

SOUTH WALTON INCORPORATION FEASIBILITY STUDY SUMMARY

INTRODUCTION

This document is a summary of the full South Walton Feasibility Study and is intended to provide a short version of the full study that includes the key content points and findings. Some additional information is included in this summary for readability and to assist the reader in understanding the overall context. The current version of the full study can be found in the Document Center on the A Better South Walton, Inc. (ABSW) web site at: www.ABetterSouthWalton.org.

When a new municipality is being proposed, Florida Statutes (Chapter 165) require a study be submitted to the legislature for consideration along with the proposed charter and associated local bill. Such studies are not intended to show exactly what will happen if a community incorporates. Rather they address the rationale for incorporation and show that incorporation is feasible. The South Walton Feasibility Study developed by ABSW and experts is such a study and shows what could be done via incorporation. What actually happens if incorporation is approved by the legislature, the governor and the citizens of South Walton will be determined by the elected officials with the citizens' input.

The study addresses the following (s. 165.041(b)1-11):

- Boundaries of the area being considered
- Rationale for incorporation
- Characteristics of the area including land use and zoning
- List of public agencies and current services provided in the area
- List of proposed services to be provided with cost estimates
- Evidence of fiscal capacity - tax base, revenue sources and five-year operating plan
- Data, assumptions and analysis that support the financial feasibility of incorporation
- Description of the alternatives considered to address the concerns
- Evidence that the new municipality meets all statutory requirements

ABSW commissioned the feasibility study because the South Walton community, if left on its current course, will rapidly lose what has made it a special and unique place with its natural beauty and distinctive character that attracts residents, visitors and small businesses. The opportunity exists to alter the course if we can achieve:

- Increased local representation with South Walton perspective and stewardship as a prime motivator
- Better planning, growth management and enforcement
- More resources available for additional investment in local infrastructure
- More balanced allocation of tax revenues generated by South Walton

KEY STUDY FINDINGS

- Incorporation of South Walton into a new municipality is feasible and offers the best solution for addressing the concerns of the local citizens, property owners and businesses.

- Significant benefits are provided by a new South Walton municipality.
- There would be no tax impact on South Walton property owners and local businesses in the most likely scenario outlined in the study (detailed below) as no additional ad valorem taxes would be required for providing the existing level of services. In the less likely scenario there would be a minimal municipal ad valorem (property) tax required of 0.2950 mills beginning in the fourth year.

BENEFITS TO SOUTH WALTON OF INCORPORATION

- Planning and Code Enforcement would be handled by the municipality as soon as possible.
 - New Comprehensive Plan and Land Development Code
 - Planning decisions made by people who live and work in the community
 - Focus on long-range planning
- Funds will be available to augment county and TDC spending on infrastructure improvements.
 - Continuous focus on grants to leverage these dollars into more substantial investments
- As a municipality, South Walton could have significant influence on various issues with the county, regional planning, the state and the federal government
 - We will have one large voice speaking for our community with
 - Walton County
 - School Board
 - Regional Planning Council (Transportation planning and prioritization)
 - Water Management District
 - South Walton Tourist Development Council (TDC)
 - Walton County Economic Development Alliance
 - Other regional and state governments, as well as the federal government
 - Today we are an unincorporated area of Walton County with no unified voice.
- Self-determination with Local Representatives
 - We will elect our leaders and they will represent us.
 - Elected officials and staff are focused exclusively on our challenges and opportunities.
- Top Priorities Get Attention.
 - Our local leadership will set and address those priorities most important to the community.
 - A municipality will help residents, visitors and business owners providing a centralized focus of attention on specific issues that are unique to our area.
- More Local Tax Dollars Spent Locally
 - Local fees and taxes form the base of a municipality's revenue structure and those dollars are spent locally for municipal services. Currently, South Walton is unable to vote for a local tax other than through a special district as it is not incorporated.

NEW MUNICIPALITY SCOPE AND APPROACH

Geographic Area Proposed for Incorporation

Attached hereto as Exhibit A below is a map which identifies the proposed incorporated area that is signed and sealed by Patrick Pilcher, Walton County Property Appraiser. This proposed incorporation area is identical to that of the South Walton Fire District.

