaches to service delivery. The county, acting as the authority, has not directed municipalities and special districts to report consistent data on their fire department operations and expenditures. County staff reported that they have not done so because the act provides no authority to require the cities and fire districts to provide such information. As a result, there is little summary data available to assess the cost-effectiveness of the 18 fire departments. In addition, while the automatic aid agreement requires fire departments to respond to calls throughout the county, there is no documentation of the costs that the departments incur in providing services to other jurisdictions.

In the absence of a mechanism to track costs, the county cannot readily compare the costs and benefits of alternative service delivery models (e.g., consolidation). Creating a cost accounting system would enable the county and fire departments to establish benchmarks and compare performance to identify potential cost-efficiencies and best practices.⁸

⁵ State law caps the EMS tax rate at 1.5 mills.

⁶ The county fiscal year is October 1 through September 30.

⁷ The county is implementing an audit requirement related to the use of county funds, but not of the entire operating budgets of providers.

⁸ While some studies of Pinellas County fire protection and emergency medical services have compared the county's systems with other jurisdictions, the lack of reliable cost data and differences in service delivery models compromise the credibility and usefulness of the comparisons.

County taxpayers have raised concerns about cost sharing. Although Pinellas County residents receive a uniform level of fire and emergency medical services because of the countywide automatic aid agreement, they pay differing amounts for these services. The individual cities that provide fire protection services determine what level of investment they wish to make in equipment and what salary and benefit levels to pay their fire department staff; they then include this as part of the city budget. Because the county contracts with the municipal fire departments to provide fire protection to unincorporated areas, these cost variations also result in different tax rates and amounts being paid by the residents of these areas.⁹ The 2009 tax rates for these unincorporated areas ranged from 1.3 to 2.7 mills. Some stakeholders assert that these differing property tax levels are inequitable and the county should implement a more uniform fee structure to pay for fire protection in these unincorporated areas.

County residents have raised similar concerns regarding the emergency medical services funding allocation mechanism provided in Ch. 80-585, *Laws of Florida*. Specifically, stakeholders reported concern that areas that generate more EMS calls receive a larger benefit because all county residents pay the same ad valorem tax rate for such services. In addition, EMS calls represent approximately 80% of all service calls fire departments handle, but EMS funds account for only 25% of departments' estimated funding; as a result, fire protection funds may supplement EMS costs. Further, stakeholders asserted that municipalities that provided EMS prior to passage of the law have more costs reimbursed by the county.¹⁰

⁹ As provided by Ch. 73-600, *Laws of Florida*, and county ordinance, the county pays the municipal fire departments an amount based on their submitted budgets.

¹⁰ A 1989 City of St. Petersburg lawsuit, which upheld the county's responsibility to fully reimburse the city for the reasonable and customary costs for providing first responder emergency medical services, reinforced this perception. Reasonable and customary costs refer to the type of EMS response municipalities provided prior to the passage of the law, e.g., the type of vehicle and number of personnel that responded to an emergency call.

The county is attempting to address some of these concerns by refining its EMS cost reimbursement criteria. For example, Pinellas County Board of County Commissioners Resolution 09-38 defines what EMS costs are reimbursable, and Resolution 09-37 sets the level of service for response times and advanced life support staffing based on the volume of responses per response zone.

Conclusions and Recommendations

Pinellas County residents receive fire protection and emergency medical services through a complex system coordinated among 18 units of local government. This system provides uniform emergency response but lacks a countywide body to plan services, track costs, and identify cost efficiencies. In addition, stakeholders have raised numerous concerns about the county's cost sharing and fund allocation methods.

To improve the planning, accountability, and cost effectiveness of fire and emergency medical services in Pinellas County, we recommend that the Legislature modify Chs. 73-600 and 80-585, *Laws of Florida*, to establish a comprehensive countywide system for planning such services and create a system for reporting and tracking related financial information.

Implement a countywide planning system for fire protection and emergency medical services. We recommend that the Legislature amend Chs. 73-600 and 80-585, *Laws of Florida*, to direct Pinellas County to establish a single, countywide fire and emergency medical services advisory council to oversee planning for such services. The council would be specifically charged with

- identifying countywide resources and needs;
- ensuring coordinated broad-based participation by those affected by decisions; and

- providing a centralized and more transparent forum for planning fire and emergency medical services.

The Board of County Commissioners would be designated as the governing body responsible for coordinating the council's activities. The council would include representatives of the local governments (i.e., municipalities and independent special fire districts) affected by planning decisions as well as county representatives responsible for providing services to unincorporated areas.