Services Overview

Due to the perceived desire of the community to minimize any new fees or taxes to be levied upon the citizens of South Walton, a very lean municipal government which only directly provides legal support, solid waste management, planning and code enforcement services and infrastructure improvement funding to augment what the county spends in South Walton was assumed. Services and functions assumed to be provided by the new municipality include the following:

- A municipal administrative staff of five full-time employees in Year 1 which grows to seven by Year 5
- Administrative expenses including rent, insurance, utilities, IT services, etc.
- Legal expenses
- Solid waste management fees paid to Walton County to continue that service in the first five years at a minimum
- Planning & Zoning and Code Enforcement services (recommend to contract with a private firm)
- Funds in excess of \$1.5 million annually to be spent on infrastructure improvements to supplement what the county is investing in infrastructure improvements. The expectation is that the municipal staff would focus on seeking state and federal grants for infrastructure improvements that would either not require any local matching funds or require matching funds of 20% to 50%. This could greatly increase the municipality's ability to fund improvements.

The planning assumption is that South Walton would contract with Walton County for many of the base services that the county provides today. South Walton citizens would continue to pay county ad valorem taxes. The municipality would pursue agreements with the county to keep the current level of services or enhanced services, including:

- Law Enforcement / Animal Control
- Fire and EMS (Special District)
- Mosquito Control (Special District)
- Building Department - permits, inspections
- Public Works - streets, sidewalks, street lighting, etc.
- Parks and Recreation
- Other – I.e. Library, GIS

The expectation is that due to the fact that the vast majority of taxes will continue to be generated in South Walton, Walton County would be willing to work with the municipality and would treat the people of South Walton fairly.

Planning and Code Enforcement

The municipality would develop its own Comprehensive Plan and Land Development Code as quickly as possible and contract with Walton County for these services until new codes and processes are in place. The cost to develop new plans and codes is included in the Planning Services expense item in Years 1 and 2 totaling \$1,000,000. The goal would be to bring Planning and Code Enforcement functions into the municipality as quickly as possible. We recommend contracting with an outside firm for these services once they come into the municipality. We also assume a full-blown cost recovery system would be implemented so that fees charged to developers would cover the majority of these expenses as is

common in many local governments in Florida and other states. These fees and related expenses can be seen in the Five-Year Operating Plan as equal and offsetting revenue and expense line items titled *Charges for Services (Recoverable)* and *Planning Services (Recoverable)*, respectively. Therefore, in order to determine the amount of funding included in the operating plan for planning and code enforcement services, it is necessary to combine the amounts in *Planning Services* under *Contract Services* and in *Planning Services (Recoverable)* for each year.

Augment County Infrastructure Spending

This proposed plan assumes that any available funds after covering administrative, legal and planning costs would be directed to infrastructure improvements to augment what Walton County Public Works, Parks and Recreation and the TDC is currently doing regarding infrastructure and destination improvements. These improvements could include:

- Roadway improvements
- Pedestrian and cyclist facilities
- Public park and recreation facilities
- Landscape and streetscape improvements
- Beach access facilities
- Parking improvements, etc.

It is assumed and expected that municipal staff would focus on seeking grant opportunities and operating revenues can provide matching funds for grants. State and federal grants are available to municipalities that can provide the opportunity to leverage municipal funds up to five times over and some do not require matching funds. In the potential operating plan scenario outlined in the South Walton Feasibility Study, if the municipality were able to obtain grant awards equivalent to the amount of municipal funds shown to be available for infrastructure improvements (assumes 50/50 matching grants are awarded on average), this would generate an additional \$1,550,000 in Year 1, \$1,650,000 in Year 2 and \$1,850,000 in Years 3 through 5 in infrastructure funds. This would equate to total funds available for infrastructure projects of \$3,100,000 in Year 1, \$3,300,000 in Year 2 and \$3,700,000 in Years 3 through 5.

If the residents and stakeholders of South Walton wished to significantly increase spending on priority infrastructure needs beyond the funds shown in the Operating Plan in the Study plus grants, then the new municipality's council, responding to the will of the people of South Walton would need to identify additional sources of funding. This additional funding could be from other government entities such as Walton County and the South Walton Tourist Development Council. If the need and urgency was such that more funding was needed beyond that identified from other sources, the new municipality's governing council could levy municipal-level ad valorem or other taxes or fees for such a purpose.

Relationship to Walton County and the TDC

As described in the Benefits section above, the new municipality could have significant influence on various issues with the county, regional planning, the state and the federal government. The new town council would consist of local residents elected and accountable to focus specifically on the issues and opportunities of South Walton. With the exception of services that the new municipality takes on that replace the similar services provided by Walton County today (such as Planning and Code Enforcement), Walton County, the TDC, and regional entities would continue operating under their charters with

responsibilities as defined today. However as described for Infrastructure Spending above, the new municipality can, at the discretion of the new town council acting on the wishes of the South Walton residents augment services provided by the county or TDC today.

The TDC is of particular interest in this regard as the TDC's concern, authority and responsibilities significantly impact the land, infrastructure, people and businesses of South Walton. The working relationship with the TDC would be one of the first orders of business for the newly elected town council. While the TDC is established and governed by Florida statutes and under the oversight of the Walton County Commission, the new municipality would seek every effective way to influence and partner with the TDC for the long term benefit of all of South Walton. The municipality would immediately be granted one seat on the TDC Advisory Council for a municipal elected official as mandated by state statute.

FIVE-YEAR OPERATING PLAN

Key Revenue Assumptions

State Shared Revenues (SSR) are the primary revenue source. State Shared Revenues are primarily sales taxes that are distributed back to counties and municipalities by the state. SSR estimates are based on population and are provided by the Florida Department of Revenue. SSR are estimated to provide approximately \$8.7 million in Year 1 of the first five years of the new municipality. ABSW's consultant assumed an annual growth rate of 1.5% which leads to revenue of approximately \$9.2 million in Year 5.

New municipalities must qualify to receive State Shared Revenues. They must generate a dollar equivalent of 3 mills of certain types of taxes within the municipality (State Statute 218.23). This shows that the municipality "has some skin in the game". The Florida Legislature generally exempts new municipalities for the first three to four years; we would apply for that exemption. Since South Walton pays almost 90% of the ad valorem tax for the entire county we would ask the legislature to allow us to count forms of revenue levied in South Walton toward qualification for State Shared Revenues other than what is generally allowed by statute. If approved, this would be a permanent exception.

Per Florida Statute 218.23(1), the following fees and taxes count toward qualification.

- Municipal ad valorem/property taxes
- Utility services taxes
- Occupational license taxes

Currently none of these taxes or fees are levied exclusively on South Walton residents and are not proposed to be. We will request an exception to allow the following taxes to count toward the three mill test as we pay 89.23% of county ad valorem taxes.

- South Walton Mosquito District ad valorem - .1628 mills
- South Walton Fire District ad valorem - .9799 mills
- Sheriff's Office ad valorem – 1.9482 mills

A similar exception was approved by the legislature in 2015 when the community of Panacea attempted incorporation. We expect the state legislature will approve this for South Walton as well and the municipality will receive State Shared Revenues into perpetuity. (These revenues are currently going to Walton County with minor amounts going to other municipalities in Walton County.) If so, no municipal ad valorem tax would be required to fund proposed operations.

Five-Year Operating Plan Assuming State Shared Revenues ARE Approved

The following schedule shows the Revenues and Expenses for the most probable case where State Shared Revenues are available for the entire five years of the plan.