Implement a system for collecting and tracking fire and emergency medical services financial information. We recommend that the Legislature amend Chs. 73-600 and 80-585, *Laws of Florida*, to enhance financial accountability by requiring fire and emergency medical services providers to submit comprehensive fiscal and operational data to the county advisory council. This requirement would create a mechanism to

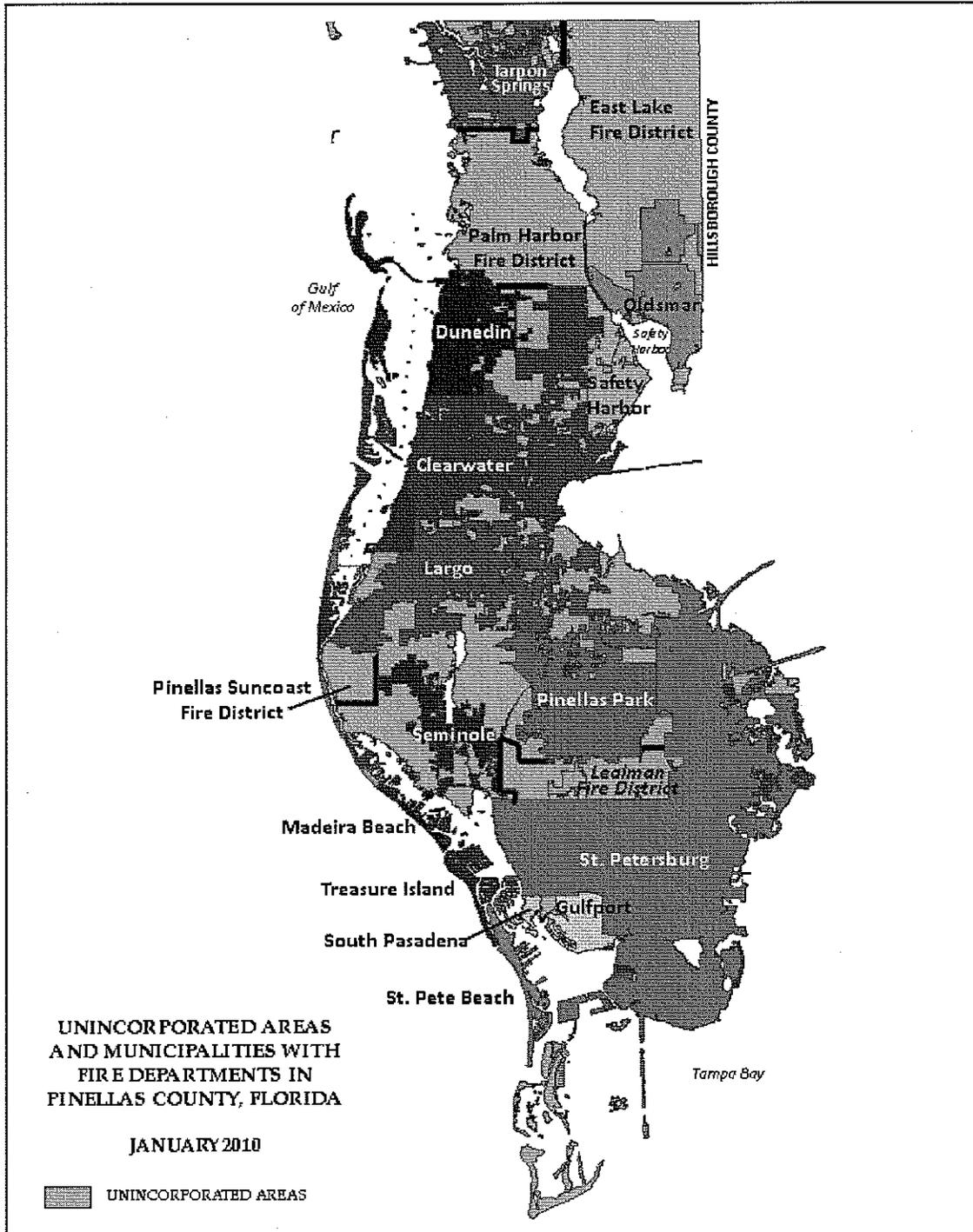
- track and better control costs by identifying primary beneficiaries of automatic aid agreements;
- enable the county to determine if the entities it contracts with to provide fire services in unincorporated areas have the capacity to carry out contractual obligations;

- facilitate assessments of appropriate resource levels (e.g., staffing, equipment);
- provide baseline unit cost information needed to benchmark performance and identify cost efficiencies;
- segregate fire and EMS costs, which would enable an exploration of alternative service delivery approaches; and
- provide a forum for coordinated decision making about cost-effective alternatives such as regional consolidation and most effective fire station location.

In addition, to facilitate decision making regarding cost-effective service delivery, we recommend the Legislature modify these laws to eliminate requirements specifying which entity should serve unincorporated areas and provisions regarding how services are financed. These changes would allow the county to align funding with the current service delivery practices under the automatic aid system and could result in cost savings for residents of unincorporated areas or help the county equalize tax levels. Moreover, eliminating these provisions would give the county flexibility to determine the most appropriate funding mechanisms for fire and emergency medical services (i.e., a mechanism based on something other than property value).

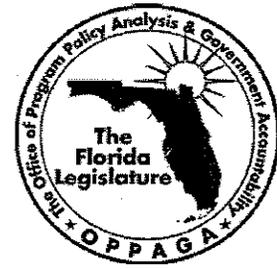
Appendix A

Pinellas County Residents Receive Fire Protection Services from 18 Entities



Source: Pinellas County.

The Florida Legislature
Office of Program Policy Analysis
and Government Accountability



OPPAGA provides performance and accountability information about Florida government in several ways.

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