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue					
Prior Year Fund Balance Carryover	\$ -	\$ 480,394	\$ 108,515	\$ 91,449	\$ 77,570
Ad Valorem Taxes	-	-	-	-	-
State Shared Revenue ¹					
Revenue Sharing Sales Tax Portion	414,727	420,948	427,262	433,671	440,176
Revenue Sharing Fuel Tax Portion ²	128,821	130,753	132,715	134,705	136,726
1/2 Cent Sales Tax	2,923,905	2,967,764	3,012,280	3,057,464	3,103,326
Discretionary Surtax 1%	5,219,691	5,297,986	5,377,456	5,458,118	5,539,990
Charges for Services (Recoverable)	-	1,700,000	1,700,000	1,700,000	1,700,000
Miscellaneous Revenue	5,000	5,075	5,151	5,228	5,307
Total	\$ 8,692,144	\$ 11,002,920	\$ 10,763,379	\$ 10,880,635	\$ 11,003,095
Expenses					
Council Expenses ³	\$ 93,000	\$ 94,860	\$ 96,757	\$ 98,692	\$ 100,666
Administrative Staff					
Municipal Manager ⁴	145,000	147,900	150,858	153,875	156,953
Finance Director ⁵	95,000	96,900	98,838	137,815	140,571
Clerk ⁶	65,000	66,300	67,626	68,979	105,358
Planning & Code Enforcement Director ⁷	125,000	127,500	130,050	132,651	135,304
Admin Assistant ⁷	35,000	35,700	36,414	37,142	37,885
Employee Benefits (35%)	162,750	166,005	169,325	185,662	201,625
Contract Services					
Legal ⁸	500,000	500,000	450,000	400,000	400,000
Garbage/Solid Waste and Landfill ⁹	4,410,000	4,498,200	4,588,164	4,679,927	4,733,526
Planning Services ¹⁰	500,000	1,400,000	918,000	936,360	955,087
Office, Administrative and Technology					
Rent for Offices ¹¹	64,000	64,960	64,317	63,680	63,050
Utilities	12,000	12,180	12,363	12,548	12,736
Communications (phone/Internet)	12,000	12,240	12,485	12,734	12,989
IT Services	10,000	13,000	16,900	21,970	28,561
Office Equipment	150,000	25,000	25,500	26,010	26,530
Office Supplies	15,000	15,300	15,606	15,918	16,236
Insurance ¹²	18,000	18,360	18,727	19,102	19,484
Planning Services (Recoverable)	-	1,700,000	1,700,000	1,700,000	1,700,000
Intrastructure Improvements ¹³	1,550,000	1,650,000	1,850,000	1,850,000	1,850,000
Contingency	200,000	200,000	200,000	200,000	200,000
Reserve Contribution	50,000	50,000	50,000	50,000	50,000
Total ¹⁴	\$ 8,211,750	\$ 10,894,405	\$ 10,671,930	\$ 10,803,065	\$ 10,946,561
Excess Revenue Over/(Under) Expenses	\$ 480,394	\$ 108,515	\$ 91,449	\$ 77,570	\$ 56,535

¹ All Year 1 state shared revenue estimates provided by Florida Department of Revenue based on the 2015 Census estimated population for South Walton at 22,254 and the Walton County Property Appraiser assessed taxable value for real and intangible personal property in South Walton of \$12,565,290,263 as of January 2016

² The fuel tax portion of municipal revenue sharing is calculated based on the 2015 Local Government Information Handbook prepared by the Florida Department of Revenue.

³ \$1,000/month compensation for six (6) council members; \$1,250/month for the mayor council member; \$500/month in expense reimbursement beginning in FY2017-18

⁴ Prevailing salaries for similar sized communities; Source: By Savannah Vasquez, Northwest Florida Daily News, 4/15.

⁵ Certified Government Finance Officer, CPA, CPFO or similar designation with the prevailing salary; Accounting Coordinator FTE added Year 4; Source: Classification schedule, City of Fort Walton Beach

⁶ Administrative Assistant FTE added in Year 5; Source: Classification schedule, City of Fort Walton Beach

⁷ Source: Classification schedule, City of Fort Walton Beach with increased salary level assumed to attract first-rate Planning & Code Enforcement Director

⁸ Contracted municipal attorney services needed to implement Code of Ordinances, Comprehensive Plan, Land Development Regulations in Years 1 and 2 and ongoing legal fees needed thereafter

⁹ Estimate is pro-rata share of current costs based on population plus additional estimated transportation costs

¹⁰ \$500,000 for consulting firm assistance in writing codes and regulations in Years 1 and 2; \$900,000 per year in non-recoverable municipal planning and zoning and code enforcement expenses beginning in Year 2

¹¹ Rents were estimated using local realtor information for a 3,150 sq ft property in plaza in Walton County

¹² Estimate based on current costs for other municipalities in Florida

¹³ Municipal infrastructure expenditures would be in addition to county and TDC infrastructure funding

¹⁴ Assumes all other necessary services will continue to be provided by Walton County through Interlocal Agreements

Five-Year Operating Plan Assuming State Shared Revenues Are NOT Approved Beyond Year 3

If the state legislature does not approve the exception for qualification for State Shared Revenues beyond the first three years, the municipality would need to levy an ad valorem tax of approximately 0.2950 mills beginning in year four in order to fund operations at similar levels to those described above.

The impact on property owners of an additional 0.295 mills of property tax from year four on would be:

<u>Property Taxable Value</u>	<u>Yearly Tax Increase</u>	<u>Monthly Tax Increase</u>
\$ 100,000	\$ 30	\$ 2
200,000	59	5
400,000	118	10
600,000	177	15
800,000	236	20
1,000,000	295	25

Because of South Walton’s substantial tax base any incremental increase in taxes solely for South Walton would produce significant revenues for the municipality. In addition, if the citizens of South Walton desire levels of service and/or investment greater than those described above, the municipality would need to levy additional fees or taxes in order to fund those levels of service/investment.

The following schedule shows the revenues and expenses for the less probable case where State Shared Revenues are available for only the first three years of the five-year plan.

Five-Year Operating Plan - State Shared Revenue Exceptions NOT Approved Beyond Year Three

Revenues	Year 1	Year 2	Year 3	Year 4	Year 5
Prior Year Fund Balance Carryover	\$ -	\$ 480,394	\$ 108,515	\$ 91,449	\$ 52,479
Ad Valorem Taxes ¹	-	-	-	3,978,940	4,018,729
State Shared Revenue					
Revenue Sharing Sales Tax Portion	414,727	420,948	427,262	-	-
Revenue Sharing Fuel Tax Portion	128,821	130,753	132,715	-	-
1/2 Cent Sales Tax	2,923,905	2,967,764	3,012,280	-	-
Discretionary Surtax 1%	5,219,691	5,297,986	5,377,456	-	-
Charges for Services (Recoverable)	\$ -	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000
Miscellaneous Revenue	\$ 5,000	\$ 5,075	\$ 5,151	\$ 5,228	\$ 5,307
Total	\$ 8,692,144	\$ 11,002,920	\$ 10,763,379	\$ 5,775,617	\$ 5,776,515

Expenses					
Council Expenses	\$ 93,000	\$ 94,860	\$ 96,757	\$ 98,692	\$ 100,666
Administrative Staff					
Municipal Manager	145,000	147,900	150,858	153,875	156,953
Finance Director	95,000	96,900	98,838	137,815	140,571
Clerk	65,000	66,300	67,626	68,979	105,358
Planning & Code Enforcement Director	125,000	127,500	130,050	132,651	135,304
Admin Assistant	35,000	35,700	36,414	37,142	37,885
Employee Benefits (35%)	162,750	166,005	169,325	185,662	201,625
Contract Services					
Legal	500,000	500,000	450,000	400,000	400,000
Garbage/Solid Waste and Landfill ²	4,410,000	4,498,200	4,588,164	-	-
Planning Services	500,000	1,400,000	918,000	936,360	955,087
Office, Administrative and Technology					
Rent for Offices	64,000	64,960	64,317	63,680	63,050
Utilities	12,000	12,180	12,363	12,548	12,736
Communications (phone/Internet)	12,000	12,240	12,485	12,734	12,989
IT Services	10,000	13,000	16,900	21,970	28,561
Office Equipment	150,000	25,000	25,500	26,010	26,530
Office Supplies	15,000	15,300	15,606	15,918	16,236
Insurance	18,000	18,360	18,727	19,102	19,484
Planning Services (Recoverable)	-	1,700,000	1,700,000	1,700,000	1,700,000
Infrastructure Improvements	1,550,000	1,650,000	1,850,000	1,450,000	1,350,000
Contingency	200,000	200,000	200,000	200,000	200,000
Reserve Contribution	50,000	50,000	50,000	50,000	50,000
Total	\$ 8,211,750	\$ 10,894,405	\$ 10,671,930	\$ 5,723,138	\$ 5,713,035
Excess Revenue Over/(Under) Expenses	\$ 480,394	\$ 108,515	\$ 91,449	\$ 52,479	\$ 63,480

¹ Municipal ad valorem taxes at 0.2950 mills added in Year 4 to compensate for the loss of state shared revenues if qualification exceptions are not approved

² Expenses for solid waste management return to Walton County beginning in Year 4 if the 1% Discretionary Surtax goes back to the county as they allocate those funds for this purpose.